
Country Report

Bhutan

May 2004

The Economist Intelligence Unit
15 Regent St, London SW1Y 4LR
United Kingdom

The Economist Intelligence Unit

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ISSN

Symbols for tables

"n/a" means not available; "-" means not applicable

Printed and distributed by Patersons Dartford, Questor Trade Park, 151 Avery Way, Dartford, Kent DA1 1JS, UK.

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Bhutan

May 2004

Summary

- Outlook for 2004-05** The political focus in Bhutan will be on constitutional reform as the king encourages national debate on the draft of the constitution. Under the proposed changes, the Royal Advisory Council will play a role analogous to that of an upper house of parliament. Elections for a new council will be held in October. Bhutan remains concerned about the potential for a backlash from Indian militant groups recently evicted from camps in Bhutan. The outlook for economic growth is rosy as construction of hydropower projects continues. Bhutan may benefit from increased trade if the mooted South Asian Free-Trade Agreement is implemented as planned on January 1st 2006.
- The political scene** Bhutanese soldiers are patrolling the border with India following the December 2003 campaign to evict Indian rebels. Some soldiers have lost their lives in landmine explosions along the border. The thorny issue of the repatriation to Bhutan of ethnic-Nepalese refugees in Nepal remains far from being resolved. Bhutanese officials claim to have been the object of violence when visiting the refugee camps, and an investigation into the issue will delay progress. Bhutan has admitted to a number of HIV/AIDS cases in the kingdom; the World Bank will assist the country with HIV-related activities. Relations with India remain good, and boundary talks with China are proceeding smoothly.
- Economic policy** The government is concerned about the development of unemployment as a long-term problem. Many students do not stay on at school, but instead enter the job market immediately. A job fair held in April aimed to give young people a realistic understanding of the job market. Government revenue in fiscal year 2002/03 (July-June) came in lower than expected, owing to power sector reforms. India has agreed to refund excise duties paid by Bhutanese importers purchasing goods in India.
- The domestic economy** GDP growth was 6.7% in 2002, according to the National Statistical Bureau. The construction sector grew rapidly, but manufacturing continues to disappoint. Inflation has fallen to a 20-year low. Bhutan Calcium Carbide plans to start producing a wider range of products for export to India.
- Foreign trade and payments** Exports rose and imports declined in 2002. India remains by far the largest destination for Bhutan's exports, and is also the largest source of imports. Bhutan's foreign debt has risen, but debt-servicing costs remain manageable.

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Political structure

Official name	Kingdom of Bhutan	
Government	Monarchy with no written constitution. Executive power is vested in a Council of Ministers. The second draft of a constitution was submitted to the king in June 2003 and is expected to be released for public discussion later in 2004	
National elections	The unicameral National Assembly has 154 members, 101 of whom are elected. The tenure of the elected members is three years, but elections are staggered. Six members are the elected royal advisory council members, ten are nominated by the clergy, 37 are chosen by the government and one represents the army	
National government	The king is head of state, but can be required to abdicate by a two-thirds vote in the National Assembly. The cabinet consists of ten ministers, six members of the royal advisory council and a chairman, and is presided over by the prime minister. The position of prime minister rotates annually among the five ministers who win the largest numbers of votes in the National Assembly when they are elected	
Main political organisations	Political parties are currently banned, although the constitution under discussion is likely to address this issue. Some anti-government groups are based in Nepal and India	
	Head of state (dragon king)	King Jigme Singye Wangchuck
Council of Ministers	Prime minister & minister for home affairs	Jigmi Yozer Thinley
Key ministers	Agriculture	Sangay Ngedup
	Education	Thinley Gyamtsho
	Finance	Wangdi Norbu
	Foreign affairs	Khandu Wangchuk
	Health	Jigmi Singay
	Information & communications	Leki Dorji
	Labour & human resources	Ugyen Tshering
	Trade & industry	Yeshey Zimba
	Works & human settlement	Kinzang Dorji
Speaker of the National Assembly	Ugyen Dorji	
Chairman of the royal advisory council	Rinzin Gyeltshen	
Chief justice	Sonam Tobgye	
Central bank chairman	Wangdi Norbu	

