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## Country Report

# Bhutan

**November 2004**

The Economist Intelligence Unit  
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United Kingdom

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# Bhutan

November 2004

## Summary

- Outlook for 2005-06** Political reform will be Bhutan's priority in the forecast period as King Jigme Singye Wangchuck leads the country towards a more democratic and decentralised system of governance. The king is expected to initiate a nationwide debate in early 2005 on the draft of Bhutan's first written constitution, which was drawn up by a 39-member committee representing the judiciary, the national assembly, the government and the rural population. Security will continue to be a concern, particularly in the aftermath of the military operations against Indian insurgents based on Bhutanese soil. The Economist Intelligence Unit expects the Bhutanese economy to perform well throughout the forecast period, with growth driven by hydroproject development and electricity exports to India.
- The political scene** In a change of procedure, the national assembly will now meet twice a year instead of an annual six-week session. A new penal code was enacted on August 13th 2004. Bhutan's UN Human Development Index (HDI) score (which measures prosperity and wellbeing) rose and Bhutan is now ranked 134 out of 177 countries. When eight months of court proceedings concluded on September 3rd, 111 people were sentenced to prison terms for "aiding and abetting" Indian insurgent groups. A bomb blast in the border town of Gelephu killed two people in early September.
- Economic policy** The finance ministry announced expenditure reductions to reduce the fiscal deficit (with effect from October). Personal income tax rates were reduced by 40% to stimulate the private sector. The Bhutan Power Corporation reported an estimated revenue loss of approximately Nu80m (US\$1.8m) because of flash floods in July.
- The domestic economy** Bhutan achieved a real GDP growth rate of 6.5% in 2003. However, government expenditure vastly exceeded government revenues. Inflation fell to a low of 1.2% in 2003. Tourist arrivals increased in the first nine months of 2004. The country's sole cellular communications provider, B-Mobile, launched international roaming facilities in October.
- Foreign trade and payments** Bhutan ran a merchandise trade deficit in 2003 but the overall balance of payments remained in surplus as aid inflows continued to offset this. Bhutan's total exports rose to Nu6,190m (US\$132.9m) in 2003 while imports rose to Nu10,260m. Rising foreign reserves increased Bhutan's import cover to 22 months of imports.
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## Political structure

<b>Official name</b>	Kingdom of Bhutan	
<b>Government</b>	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 likely to be widely debated in early 2005	
<b>National elections</b>	The unicameral National Assembly has 150 members, 100 of whom are elected. The tenure of the elected members is three years, but elections are staggered. Six members are the elected royal councillors, ten are nominated by the clergy, 33 are chosen by the government and one represents the army	
<b>National government</b>	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	
<b>Main political organisations</b>	Political parties are banned, although the first written constitution (currently under discussion) is likely to address this issue. Some anti-government groups are based in Nepal and India	
	<b>Head of state (dragon king)</b>	King Jigme Singye Wangchuck
<b>Council of Ministers</b>	<b>Prime minister &amp; minister for trade and industry</b>	Yeshey Zimba
<b>Key ministers</b>	<b>Agriculture</b>	Sangay Ngedup
	<b>Education</b>	Thinley Gyamtsho
	<b>Finance</b>	Wangdi Norbu
	<b>Foreign affairs</b>	Khandu Wangchuk
	<b>Health</b>	Jigmi Singay
	<b>Home affairs</b>	Jigmi Yozer Thinley
	<b>Information &amp; communications</b>	Leki Dorji
	<b>Labour &amp; human resources</b>	Ugyen Tshering
	<b>Works &amp; human settlement</b>	Kinzang Dorji
<b>Speaker of the National Assembly</b>	Ugyen Dorji	
<b>Chairman of the royal advisory council</b>	Rinzin Gyeltshen	
<b>Chief justice</b>	Sonam Tobgye	
<b>Central bank chairman</b>	Wangdi Norbu	

