



United Nations
CDP
Committee for
Development Policy

CDP2020/PLEN/9b

Committee for Development Policy 22nd Plenary Session

United Nations
New York, 24-27 February 2020
Conference Room 6

Monitoring of Graduating and
Graduated Countries from the Least
Developed Country Category:

Bhutan

**SUSTAINABLE
DEVELOPMENT**  **GOALS**

Contents

SUMMARY AND THE MONITORING TIMELINE	2
BHUTAN	3
ANNEX	5

* The content of the Monitoring report is mandated and suggested by ECOSOC and GA resolutions, including E/RES/2019/8 (para 4), A/RES/67/221 (para 21), A/RES/69/15 (para 118), A/RES/70/294 (para 84), A/RES/74/3 (para 23).

Summary and the monitoring timeline

Angola: Scheduled to graduate on 12 February 2021. Income has been falling but remains at a high level. Lower oil production and limited investment is expected to lead to a moderate contraction of income in coming years. Human assets, while improving, are underdeveloped comparing to other countries with similar income levels. The Government has resumed its work on preparing a smooth transition strategy with the help from UN system.

Bhutan: Scheduled to graduate on 13 December 2023. The GNI per capita has been steadily growing and is now more than double the LDC graduation threshold. The EVI still remains above the graduation threshold. The Government has been active in mainstreaming the LDC graduation preparation in its national development plan implementation.

Equatorial Guinea: Graduated on 4 June 2017. GDP is projected to continue to decline significantly due to the depletion of the existing oil reservoirs and limited new investment, but it will remain far above the LDC inclusion and graduation thresholds. HAI remains very low. The Government has not reported any progress in the transition process.

Saô Tomé and Príncipe: Scheduled to graduate on 13 December 2024. Characterized as a SIDS, it has shown stable but slow growth. Exposure to external shocks remains as the main challenge for achieving sustained growth. The Government is active in preparing a smooth transition strategy with the assistance from UN system.

Solomon Islands: Scheduled to graduate on 13 December 2024. The economy grew steadily, but the logging, the main industry, is declining, while economic diversification is limited. EVI is also high above the graduation threshold, vulnerable to economic and environment shocks. The Government has started its preparation of the smooth transition with the help from UN system.

Vanuatu: Scheduled to graduate on 4 December 2020. All LDC indicators show no major change in recent years. The Government adopted the smooth transition strategy to address development challenges in the progress of graduation, particularly in the area of environmental vulnerability.

Table 1 Timeline for graduation and monitoring reports

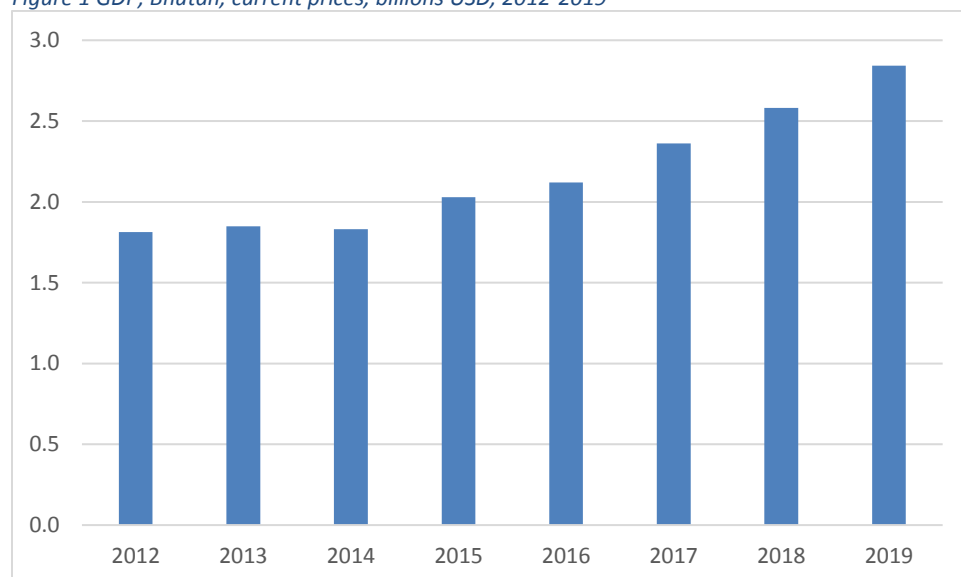
Date	Angola (Feb 2021)	Bhutan (Dec 2023)	Equatorial Guinea (Jun 2017)	Saô Tomé and Príncipe (Dec 2024)	Solomon Islands (Dec 2024)	Vanuatu (Dec 2020)
Feb2020	*	*	**	*	*	*
Feb 2021	*	*	***	*	*	*
Feb 2022	**	*		*	*	**
Feb 2023	**	*		*	*	**
Feb 2024	**	*	***	*	*	**
Feb 2025		**		*	*	
Feb 2026		**		**	**	
Feb 2027	***	**		**	**	***
Feb 2028				**	**	
Feb 2030	***	***		***	***	***
Feb 2033		***		***	***	