Economic structure

Annual indicators^a

	1999 ^b	2000 ^b	2001 ^b	2002 ^b	2003 ^b
GDP at market prices (Nu m)	19,161	21,911	25,278	29,086	n/a
GDP (US\$ m)	430.6	574.6	507.7	571.5	n/a
Real GDP growth (%)	7.7	5.5	7.1	6.7	6.5 ^c
Consumer price inflation (av; %)	6.9	4.0	3.4	2.5	1.6
Population (mid-year; '000) ^{cd}	658	678	699	716	895
Exports fob (Nu m)	4,460	4,988	4,616	5,262	n/a
Imports cif (Nu m)	8,075	9,106	8,990	8,024	n/a
Reserves excl gold (US\$ m) ^e	274.4	295.4	284.6	320.6	315.8
Total external debt (US\$ m) ^f	183.8	203.3	265.2	n/a	n/a
Exchange rate (av; Nu:US\$)	43.06	44.94	47.19	48.61	46.58

^a Figures are sourced from the National Statistical Bureau, the Planning Commission and the Royal Monetary Authority unless otherwise indicated. ^b Actual. ^c Estimated. ^d The UN estimates Bhutan's population at 1.9m in 1999, based on an estimated population of 1.04m in the last census taken in 1969. ^e IMF, *International Financial Statistics*. ^f World Bank, *Global Development Finance*.

Origins of gross domestic product 2002 ^a	% of total	Components of gross domestic product 2001 ^a	% of total
Services & others	51.0	Private consumption	51.6
Agriculture	32.4	Government consumption	20.5
Electricity, gas & water	11.0	Investment	48.1
Manufacturing	7.2	Exports	23.2
Mining	1.4	Imports	-43.4

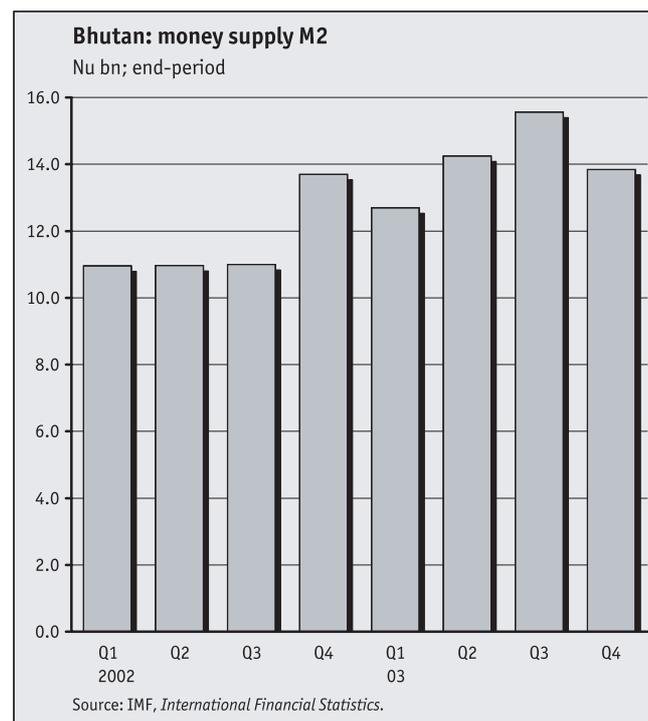
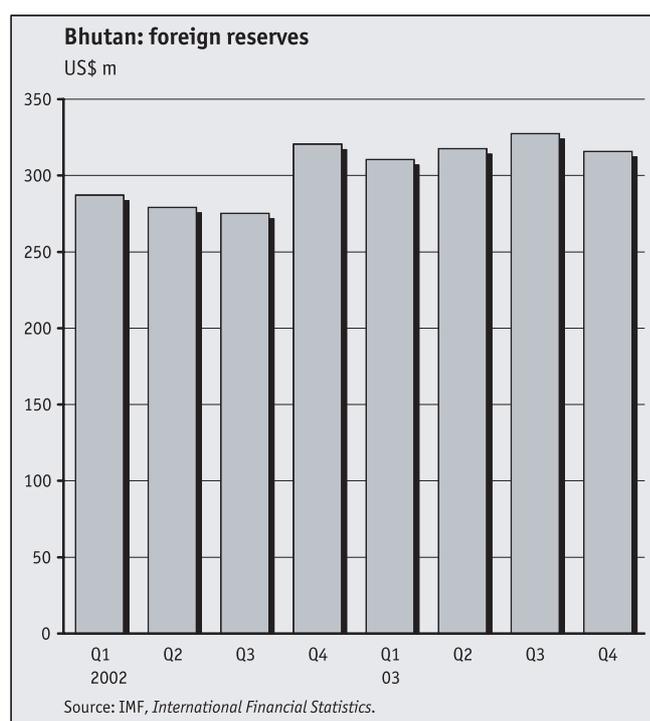
Main destinations of exports 2000 ^b	% of total	Main origins of imports 2000 ^b	% of total
India	94.0	India	78.0
Bangladesh	4.0	Japan	7.0