## Economic structure

### Annual indicators

	1999 <sup>a</sup>	2000 <sup>a</sup>	2001 <sup>a</sup>	2002 <sup>a</sup>	2003 <sup>a</sup>
GDP at market prices (Nu m)	18,541	21,328	24,317	27,779	31,884
GDP (US\$ m)	430.6	474.6	515.3	571.5	684.5
Real GDP growth (%)	7.7	5.5	7.1	6.7	6.5
Consumer price inflation (av; %)	6.9	4.0	3.4	2.5	1.6
Population (mid-year; '000) <sup>bc</sup>	658	678	699	716	895
Exports fob (Nu m)	4,460	4,988	4,616	5,262	5,653
Imports cif (Nu m)	8,075	9,106	8,990	8,024	10,421
Reserves excl gold (US\$ m) <sup>d</sup>	274.4	295.4	284.6	320.6	315.8
Total external debt (US\$ m) <sup>e</sup>	183.8	203.3	265.2	376.9	n/a
Exchange rate (av; Nu:US\$)	43.06	44.94	47.19	48.61	46.58

Figures are sourced from the National Statistical Bureau, the Planning Commission and the Royal Monetary Authority unless otherwise indicated.

<sup>a</sup> Actual. <sup>b</sup> Estimated. <sup>c</sup> There is a discrepancy in the population statistics. 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. <sup>d</sup> IMF, *International Financial Statistics*. <sup>e</sup> World Bank, *Global Development Finance*.

Origins of gross domestic product 2003 <sup>a</sup>	% of total	Components of gross domestic product 2002 <sup>a</sup>	% of total
Agriculture	33.2	Private consumption	49.2
Industry	39.5	Government consumption	18.4
Services	28.8	Investment	53.3
		Exports	21.8
		Imports	-42.7

Main destinations of exports 2003 <sup>b</sup>	% of total	Main origins of imports 2003 <sup>b</sup>	% of total
India	96.6	India	88.3
Bangladesh	2.5	Japan	1.7

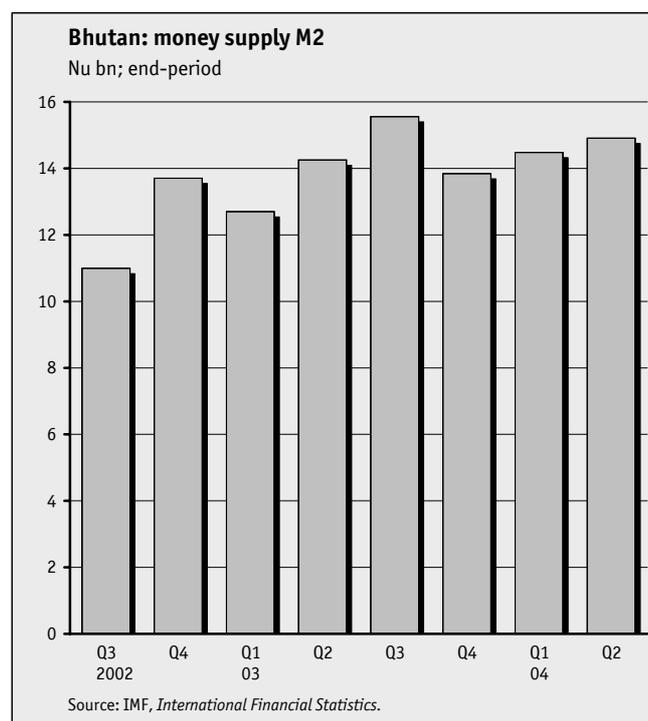
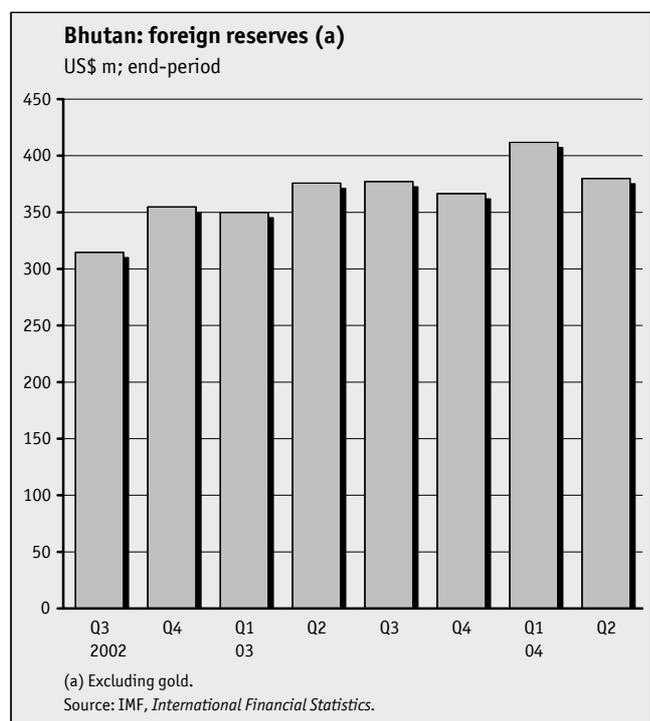
<sup>a</sup> Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries*. <sup>b</sup> Department of Revenue and Customs.

