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Monitoring of countries graduated from the list of LDCs
Bhutan

SUSTAINABLE DEVELOPMENT GOALS

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Summary

Bhutan successfully graduated in December 2023, marking a significant milestone acknowledged by the UN Member States. Despite facing a severe blow to its economy from the COVID-19 pandemic, particularly due to the halt in tourism, the country managed to swiftly recover and resume its trajectory of progress. In the medium term, challenges include mounting fiscal and current account deficits, while longer-term challenges entail diversification efforts, reducing reliance on hydropower exports, and fortifying resilience against environmental shifts. The Committee cautions that the target outlined in the national development plan of achieving high-income status by 2034 may be overly ambitious. It suggests considering advancements in manufacturing and the digital sector, with a focus on enhancing the digitalization of the service sector. Additionally, addressing the gap in productive capacity and incorporating agriculture into future plans are emphasized as crucial steps forward. The Committee also acknowledges and supports the country's requests for further UN support, through iGRAD, on south-south exchange, monitoring process, etc.

Macroeconomic situation

Bhutan witnessed substantial economic growth from 2010 to 2019, averaging over 5 per cent annual GDP growth. The economy is closely intertwined with India, accounting for over 80 per cent of imports and exports. The Bhutanese currency is pegged to the Indian Rupee, ensuring macroeconomic stability.[1] This decade of growth and stability led to a significant reduction in poverty, decreasing from 23.2 per cent in 2007 to 12.4 per cent in 2022.[2] Revenues from hydropower exports and tourism facilitated investments in human capital, enhancing services, education, and health. Hydroelectric power, agriculture, forestry, and tourism are vital pillars of the economy.

However, external factors, including the COVID-19 pandemic and global repercussions from the Ukraine conflict, disrupted Bhutan's economic progress. The pandemic, border closures, and lockdowns severely impacted the economy, while stringent measures and an effective vaccine program kept cases low, with 2 million doses administered and minimal fatalities.[3]

The 10.2 per cent drop in GDP in real term in 2020 was to a large extent the result of the complete halt of the tourism sector, employing 16 per cent of the workforce. Manufacturing, construction, and non-hydro exports faced disruptions, as well.[4] Bhutan was able to recover quickly from 2021, with 4.4 per cent growth in 2021, 5.2 per cent in 2022 and 4.1. in 2023 (see table 1). The GDP is forecast to continue growth at 4.0 per cent annually in 2024 and 2025.[5] The services sector rebounded, while the industrial sector, contracting by 13 per cent in 2020, showed progress with a 5.1 per cent growth.[6] Unemployment rose from 2.7 per cent pre-pandemic to 5 per cent in 2020, reaching 5.9 per cent in 2022, with youth unemployment at 28.6 per cent.[7] Returning migrant workers and the nation's youth make up a significant share of the unemployed population. The high unemployment rate gave rise to emigration, particularly amongst the youth.

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[1] IMF (2022) Article IV Consultation: Bhutan

[2] The World Bank (2022). Poverty Analysis Report Bhutan 2022. Retrieved from: https://www.nsb.gov.bt/wp-content/uploads/dlm_uploads/2022/12/PAR-2022-for-WEB.pdf

[3] World Health Organization, https://covid19.who.int/region/searo/country/bt, Accessed Jan 10 2023

[4] Ministry of finance, Macroeconomic Situation Report: Fourth quarter update FY 2021-2022, August 2022

[5] UN DESA, WESP 2024.

[6] "Bhutan Overview: Development News, Research, Data." World Bank, October 3, 2023. https://www.worldbank.org/en/country/bhutan/overview.