^a Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries*. ^b Department of Revenue and Customs.

Quarterly indicators

	2002				2003			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Prices								
Consumer prices (Dec 1979=100)	n/a	636.3	n/a	647.2	n/a	637.8	n/a	n/a
Consumer prices (% change, year on year)	n/a	2.7	n/a	2.3	n/a	0.2	n/a	n/a
Financial indicators								
Exchange rate Nu:US\$ (av)	48.59	48.96	48.60	48.29	47.77	47.06	46.01	45.49
Exchange rate Nu:US\$ (end-period)	48.80	48.87	48.38	48.03	47.55	46.47	45.85	45.61
M1 (end-period; Nu m)	4,752	4,914	5,167	6,971	5,909	6,794	8,425	6,770
M1 (% change, year on year)	12.5	12.4	17.1	43.8	24.3	38.3	63.1	-2.9
M2 (end-period; Nu m)	10,960	10,972	10,999	13,707	12,703	14,255	15,561	13,846
M2 (% change, year on year)	10.0	17.8	6.6	27.9	15.9	29.9	41.5	1.0
Foreign reserves (US\$ m)								
Reserves excl gold (end-period)	287.22	279.3	275.31	320.62	310.49	317.80	327.51	315.80

Sources: IMF, *International Financial Statistics*; Royal Monetary Authority of Bhutan, *Selected Economic Indicators*.



Outlook for 2004-05

Political outlook

Domestic politics Political reform will be Bhutan's priority in the forecast period as the king, Jigme Singye Wangchuck, pushes the country towards a democratic system of governance. The king is expected to start a nationwide debate on the draft of Bhutan's first written constitution, which was drawn up by a 39-member committee between November 2001 and December 2002 and then reviewed by an Indian constitutional expert, K K Venugopal. A new Royal Advisory Council will be elected in October 2004. The council system will be amended in the new constitution, with the council playing a role similar to that of an upper house of parliament.

The king issued a royal decree on March 20th abolishing capital punishment in Bhutan. The king described the long-standing law as a legal and spiritual contradiction. Legally it had never been invoked and, if a sentence were imposed, it could still be overturned by the king. Spiritually it was a contradiction of the Buddhist respect for all life forms. In April 2004 two courts in the eastern district of Trashigang sentenced three men to life imprisonment, two for the desecration of Buddhist temples and one for murder.

The focus on constitutional reform will reflect a normalisation of the political environment in Bhutan, after the Royal Bhutan Army flushed out about 3,000 Indian insurgents from their camps in the south off the country. After years of concern over the capability of Bhutan's inexperienced security force of 6,000 troops against well-armed and trained militants, all sections of the Bhutanese population have expressed an immense relief over the apparent success of the military operation. However, there remains concern about the reaction to the operation in the Indian states of Assam and West Bengal, where the militants have their roots. Bhutanese leaders have asked people in the two states to understand that military action was the last option after five rounds of talks since 1996. The move should also strengthen relations in India, which agreed in March to strengthen border management by improving roads into Bhutan. Bhutanese police will also be trained by Indian experts.

Although political and economic activities in Bhutan will gradually return to normal, some retaliation by the militant groups is expected. Thus the commander-in-chief of the United Liberation Front of Assam, Paresh Baruah, has threatened all Bhutanese citizens in Assam, and the Kamtipur Liberation Organisation has threatened Bhutanese people in West Bengal. The Bhutanese army now routinely patrols the militarised border areas. Government and private-sector organisations in the country have adopted numerous measures to strengthen security around the country. Those suspected of assisting the militants in the past few years are currently being tried in the Bhutanese courts.