## Quarterly indicators

	2002		2003				2004	
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
<b>Prices</b>								
Consumer prices (Dec 1979=100) <sup>a</sup>	n/a	647.2	n/a	647.8	n/a	655.7	n/a	655.9
Consumer prices (% change, year on year)	n/a	2.3	n/a	1.8	n/a	1.3	n/a	1.2
<b>Financial indicators</b>								
Exchange rate Nu:US\$ (av)	48.60	48.29	47.77	47.06	46.01	45.49	45.25	44.90
Exchange rate Nu:US\$ (end-period)	48.38	48.03	47.55	46.47	45.85	45.61	43.39	45.98
M1 (end-period; Nu m)	5,167	6,971	5,909	6,794	8,425	6,770	6,700	7,820
M1 (% change, year on year)	17.1	43.8	24.3	38.3	63.1	-2.9	13.4	15.1
M2 (end-period; Nu m)	10,999	13,707	12,703	14,255	15,561	13,846	14,482	14,915
M2 (% change, year on year)	6.6	27.9	15.9	29.9	41.5	1.0	14.0	4.6
<b>Sectoral trends</b>								
Tourists (number)	1,087	2,268	944	1,788	922	2,607	1,278	2,066
Tourism revenue (US\$ m)	1.52	3.44	1.04	2.45	1.17	3.67	1.49	2.85
Non resident Bhutanese remittances (US\$ m)	n/a	n/a	(		0.72	)	0.34	0.33
<b>Foreign reserves (US\$ m)</b>								
Reserves excl gold (end-period)	314.69	354.95	349.99	375.84	377.23	366.60	411.83	380.00

<sup>a</sup> Half-year averages.

Sources: IMF, *International Financial Statistics* Royal Monetary Authority of Bhutan, *Monthly Statistical Bulletin*.



## Outlook for 2005-06

### Political outlook

**Domestic politics** Political reform will be Bhutan's priority in the forecast period as King Jigme Singye Wangchuck leads the country towards a more democratic system of governance. The king is expected to initiate a nationwide debate in early 2005 on the draft of Bhutan's first written constitution, which has been drawn up by a 39-member committee representing the judiciary, the national assembly, the government and the rural population. The government will also continue a decentralisation policy, aimed at strengthening local government through devolution of power. Security will continue to be a concern, particularly in the aftermath of the military operations against Indian insurgents based on Bhutanese soil, and insurgent retaliation against Bhutan is a possibility.

The government is attempting to strengthen the rule of law in preparation for the forthcoming constitution, although its efforts are being hampered by the continual introduction of new legislation. In August 2004 the 82nd session of the national assembly passed five new laws: the National Assembly Committees Act; the Tenancy Act; the Road Act; the Speaker's Act; and the Bhutan Penal Code. The chief justice, Lyonpo Sonam Tobgye, said that the Bhutan Penal Code was a significant and necessary step to reforming the political system.