[7] National Statistics Bureau (nsb.gov.bt)

Table 1. Selected macroeconomic data for Bhutan, 2017-2023

Indicator	2017	2018	2019	2020	2021	2022	2023
GDP growth rate (per cent, constant price)	6.6	3.5	5.8	-10.2	4.4	5.2	4.1
Inflation rate (%)	5.0	2.7	2.7	5.6	7.3	5.7	4.4
Government revenue (billions of national currency)	42.7	52.1	42.0	54.6	59.7	54.4	59.9
Government expenditure (billions of national currency)	50.0	54.7	44.8	58.0	70.8	69.4	71.3
Government balance (billions of national currency)	-7.3	-2.6	-2.7	-3.4	-11.1	-15.0	-11.5
Government balance (per cent of GDP)	-4.8	-1.6	-1.6	-1.9	-6.2	-7.5	-5.2
Net ODA received (millions of US dollars)	118.5	107.9	178.7	202.7	127.4	194.44	
Balance of Payments (millions of US dollars)							
Current Account	-540.4	-478.2	-500.8	-381.2	-321.5	-852.6	
Goods, Credit (Exports)	554.6	602.8	609.3	651.9	719.4	769.2	
Goods, Debit (Imports)	1,025.1	1,020.2	1,010.5	963.0	890.4	1,378.7	
Balance on Goods	-470.5	-417.5	-401.2	-311.0	-171.0	-609.6	
Services, Credit (Exports)	161.7	182.9	168.2	134.7	22.2	21.9	
Services, Debit (Imports)	209.8	228.3	219.2	225.5	136.2	209.7	
Balance on Services	-48.1	-45.4	-51.0	-90.8	-113.9	-187.8	
Balance on Goods and Services	-518.6	-462.9	-452.2	-401.8	-284.9	-797.3	
Balance on Income	-199.3	-216.1	-221.1	-148.5	-154.6	-162.7	
Balance on Current Transfers	177.4	200.8	172.5	169.2	118.0	107.4	
Capital Account	186.4	165.5	124.6	144.0	100.7	138.4	
Financial Account	-263.5	-302.0	-204.0	-194.2	-441.1	-546.5	
Direct investment (net)	16.6	-2.6	-13.0	2.8	-6.8	-9.7	
Portfolio investment (net)	0.0	83.3	0.0	0.0	15.4	38.7	
Financial derivatives (other than reserves) and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	
Other investment (net)	-260.4	-426.1	-257.2	-438.4	-421.2	-253.1	
Reserve assets	-19.6	43.5	66.2	241.5	-28.5	-322.4	
Reserves (months of imports)	9.9	7.9	10.0	12.5	9.7	..	

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.

Near to medium term risks to the economy are primarily the growing fiscal and trade deficits, areas in which the international crises have adversely impacted Bhutan. Inflation increased to 5.6 per cent in 2020, and projected to remain high in 2023, 4.4. per cent, about two times higher than the level prior to the COVID-19 pandemic (see table 1), though much lower than in other countries in the region or in most developed countries. The rising inflation is contributing to a rise in poverty rates and is weighing on

businesses and government. Following the relaxation of containment measures, the growth in imports has been much stronger than the exports and current account deficit has widened from 15 per cent of GDP prior to the pandemic to 33.7 per cent in the 2022/23 fiscal year.[8] Imports are expected to remain high, reflecting the investments made in crypto-mining operations and equipment. The negative balance of payments may lead to depletion of overall reserve assets posing a risk to the constitutional mandate of meeting 12 months of essential imports.

Falling revenues had increased the fiscal deficit to an estimated 7.7 per cent of GDP in FY 2021/22 and dropped to 5.1 per cent in FY22/23, against 1.9 per cent in FY 19/20.[9] This adds further to public debt, which has increased rapidly from 61 per cent of GDP in 2010 to an estimated 128 per cent in 2021. 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.

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 on the hydropower sector for revenues and state-owned enterprises for goods and services. An enabling environment for growth and employment, including incentives for private sector investment, are needed for development. Furthermore, the dependency on hydropower and agriculture brings environmental risks, such as vulnerability to low rainfall which could lower output.