International relations The problem of the 100,000 ethnic-Nepalese refugees in Nepal, who claim that they were forced out of Bhutan in the 1980s, will be a major concern in 2004-05. The bilateral process initiated by the Nepalese and Bhutanese

governments made some progress in 2003, but came to a standstill in December when refugees injured three Bhutanese officials who were part of the joint verification team that is examining the national status of the refugees. The two foreign ministers, Khandu Wangchuk of Bhutan and Bekh Bahadur Thapa of Nepal, met in January and February 2004 to discuss the problem, and the Bhutanese Ministry of Foreign Affairs said that the government was waiting for the results of an investigation by the Nepalese government into the incident.

The setback came after significant progress towards resolving the issue. The two foreign ministers had announced in October 2003 that "talks had moved to action" in the bilateral process. It had been agreed that Bhutan would take back those found to have been "forcefully evicted" from Bhutan, and that those who had "emigrated" would be allowed to reapply for Bhutanese citizenship or to apply for Nepalese citizenship. Those categorised as criminals would be allowed to "defend themselves in a court of law" and "non-Bhutanese" would be asked to go back to their own countries. It had been anticipated that, with the verification of the status of 12,183 refugees in the first camp, Khudunabari, completed, the repatriation of refugees would begin in February 2004.

Meanwhile the international community, including non-governmental organisations, continue to put pressure on the two governments to speed up the resolution of the problem. Among the recent visitors to Bhutan who discussed the issue with Bhutanese leaders were the US ambassador to India, David C Mulford, the British Deputy High Commissioner in India, Mark Runacres, and the ambassadors to Bhutan from Switzerland, the Netherlands, Japan and Canada.

Economic forecast

Policy trends

With the launch and conclusion of military operations against Indian rebels in December 2003, Bhutan's ninth plan (which covers the period from July 2002 to June 2007), is expected to make more rapid progress in 2004. During the September 2003 visit of the king, Jigme Singye Wangchuck, to India, the Indian government agreed to contribute Rs16.1bn (US\$350m) to plug the plan's resource gap. (The total budget for the plan is Nu70bn, or US\$1.5bn). Of the Indian assistance, Rs7.4bn will be "project-tied" and the remainder will be in grant form. The funds, some of which will be released in 2004, will enable the government to implement a range of projects that had been frozen since July 2002.

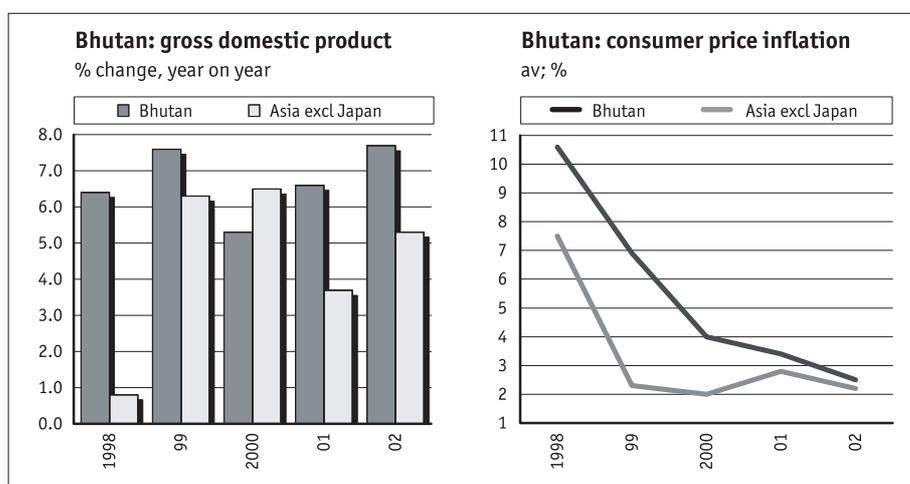
Economic growth

Bhutan's economy is likely to record yearly growth rates of 7-8% in 2004-05. Hydroelectric power will continue to be the main driver of economic growth. Three major hydroelectric projects—Chhukha (336 mw), Kurichu (45 mw) and Basochu (24 mw)—currently provide 45% of government revenue. The 1,040-mw Tala hydropower project, which was originally slated for completion in September 2005, has been delayed for geological reasons, putting back the schedule for power exports to India from the project. Bhutan's goal of economic self-reliance will not be attainable until the Tala project begins to export electricity to India.