The process of political modernisation and economic development will continue throughout the forecast period. Lyonpo Jigmi Thinley, who served as prime minister until August 18th, outlined the four pillars of Bhutan's development goals to the national assembly in July using the concept of "Gross National Happiness" (whereby economic, environmental, personal and cultural achievements are considered) as a measure. The four pillars of the government's approach to modernisation are sustainable and equitable economic development, conservation of the environment, preservation and promotion of culture, and good governance.

The country is returning to normality after the Royal Bhutan Army flushed out about 3,000 Indian insurgents from their camps in southern parts of the country in December 2003. Economic development had suffered during six years of negotiations between the Bhutanese government and leaders of the three Indian insurgent groups: the United Liberation Front of Asom (ULFA), the National Democratic Front of Boroland (NDFB) and the Kamtipur Liberation Organisation (KLO). In December 2003 Bhutanese security troops launched military operations and destroyed 30 camps and 35 outposts that had been established by the militants over 12 years.

Nevertheless, security will continue to be a major concern, and retaliation is likely. On September 5th a bomb planted by militants killed two people and injured 27 in the southern border town of Gelephu. The Royal Bhutan Army continues to maintain a strict vigil along the Indo-Bhutanese border but the 720-km border is porous. After a high-level bilateral meeting between Bhutanese and Indian officials, on September 14th and 15th in Thimphu, the

two governments decided to lift the restriction on movement of Bhutanese vehicles and people in India—imposed after the 2003 military operations. The two governments also discussed new threats posed by a possible nexus between Nepalese Maoists (fighting for an end to the monarchy in Nepal) and the people in the refugee camps in Nepal as well as between the Maoists and Indian militants in West Bengal and Assam.

### **International relations**

The presence of 100,000 refugees in Nepal (who claim they were forced to leave Bhutan in the 1980s) will be a major concern in the forecast period. A 12-year long bilateral process initiated by the two governments came to a standstill after December 22nd 2003 when refugees attacked and injured three Bhutanese officials while they were briefing the refugees of Khudunabari camp on the conditions of their repatriation. The National Assembly of Bhutan, on July 8th 2004, instructed the Bhutanese government not to continue the bilateral dialogue until the government of Nepal ensured adequate security arrangements for the ongoing "verification" process. The foreign ministers of the two countries met in Islamabad, Pakistan, during the South Asian Association for Regional Co-operation (SAARC) foreign ministers' meeting on July 20th and 21st and the two prime ministers met at the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation (BIMST)-EC summit in Bangkok on August 1st but there has been no progress. In September 2004 the Nepalese government issued, for the first time, travel documents to a refugee leader, Teknath Rizal, to campaign against the Bhutanese government at the UN Commission on Human Rights meeting in Geneva.

Relations with India will remain warm throughout the forecast period—India has recognised Bhutan's anti-insurgency efforts as well as its hydro-electric export potential, while Bhutan recognises India's potential as an export market and the strength of its rapidly growing economy. Relations with China will remain fair, and border disputes appear likely to be negotiated peacefully.

## **Economic forecast**

### **Policy trends**

Although the immediate security threat posed by Indian militants has been overcome, the Economist Intelligence Unit expects no major new economic initiatives in the forecast period. Nevertheless, hydropower export projects will go ahead and hydropower will continue to be the main driver of economic growth. In September 2004 the finance ministry announced a "scale down" of the 2004/2005 (July-June) budget in response to a "difficult financial phase", according to the ministry of finance. In June the ministry had announced an expenditure budget of Nu13,622m (US\$292m) for the 2004/05 financial year, which represented an increase of around 9% year on year.