Note: Dates in parentheses are the graduation dates; * indicates monitoring as a graduating country; ** indicates monitoring as a graduated country (three times); *** indicates monitoring as a complement to the triennial review (two times).

Bhutan

Bhutan's GDP has been steadily growing, reaching an estimated \$2.8 billion in 2019 (see Figure 1). The GDP growth rate went down from an all-time high of 7.3 per cent in 2016, driven mainly by the hydropower sector, to 5.5 in 2019. This deceleration has been expected, reflecting a sharp decline in public investment in the transition to the 12th Five-year plan and continued tapering of hydropower construction, but moderated by the coming on stream of the large Mangdechhu hydropower plant.¹ Inflation rate went steadily down to 3.5 in 2018 and slightly up to 3.6 in 2019. The current account balance has improved since 2016 and is at -\$0.36 billion in 2019, likely due to a decline in hydropower-related imports and a sharp increase in hydropower exports.²

Figure 1 GDP, Bhutan, current prices, billions USD, 2012-2019



Source: IMF, WEO, accessed 20 Nov 2019.

The GNI per capita of Bhutan has been steadily and fast growing and is estimated as \$2,941 in 2020 (see Annex). This means that the country's GNI is more than double the LDC graduation threshold established at the 2018 triennial review, \$1,230.

The HAI score exceeded the threshold of 66 in 2013 and increased ever since. For 2020 the HAI is 77.5, which constitutes another improvement by 0.9 score points since 2019.

Bhutan's EVI is 35.4 in 2020, having improved slightly from 2018, but remains above the graduation threshold established at the 2018 review of 32 or below. Delays in implementing the goods and services tax (GST) and completing hydropower projects could lead to lower electricity exports and larger fiscal deficits. External risks stem from weaker growth and higher inflation in India and increases in global oil prices.³ The Royal Government has adopted a new foreign direct investment (FDI) Policy in 2019 and is optimistic that the inflow of FDI will increase thereby accelerating and meaningfully contributing to the

¹ IMF (2018) Article IV Consultation: Bhutan.

² IMF (2018) Article IV Consultation: Bhutan.

³ IMF (2018) Article IV Consultation: Bhutan.

expansion of the economic base, employment generation, foreign exchange earnings and revenue generation.⁴

Bhutan's PCI of 27.84 is in line with the level in ODCs in terms of overall productive capacities (see table 2). Bhutan performed far better than LDCs in institutions. It can perform even better in the years ahead given its scores in natural and human capital. These, coupled with the country's potential in energy resources, can help Bhutan achieve inclusive and accelerated economic growth. Nevertheless, the ICT and structural change components are below the levels of ODCs.

Table 2. Productive Capacity Index, Selected LDCs, 2016 values

Country	PCI	Natural capital	ICT	Structural change	Institutions	Energy	Human capital	Private sector	Transport
Angola	14.0	47.3	4.4	21.2	29.4	35.6	29.7	56.8	0.3
Bhutan	27.8	42.9	12.1	34.1	62.9	49.8	37.5	71.1	2.4
Equatorial Guinea	17.7	41.0	6.8	31.4	20.9	25.5	23.9	61.6	1.4
Saô Tomé and Príncipe	19.9	39.3	9.9	29.8	48.1	29.4	34.1	69.3	0.6
Solomon Islands	22.0	49.4	5.2	24.1	47.8	34.5	29.1	78.2	2.3
Vanuatu	25.1	33.6	8.4	36.5	55.1	29.5	31.3	77.8	3.9
LDCs	17.3	45.6	6.3	28.5	36.5	32.3	27.8	66.2	1.1
ODCs	28.3	39.0	20.8	40.5	50.6	40.7	41.0	75.7	4.3

Source: UNCTAD.