In September 2003 the Indian government signed a memorandum of understanding with Bhutan to conduct a detailed project report for another major hydropower scheme, the Punatsangchu project. This 870-mw project, which is expected to be completed by January 2006, is estimated to cost about US\$813m.

External sector The merchandise trade deficit will fluctuate, depending on the need for capital imports for use in power projects. Foreign grants, however, are expected to cover most of the current-account deficit. Bhutan will continue to receive large amounts of bilateral and multilateral aid, estimated at about 50% of the budget. In April the Danish government approved an assistance package of US\$17m for the drafting of legislation infrastructure work. The funds have been allocated to the Ministry of Trade and Industry, the National Environment Commission, the Ministry of Agriculture and the Ministry of Works and Human Settlement. During the current five-year plan the government expects 18 bilateral donors and 27 multilateral agencies to contribute Nu35bn out of total spending of Nu70bn.

Bhutan expects to benefit from increased exports following the launch of the South Asia Free-Trade Agreement (SAFTA), which is scheduled to come into effect from January 2006. SAFTA was approved by the leaders of the South Asian Association for Regional Co-operation (SAARC) after the regional group's 12th summit in Pakistan's capital, Islamabad, in January 2004; officials of the seven South Asian countries are now working on the details, including the drawing-up of lists of sensitive items, rules of origin and revenue-loss compensation.



The political scene

Bhutanese soldiers are killed by border landmines

On April 26th 2004 two Bhutanese soldiers were killed in a land mine explosion in the southern village of Norbugang while they were patrolling the border area, raising concerns about the militarised border. Patrolling has become routine for the Royal Bhutan Army in the aftermath of the December 2003 military operations, during which camps established by Indian militant groups were destroyed. The government is worried that the militants might try to return and re-establish the camps.

The Bhutanese government had followed the resolution passed in 2000 by the National Assembly (legislature) in adopting a four-pronged strategy to deal with the militants: halting supplies to the camps; punishing people who support the militants; initiating talks; and, as a last resort, removing the militants through military action. At 9 am on December 15th 2003, 6,000 Bhutanese soldiers had attacked the 30 camps and 35 outposts established by the militants along the 720-km Indian-Bhutanese border. On December 27th the Royal Bhutan Army announced that all the militant camps had been burnt down and the militants "flushed out".

Nepal and Bhutan investigate a refugee attack on officials

The foreign ministers of Bhutan and Nepal met during the South Asian Association for Regional Co-operation (SAARC) summit in the Pakistani capital, Islamabad, on January 5th and again on February 9th in Phuket, Thailand, and agreed to investigate the December 22nd 2003 attack by refugees on Bhutanese officials who were members of the joint verification team (JVT) in eastern Nepal. The JVT is verifying the national status of Bhutanese refugees in Nepal. The Nepalese officials of the JVT alleged that the Bhutanese members had provoked the incident, but the Bhutanese officials insisted that the attacks had been premeditated. The Bhutanese team accused the Nepalese officials of failing to provide adequate security and disrupting the bilateral process at a critical stage through a lack of co-operation.

The JVT interviewed 12,183 refugees in the first camp, Khudunabari, between March 2001 and June 2003, and announced the result of its findings on June 18th. A total of 203 people were placed in category I (found to have been forcefully evicted from Bhutan); 8,595 were placed in category II (found to have emigrated from Bhutan); 2,948 people were in category III (held to be non-Bhutanese); and 347 in category IV (those wanted for criminal acts). The ministerial joint committee led by the foreign ministers of the two nations had agreed that Bhutan would take back those who were found to have been "forcefully evicted", whereas those who had "emigrated" would be allowed to reapply for Bhutanese citizenship or apply for Nepalese citizenship, those categorised as criminals would be allowed to "defend themselves in a court of law", and "non-Bhutanese" would be asked to go back to their own countries.