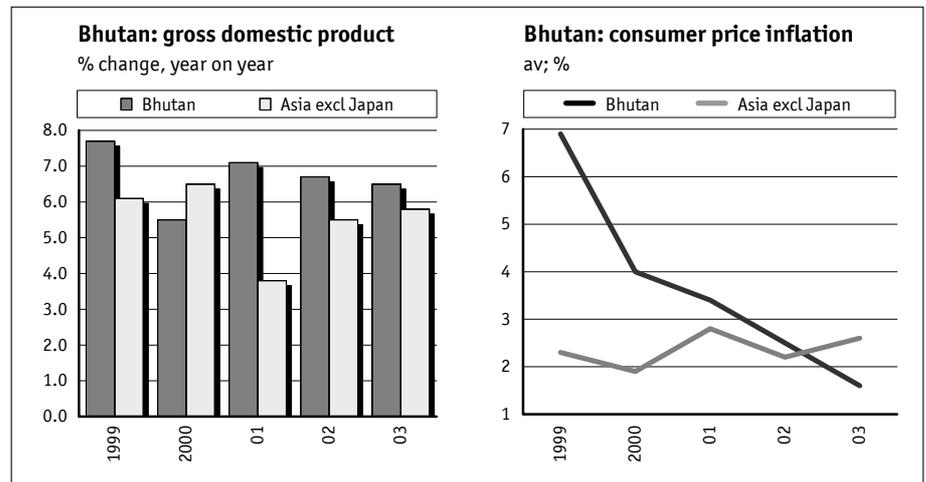
### **Economic growth**

Bhutan's economy is likely to record annual growth rates of 7-8% in 2004-05. Hydroelectric power and related construction activities will continue to be the main drivers of economic growth. Electricity production and construction account for around one-quarter of the country's GDP and will remain the fastest-growing sectors of the economy. Three major hydroelectric power plants—Chuka (336 mw), Kurichhu (45 mw) and Basochu (24 mw)—currently

account for 45% of government revenue. With the completion of the 1,040-mw Tala project in March 2006, revenue from hydropower generation is expected to rise to 90% of the country's national revenue. While the Tala project's management announced that the project would be delayed by six months, to March 2006, the Basochu lower stage began generating 32 mw on September 8th 2004. This raised total power generation from Basochu from 24 mw to 56 mw. Bhutan's goal of economic self-reliance will be within reach in 2006, when the Tala project is expected to begin exporting electricity to India.

### External sector

Merchandise trade will remain in deficit owing to 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 expenditure budget. External assistance, grants and concessional borrowings will fund around 80% of capital expenditure or around 42% of the total budget outlay in the coming year. Concessional and domestic borrowings were expected to offset the projected shortfall. During the current development plan the government expects 18 bilateral donors and 27 multilateral agencies to contribute Nu35bn of the Nu70bn funding needed.



## The political scene

### The king is satisfied with the government's performance

On August 18th Lyonpo Yeshey Zimba took over as the new prime minister in a special cabinet sitting attended by the king who expressed his satisfaction with the performance of the government six years after the devolution of executive authority. The king advised the cabinet that Bhutan's fiscal health was an important issue for the government. He pointed out that national debt exceeded Nu24bn (US\$533m) with hard currency loans totalling US\$208m and Indian Rupee loans reaching Rs14bn (US\$304m).

### The National Assembly will meet twice a year

In a change of procedure, the National Assembly will now meet twice a year, starting with the 83rd session in 2005. Members agreed that the assembly would be able to deal with the issues more efficiently if it met for shorter sessions twice a year (in spring and autumn), as opposed to the annual

summer session in June/July, which lasted for about six weeks. The national assembly also passed the Speaker's Act on August 6th 2004 after heated debate that saw a sharply divided house and a decision made through a secret ballot. The existing Speaker's Act of 1996 was repealed when the members voted 99 to 43 to introduce a new 2004 Act in which several clauses were changed. The Speaker will hold office for a term of five years instead of three years.

**A new penal code is enacted in August**

A new penal code was enacted on August 13th 2004. The new code repeals some existing acts and sections of the Thrimzhung Chenmo (supreme law) including the Rape Act, the Narcotic Drugs and Psychotropic Substances Notification 1988, and the penal provisions of any laws, by-laws, rules and regulations, and other circulars that are inconsistent with the new Penal Code.