LDC Criteria and Supplementary Indicators

Bhutan continues to make progress in all of the LDC criteria. GNI per capita is over the level of two times the graduation threshold established at 2024 triennial review, $1,306. HAI is 79.4, well above the threshold of 66, and EVI is 31.2, below the threshold of 32.

Table 2: Indicators for LDC Identification, Bhutan, 2020-2024

Year	GNI per capita (threshold $1,306)	HAI (66 or above)	EVI (32 or below)
2020	2,922	77.4	32.3
2021	3,141	77.9	32.2
2022	3,175	78.4	31,4
2023	3,232	78.9	31.2
2024	3,311	79.4	31.2

Source: CDP Secretariat, Time series estimates (LDC criteria) dataset (2002-2024), available at https://bit.ly/LDC-data

Note 1: For GNI per capita, Year refers to the year of a (actual or hypothetical) review. The data reflects the latest three-year average available for a review, i.e., the value for 2024 refers to the 2020-2022 average. Data differ from previous official triennial review data due to data revisions.

Note 2: For EVI and HAI, Year refers to the year of a (actual or hypothetical) review. The timeliness of source data varies by indicator; generally, criteria capture data up to two years prior to a review. See the 'read me' in the source.

Note 3: Data differ from previous official triennial review data due to data revisions, changes in data sources, methodological changes and most notable, changes in composition of the composite indices HAI and EVI. Minor differences can also occur due to rounding.

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[8] See https://www.rma.org.bt/publication.jsp?id=5

[9] Bhutan Overview: Development News, Research, Data." World Bank, October 3, 2023. https://www.worldbank.org/en/country/bhutan/overview.

Supplementary graduation indicators suggest some signs of changes in the structure of the economy. For example, share of employment in agriculture decreased from 54 per cent in 2018 to 44 per cent in 2022 (see table 3). For more SGIs, see Annex.

Table 3: Supplementary Graduation Indicators for Bhutan, 2018-2022

Indicator	2018	2019	2020	2021	2022
Remittances (% of GDP)	2.3	2.1	3.4	2.7	
Share of employment in agriculture	54.0	51.1	49.9	49.9	44.0
Tourism receipts as share of exports	15.4	15.4	10.7		

Source: CDP Secretariat, Supplementary graduation indicators (SGI) dataset (2000-2024), available at https://bit.ly/LDC-data

Productive Capacity

The overall productive capacity index (PCI) of Bhutan is that of an average Other Developing Country (ODC) and thus significantly above the LDC average. The country ranks above the average LDCs in every component of the PCI, with the exception of natural capital. However, its natural capital component score is still higher than the ODC average due largely to the country's dependence on hydropower, agriculture and fishery, which collectively provide export and employment opportunities as well as livelihood to more than half of the population.

In spite of a significant drop in the structural change component, Bhutan ranks higher than the average ODC. Furthermore, progress made in the past decade put Butan squarely ahead of the average ODC in the institutions category. The largest gap to the average ODC remains in energy despite that Bhutan is known for its electricity export. In the period 2012 to 2022, Bhutan made the largest progress in the area of Information and Communication Technology (ICT). Bhutan needs to broaden sources of economic growth including by fostering knowledge and technology-intensive services sector.

Table 4: Productive Capacity Index, Bhutan, 2022

	PCI	Human capital	Natural capital	Energy	Tran sport	ICT	Institutions	Private sector	Structural Change
Bhutan	46.7	43.7	43.2	49.2	30.5	43.1	69.1	48.6	54.9
Other developing countries	46.8	44.3	38.4	61.2	34.1	49.6	51.1	50.9	53.2
LDCs	30.9	27.9	49.8	26.3	19.7	25.2	38.3	37.8	41

Source: UNCTADstat

Data gap

Bhutan's last recorded 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

Bhutan graduated from the LDC category on 13 December 2023, becoming the seventh country that has progressed out of the list of LDCs. Member States commended Bhutan for its successful graduation and invited bilateral, regional and multilateral development and trading partners to provide full support to the implementation of Bhutan's thirteenth national development plan and long-term plan spanning up to

2034, including by extending all the international support measures, particularly those related to trade, as per the Doha Programme of Action for the Least Developed Countries, until 13 December 2028 (A/RES/78/125).