A Committees Act aims to strengthen the rule of law

Reform of the Bhutanese government and measures to strengthen the rule of law continue. The National Assembly is drafting a Committees Act to legalise assembly committees such as a finance committee, an accounts committee and a foreign relations committee. Drafted between February 3rd and 5th, the act

will require the committees to deliberate, investigate and review policies, while a rule of procedure will streamline assembly deliberations and conduct. The Committees Act will be an umbrella act for committees that are likely to be launched in the near future, and will ensure the decentralisation of legislative power.

Gross National Happiness is debated

As government and civil society in Bhutan continue to debate and refine the idea of Gross National Happiness, a concept whereby Bhutanese development aims not just to increase GDP but to take into account quality-of-life issues, more than 80 professors, researchers, journalists, lawyers, doctors, economists, financiers and social activists presented papers at a seminar on the concept in the capital, Thimphu, on February 18th-20th. About 300 people attended the seminar.

Bhutan will tackle AIDS

On March 25th Bhutan announced that there were 49 confirmed cases of HIV/AIDS in the country. Nine of the sufferers had died. Bhutan is debating policy towards those infected with HIV/AIDS, particularly the need for confidentiality. The World Bank is to release an assistance package of US\$5.5m by July 2004 to strengthen HIV-related activities.

Relations with India remain positive

Bhutan's relationship with India continues to form the basis of its foreign policy. On March 26th the new Indian foreign secretary (a civil service position), Shri Shashank, visited Bhutan and met the king, Jigme Singye Wangchuck, and government leaders for talks on bilateral co-operation. Bhutan's crown prince, Jigme Khesar Namgyal Wangchuck, continues to play an active role in efforts to broaden contact at the non-government level. As president of the Bhutan-India Friendship Association (BIFA), he launched local chapters of BIFA in three border towns on January 24th to facilitate an exchange of visits and seminars in order to expand the scope of bilateral relations.

Bhutan joins BIMST-EC

Bhutan, along with Nepal, joined the BIMST-EC (Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Co-operation) regional group on February 9th. Established in 1997, BIMST-EC aims to foster co-operation in trade and investment, technology, communications and transport, energy and tourism.

Boundary talks with China proceed

The Bhutanese foreign minister, Khandu Wangchuk, and China's vice-foreign minister, Wang Yi, have announced that boundary talks between the two countries are going well. After the 17th round of talks, held in Thimphu on April 12th-15th, Mr Wang said that the two sides had decided to form a group of technical and survey experts to clarify the border lines in the two disputed areas. The Chinese delegation visited Bhutan for six days for talks and to survey the boundary areas.

Economic policy

The government encourages pupils to stay in school

Tertiary education and employment continue to be priorities for the government. In February 5,110 students passed the class X examinations, but only 41% of those will continue on to class XI in government schools. (In the Bhutanese education system, children enrol in pre-primary classes at six years of age, followed by classes I-VI of primary education; classes VII and VIII are in secondary school, classes IX and X are in high school, and classes XI and XII are in junior college.) The growing trend is for the other children passing the class X examinations to seek jobs or go on to private schools either in Bhutan or in nearby areas of India. A total of 2,688 students passed the class XII examinations in 2003, out of 2,997 who sat them. Of the successful students, 113 were selected for higher-education scholarships in India and other countries in the 2004 academic year, and 613 were selected in April to go on to higher education in Bhutan's own tertiary-level institutions.

The Ministry of Labour and Human Resources, created in July 2003 to deal with the employment issue, organised a job fair on April 3rd-5th to give young people an idea of job market realities. A total of 46 companies took part as hundreds of young people visited the fair to examine job opportunities in the private sector. The fair emphasised the need for manual jobs. With 50,000 people expected to be looking for jobs in the next five years, the government has identified employment as a potential problem in the future.

Government revenue comes in lower than expected

Government revenue was Nu4.8bn (US\$99m) in fiscal year 2002/03 (July-June), Nu315m (US\$7m) below the target of Nu5.1bn. The shortfall was largely attributed to the corporatisation of the Department of Power to allow it to function more efficiently, and also to lower revenue from the Chhukha Hydropower Corporation, which has started paying the Bhutan Power Corporation (BPC) for power. The BPC was formed in July 2002 with assets of more than Nu5bn to handle the unprofitable domestic market, previously served by the Department of Power.