In the context of smooth transition, key medium-term policy challenges include the mobilization of domestic revenues and prudent management of hydropower revenues to support adequate levels of public spending against the background of declining foreign grants, while maintaining macroeconomic stability. Overall ODA flows have been around \$ 120 million in 2018 are likely to remain stable.⁵ Bhutan is also receiving support through the Global Environment Facility (GEF)⁶ and the Green Climate Fund (GCF)⁷. 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. On the structural front, the key challenge is to enhance competitiveness and diversify the sources of growth.⁸ In this vein, the Bhutanese authorities have identified five sectors—agriculture, cottage and small industries (CSI), hydropower, tourism, and mining—to help expand domestic production and reduce import dependency.⁹

Whereas Bhutan has started its preparations for a smooth transition with the support of the United Nations system, the country yet to report its initial steps in the preparation of the transition strategy.

⁴ Ministry of Economic Affairs Royal Government of Bhutan, Foreign Direct Investment Policy 2019, retrieved on 29 January 2020 from <https://www.moea.gov.bt/wp-content/uploads/2017/07/FDI-Policy-2019.pdf>

⁵ Retrieved on 29 January 2020 from <https://tradingeconomics.com/bhutan/net-official-development-assistance-and-official-aid-received-us-dollar-wb-data.html>

⁶ Retrieved on 29 January 2020 from <http://www.thegef.org/country/bhutan>

⁷ Retrieved on 29 January 2020 from <https://www.greenclimate.fund/countries/bhutan>

⁸ IMF (2018) Article IV Consultation: Bhutan.

⁹ IMF (2018) Article IV Consultation: Bhutan.

Annex

Table A.3. Bhutan Macroeconomic indicators

Indicator	2012	2013	2014	2015	2016	2017	2018	2019
GDP growth rate (constant prices, per cent change)	6.43	3.57	3.96	6.21	7.36	6.26	4.61	5.53
GDP (current prices, billions USD)	1.81	1.85	1.83	2.03	2.12	2.36	2.58	2.84
Inflation rate (per cent change)	9.27	11.32	9.54	7.63	7.64	5.53	3.52	3.63
Government balance (per cent of GDP)	-1.14	-4.19	3.82	1.51	-1.11	-3.37	-1.95	-1.33
Current account balance (billions USD)	-0.39	-0.47	-0.49	-0.55	-0.65	-0.54	-0.48	-0.36
Net ODA received (millions USD)	161.65	136.80	130.64	97.28	51.60	118.54	N/A	N/A
Exports of goods and services (current prices, billions USD)	0.71	0.73	0.71	0.68	0.61	0.74	N/A	N/A

Source: IMF, World Economic Outlook Database, October 2019 edition, accessed 20 Nov 2019

For net ODA and Exports of goods and services, World Bank, World Development Indicators, accessed 20 Nov 2020

Table A.4. Bhutan LDC indicators

Index/criteria	2016	2017	2018	2019	2020
GNI per capita (USD)	2,484	2,533	2,615	2,735	2,941
EVI	35.9	35.4	35.6	35.7	35.4
Population (in thousands)	719.1	727.9	736.7	745.6	754.4
Remoteness	50.8	50.7	50.8	50.7	50.4
Merchandise export concentration	0.4	0.4	0.4	0.4	0.4
Share of agriculture, forestry, fisheries in GDP	17.2	17.4	17.6	17.7	17.8
Share of population living on low elevated coastal zones	0.0	0.0	0.0	0.0	0.0
Export instability	13.3	12.6	12.9	13.0	12.7
Agricultural instability	7.1	7.2	7.3	7.2	7.2
Victims of natural disasters	0.2	0.2	0.2	0.2	0.2
HAI	72.4	73.7	75.0	76.6	77.5
Maternal mortality rate	223.0	214.0	203.0	193.0	183.0
Under-five mortality rate	34.7	33.3	32.0	30.8	29.7
Percentage of population undernourished	20.0	20.0	20.0	20.0	20.0
Adult literacy rate	60.8	62.8	64.7	66.6	66.6
Gross secondary school enrollment ratio	82.7	84.0	85.3	87.9	90.1

Source: CDP Secretariat calculation