The participation rate of Bhutan in the monitoring exercise is 88 per cent (four reports in five monitoring cycles, three meetings out in three monitoring cycles). Bhutan attended all consultation meetings from 2022 to 2024. It did not submit annual report to CDP in 2020 but submitted annual reports in 2021-24.

Bhutan approved the 13th Five Year Plan (2024-2029) as the smooth transition strategy, following the recommendation by the national task force on graduation that the smooth transition strategy be integrated into the national development plan to ensure that required interventions were mainstreamed and integrated into the overall development plan rather than maintained as a separate standalone strategy document (see annual report).

The 13th Plan of Bhutan marks a significant milestone in the nation's development trajectory, characterized by a comprehensive restructuring of government agencies and a commitment to inclusive, consultative, and participatory planning. Initiated against the backdrop of a transformative national exercise, the plan aims to propel Bhutan towards becoming a high-income economy by 2034 while upholding the principles of Gross National Happiness.

The restructuring of ministries and agencies, resulting in the reduction of ministries from ten to nine, reflects a streamlined approach to governance. The dissolution of the Gross National Happiness Commission and the transfer of its functions to the Office of Cabinet Affairs and Strategic Coordination signify a shift in the planning landscape. The Committee of Four Coordinating Secretaries (C4CS) under the Office of the Prime Minister and Cabinet has taken charge of steering the formulation of the 13th Plan.

The inclusive approach adopted in the planning process involves consultations with various stakeholders, including central government agencies, non-governmental organizations, civil society organizations, the private sector, political parties, development partners, and local governments. Through cross-cluster workshops, bilateral workshops, and high-level strategic workshops, conflicting strategies are addressed, consensus is built, and sectoral priorities are aligned to ensure effective implementation.

The 13th Plan is intricately linked to a long-term plan spanning from 2024 to 2034, both rooted in the development philosophy of Gross National Happiness. The overarching goal is to transform Bhutan into a high-income economy, guided by the principles of prosperity, people, and progress.

1. The economic development theme aims for Bhutan to become a high-income nation driven by technology and innovation. Key strategies include enhancing productivity, diversifying markets, promoting private sector investment, and leveraging technological innovation. National strategies focus on deregulation, infrastructure development, and investment in human capital to ensure sustained growth.

2. Social development focuses on building a healthy and productive society through equitable health, education, and social protection. Interventions include improving healthcare services, ensuring access to quality education, and enhancing the social protection system. National strategies emphasize standardization, professionalization, and cost-efficient preventive healthcare to enhance Bhutan's human capital.

3. The security theme aims to safeguard Bhutan's sovereignty, territorial integrity, and economic prosperity. Strategies involve disaster management, community vitality, cultural heritage preservation, and enhancing connectivity. National strategies focus on effective border management, disaster preparedness, and promoting Bhutan as a favorable trading and investment destination.

4. The governance theme envisions a transformed and trusted governance ecosystem driving accelerated economic growth. Focus areas include responsive policies, efficient public sector, transparent rule of law, and public oversight. National strategies encompass leveraging digital technology, reducing administrative burden, and fostering a pro-growth mindset.

In addition to national-level objectives, the 13th Plan identifies seven key result areas for local governments, emphasizing economic vibrancy, quality education, health and well-being, safety and disaster risk management, cultural identity, and citizen-centric services. Strategic alignment between central government agencies, local governments, private sector, civil society, and development partners is crucial for plan implementation.