Hydropower will fuel self-reliance

Bhutan's hopes of achieving economic self-reliance rest largely on exporting hydropower, and the government aims to achieve "universal electrification" by 2020. Electricity to be produced by the Tala hydropower project will be exported to India. On January 15th this year Bhutanese officials met their counterparts in the Indian government in India's capital, New Delhi, to discuss power tariffs that will apply when the Tala project is completed.

India refunds excise duties on goods bought in India

After a meeting of tax officials from India and Bhutan on February 16th-March 3rd, the government of India reimbursed Bhutan to the tune of Nu441m out of an estimated Nu531m paid by Bhutanese importers as excise duty for goods purchased in India in 2001. A new agreement, to come into effect in 2005, states that India will refund all excise duty in the case of goods purchased directly from manufacturers or factories.

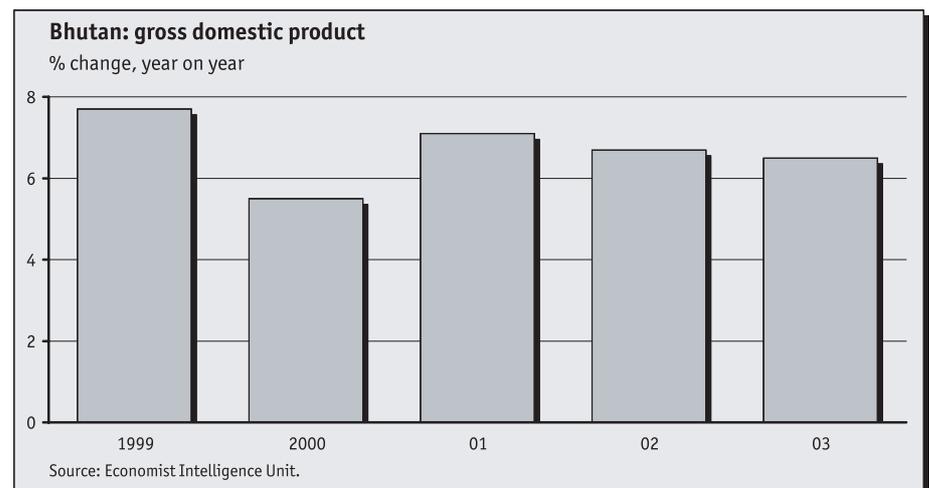
Pensions are awarded

The National Pension and Provident Fund (NPPF) announced in March that 251 people were eligible for pensions, the first since the fund was launched in July 2002. The list included 91 normal pensioners, 39 early retirees and 25 surviving spouses of armed servicemen. The NPPF has also introduced two loan schemes (a housing loan and an education loan) for those on the pension programme—civil servants, employees of state-owned enterprises and members of the armed forces with more than three years' service. The loans will carry an interest rate of 10% and are expected to allow civil servants to educate their children privately.

The domestic economy

GDP growth remains healthy

The National Statistical Bureau (NSB), previously known as the Central Statistical Office, announced at the end of January that GDP growth in 2002 had reached 6.7%. The NSB's national accounts report for 2002 showed that GDP climbed to Nu4.6bn (US\$95m) in that year from Nu4.3bn in 2001. GDP per head rose to Nu40,598 (US\$835) and GNP per head to Nu35,954 (US\$740). Total expenditure on capital and consumer goods by the government and the private sector rose by 12% year on year to Nu18.1bn. Agriculture remained the dominant sector of the economy, contributing 34.3% of GDP. Construction sector output grew by 25% to account for 19% of the economy, largely because of the Tala hydropower project. The manufacturing sector continues to disappoint: manufacturing grew by 0.4%, contributing 7.2% to GDP.



Inflation falls to a 20-year low

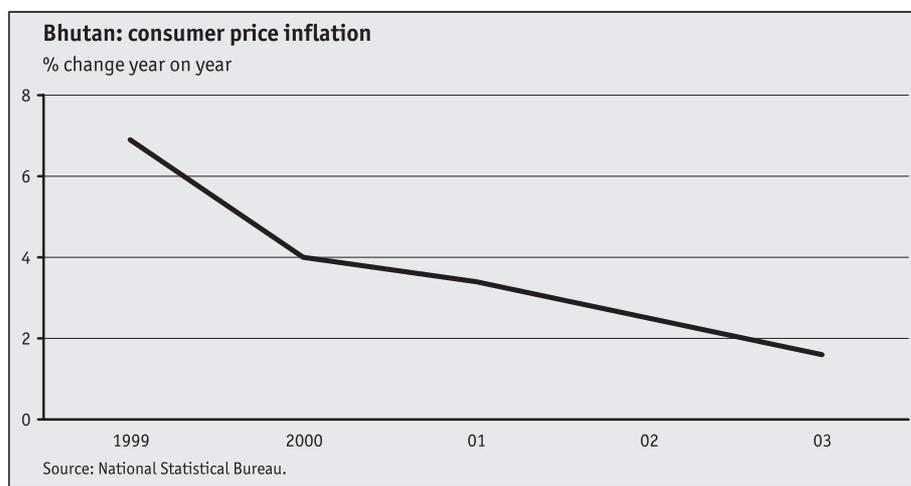
In December 2003 inflation fell to 1.6%, the lowest level for 20 years, according to the consumer price index compiled by the NSB. The drop was attributed to lower price rises for non-food items such as clothing and footwear. Bhutanese inflation moves in line with price trends in India, but some doubts remain over the accuracy of the consumer price index, which takes 1979 as its base year.

Bhutan: inflation

(% , year on year)

	2001		2002		2003	
	Jun	Dec	Jun	Dec	Jun	Dec
Food	0.8	2.2	2.0	2.0	1.7	0.1
Non-food	8.0	4.9	3.7	2.7	2.0	3.1

Source: Central Statistical Office.

**Calcium Carbide will produce three new products**

Bhutan Calcium Carbide Limited, which is based in the southern industrial town of Pasakha, announced in January that it was ready to invest Nu1bn in the production of three new products: low-carbon silico-manganese, magnesium metal and calcium silicide. These are raw materials that are used in the production of steel and magnesium metal by steel plants in India. The industrial estate in Pasakha is to be expanded by the government to boost industrial production.

Foreign trade and payments**Exports rise but imports decline in 2002**

Bhutan's total exports were worth Nu5.3bn (US\$112m) in 2002, an increase of 8.2% year on year. Bhutan's largest export destinations are India and Bangladesh, which took Nu4.9bn and Nu222.7m (US\$4.6m) of exports respectively. After electricity, the most important exports included chemical, metal and wood products, processed food, mineral products and textiles.

Imports in 2002 were worth Nu8bn, down from Nu9bn in the previous year. The country imported Nu6bn of goods from India, followed by Nu326.9m from Japan and Nu282.3m from the UK. Imports from Singapore and Thailand together totalled Nu487m. Import items included fuel, cereals, motor vehicles, machinery and mechanical appliances, metal products, plastic and rubber products.

External debt rises

External debt grew by 40% year on year to US\$405.5m at end-June 2003. However, debt service as a proportion of exports of goods and services remained low, at 4.9%. Bhutan owes US\$228.7m, denominated in Indian rupees,

to India, as well as US\$75.8m to the Asian Development Bank, US\$42.9m to the World Bank and US\$34.7m to the Austrian government.

The weak US dollar leads to losses on overseas investments

The weakness of the US dollar against the Indian rupee, to which the Bhutanese ngultrum is pegged, has reduced Bhutanese earnings from overseas investments. The Royal Monetary Authority (RMA, the central bank) reported a decline in earnings from Nu366m in fiscal year 2000/01 (July-June) to Nu161.2m in 2001/02 and Nu71.5m in 2002/03. The RMA deposits 44% of its funds with the Federal Reserve (the US central bank) and 34% in short-term fixed deposits. The Bhutan Trust Fund's capital dropped from US\$36m to US\$28m in 2002/03, before starting to pick up by the end of 2003. The Bhutan National Bank reduced its investments in the US from US\$20m to US\$8m in 2003, and diverted funds to increase loans in the domestic economy from Nu1.7bn to Nu2.3bn. The National Pension and Provident Fund's capital had dropped to US\$19.3m by end-June 2003. Bhutan's foreign-exchange reserves remained more or less stable at US\$315.8m at end-2003, according to IMF figures, sufficient to cover nearly two years of imports.