During country consultations on 6 December 2023, the Government and the Committee discussed and exchanged information on the country's development challenges and plans for smooth transition. Bhutan's STS outlines a comprehensive 5-year plan and long-term framework with the ambitious goal of transforming the country into a high-income economy. A significant aspect of the transition involves policy reforms in the tourism sector. Post-COVID, tourism was reopened in September 2022, accompanied by the launch of a new national brand, "Bhutan Believe." The Sustainable Development Fee (SDF) underwent revisions, with a 50 per cent discount, incentivizing tourist arrivals. Additionally, a reduced SDF of $100 USD, effective from September 1, 2023, until August 31, 2027, aims to further boost tourism. A readiness assessment of service providers, including hotels, tour guides, and operators, ensures the industry's preparedness. Further support measures encompass trade promotion, market diversification, enhanced financing access, and leveraging STEM (Science, Technology, Engineering, and Mathematics) for increased technology and infrastructure investment. The plan also emphasizes resilience to climate change and disasters.

The CDP members suggested moderation of ambitious targets, consideration of advances in manufacturing and the digital sector, and highlighting the digitalization of the service sector. The importance of addressing the productive capacity gap and including agriculture in future plans is underscored. Overall, the CDP members found Bhutan's STS reflects a holistic approach, incorporating economic, social, and environmental considerations for a sustainable and prosperous future.

Annex 1. Supplementary graduation indicators (SGIs)

The supplementary graduation indicators (SGIs) complement the official LDC criteria. They provide quantitative, internationally comparable data for vulnerabilities and other factors that are not fully captured by the LDC criteria but that might be relevant for graduation from the LDC category.
For more detailed information on indicators and data sources, see the SGI dataset available on the CDP website.
All data are current as of 13 March 2024.

	Indicator	Source	Latest available data	Year most recent data refer to	Relative performance in latest year (legend below)	Trend (last decade)
ECONOMIC VULNERABILITY	GDP growth rate (%)	United Nations Statistics Division	5.21	2022		
	GDP growth volatility	United Nations Statistics Division	5.53	2022		
	External debt (% of GNI)	World Bank	128.73	2021		
	Total debt servicing (% of exports and primary income)	World Bank	14.54	2022		
	Personal Remittances, received (% of GDP)	World Bank	2.65	2021		
	ODA received as percentage of GNI	World Bank	4.86	2021		
	Tourism receipts as share of exports	World Bank	10.68	2020		
	Current account balance (% of GDP)	World Bank	-29.41	2022		
	Standard deviation of net barter terms of trade over 20 years	World Bank	12.53	2021		
	Cereal import dependency	Food and Agriculture Organization	0.74	2021		
	Tax revenue as share of GDP	World Bank	12.28	2020		
	Gross domestic savings (% of GDP)	World Bank	25.20	2021		

Indicator	Source	Latest available data	Year most recent data refer to	Relative performance in latest year (legend below)	Trend (last decade)
Adjusted net savings (% of GNI)	World Bank	13.35	2021		
Share of employment in agriculture	International Labour Organization	43.96	2022		
Productive capacities index	United Nations Conference on Trade and Development	46.68	2022		
Percentage of individuals using the internet	World Bank	85.64	2021		
Renewable electricity capacity per capita	International Renewable Energy Agency	2.98	2022		
Percentage of population with access to electricity	World Bank	100.00	2021		
Environmental Performance Index	Yale/Columbia University	42.50	2022		n/a
Global Adaptation Index	University of Notre Dame ND-GAIN	48.38	2021		
INFORM Climate Change Risk Index	European Commission - Joint Research Center	3.30	2022		n/a
Economic loss from natural disaster (% of GDP)	United Nations SDG Global Database	$9.93*10^{-2}$	2018		
Annual mean levels of fine particulate matter (e.g. PM2.5) in cities (population weighted)	United Nations SDG Global Database	26.10	2019		
Access to at least basic sanitation (% of population)	United Nations SDG Global Database	77.94	2022		
Access to at least basic drinking water (% of population)	United Nations SDG Global Database	99.13	2022		
Freshwater withdrawal as a proportion of available freshwater resources	United Nations SDG Global Database	1.41	2020		
Proportion of water basins experiencing high surface water extent changes	United Nations Water	12.00	2020		n/a
Red list index, showing trends in overall extinction risks of species	United Nations SDG Global Database	0.80	2023		

ENVIRONMENTAL VULNERABILITY

Indicator	Source	Latest available data	Year most recent data refer to	Relative performance in latest year (legend below)	Trend (last decade)
Change in forest cover (percentage)	United Nations SDG Global Database	0.07	2020		n/a
Domestic material consumption per capita	United Nations SDG Global Database	80.09	2019		
Human development index	United Nations Development Programme	0.68	2022		
Multidimensional poverty index	United Nations Development Programme				n/a
Proportion of population covered by at least one social protection benefit	United Nations SDG Global Database	8.80	2020		n/a
Prevalence of undernourishment	Food and Agriculture Organization				n/a
Mortality from CVD, cancer, diabetes or CRD between exact ages 30 and 70 (%)	World Bank	18.50	2019		
Diphtheria tetanus toxoid and pertussis (DTP3) immunization coverage among 1-year-olds (%)	World Health Organization	98.00	2022		
Gross secondary school enrolment rate	United Nations Educational, Scientific and Cultural Organization	88.19	2022		
Mean years of schooling	United Nations Development Programme	5.84	2022		
Learning-adjusted (expected) years of school	World Bank	6.33	2020		n/a
Total fertility rate (live birth per woman)	United Nations Development Programme	1.39	2023		
Dependency ratio, i.e. the ratio of youth (Age 0-14) and elderly (age 65+) to population of age 15-64	United Nations Development Programme	38.72	2023		
Labor force participation rate, female (% of female population ages 15+) (modeled ILO estimate)	World Bank	64.93	2022		
Gross national disposable income (GNDI) per capita, market exchange rates	World Bank	3559.35	2021		
GDP per capita, market exchange rates	United Nations Statistics Division	3704.34	2022		

The left side of the table has vertical category labels: **HUMAN ASSETS** spanning from "Human development index" to "Labor force participation rate", and **INCOME** spanning the bottom two rows.

	Indicator	Source	Latest available data	Year most recent data refer to	Relative performance in latest year (legend below)	Trend (last decade)
	Gross national income (GNI per capita) at purchasing power parity conversion factors	World Bank	12070.00	2021		
	Gini coefficient of disposable income	Standardized World Income Inequality Database	40.20	2017		
	Percentage of population below international poverty line ($2.15)	World Bank	0.00	2022		
OTHER	Battle deaths per 100,000, 20-year average	Uppsala University	0.00	2022		
	Population of concern to UNHCR as percentage of total population	United Nations High Commissioner for Refugees	0.00	2022		
	Stock of persons internally displaced by conflict as percent of total population	International Displacement Monitoring Centre	0.00	2022		
	Intentional homicides (per 100,000 people)	World Bank	2.46	2020		
	Voice and accountability, capturing perceptions of citizens' participation in selecting governments as well as of freedom of expression, association, and media	World Bank	0.16	2022		
	Government effectiveness, capturing perceptions of the quality of public services and policies	World Bank	0.56	2022		
	Women empowerment index, providing information on women's civil liberties, civil society participation, and political participation	Varieties of Democracy	0.65	2022		

Legend:

On the chromatic scale below, dark blue indicates the most positive performance relative to a reference point; and the darkest orange indicates the poorest relative performance. The reference point is determined, for each indicator, as the performance of the group of LDCs relative to all developing countries (e.g. the 33rd percentile).

No data available for the corresponding indicator

n/a denotes that a trend cannot be presented due to either only one data point or no data being available for the last ten years.