**The government introduces citizenship identity cards**

The government has also introduced a new citizenship identity card with security features including anti-copier microtexts, ultra-violet security modules, and engraved images. A comprehensive population and housing census—the first to meet international standards—is scheduled for 2005. The census, which will include socio-economic data, will be conducted over two days and involve between 6,000 and 7,000 enumerators simultaneously in all districts.

**Bhutan's Human Development Index score rises**

Bhutan's Human Development Index (HDI) score has increased from 0.511 in 2003 to 0.542 in 2004, according to the UNDP's Human Development Report 2004, indicating an improvement in the living conditions of the Bhutanese. The report ranked Bhutan at 134, in the "middle development" category, out of a total of 177 countries. Within the South Asian region, Bhutan is ranked above Bangladesh, Nepal, and Pakistan and below India, Sri Lanka and the Maldives.

**More than 100 are sentenced for assisting insurgent groups**

After eight months of court proceedings that concluded on September 3rd, 111 people, including seven women, were sentenced to prison terms ranging from four years to life imprisonment for "aiding and abetting" various anti-Indian insurgent groups when they were illegally camped in Bhutan. The convicted include civil servants, road workers from the national work force, private workers, business people and farmers.

**A bomb rocks the border town of Gelephu**

A bomb blast on September 5th at the weekend market in the border town of Gelephu left two people dead and 27 injured. The bomb aggravated an already deteriorating business situation in southern Bhutan, following the military operations in December 2003 (to flush out anti-Indian insurgents who had been camping in Bhutan). Business in Gelephu was reported to have declined by 50%. Security measures have been stepped up across the country with government and private organisations recruiting additional security personnel to guard offices and property.

**Bhutanese and Nepalese diplomats discuss refugees**

Senior diplomats from Bhutan and Nepal continue to meet informally to discuss the refugee problem (over 100,000 refugees stationed in camps in Nepal claim to have been forced to leave Bhutan in the 1980s), making no visible headway. The Bhutanese government is reported to have insisted that it will resume the verification of the refugees only after Nepal guarantees better security arrangements. The Joint Verification Team, comprising ten officials

from the two governments had interviewed 12,183 refugees in the first camp, Khudunabari, between March 2001 and June 2003, and announced the results of its findings on June 18th. A total of 203 people were placed in Category I (forcefully evicted); 8,595 in Category II (emigrated); 2,948 people were in category III (non-Bhutanese); and 347 in Category IV (wanted for criminal acts). The process came to a halt on December 22nd 2003, after refugees attacked and injured three Bhutanese officials in Khudunabari camp.

**Bhutan tries to strengthen foreign ties**

Bhutan's relationship with India continues to form the basis of its foreign policy and Bhutan continues to adopt a policy of strengthening relations with India. The Indian government has reciprocated by inviting King Jigme Singye Wangchuck to be the chief guest of honour at Indian Republic Day celebrations on January 26th, 2005. Meanwhile, Bhutan and China have formed a group of technical and survey experts to clarify the boundary lines in the areas of dispute along the Sino-Bhutan border. The secretary for international boundaries, Dasho Pema Wangchuck, said that three areas were yet to be demarcated along the country's northern boundary. The 18th round of bilateral talks between the two governments is scheduled to be held in China.

With the signing of an agreement between Bhutan and Thailand in July 2004, people holding diplomatic passports in the two countries will not require visas to transit, enter, or stay in each other's countries for 90 days. The rule came into force on September 13th. In 2004 Bhutan appointed honorary consuls in Denmark, France, Spain, the UK, Singapore, Australia, and Japan. The foreign ministry says their appointments will facilitate and promote Bhutan's interests and strengthen the friendly relations between Bhutan and these countries.

## Economic policy

**The finance ministry curbs government expenditure**

The finance ministry announced a budget expenditure reduction, starting in October, as a response to financial difficulties being faced by the government. The notification listed a number of areas where the budget will be reduced including entertainment (by 10%), travel and daily allowances (by 5%), vehicle maintenance (by 20%), office stationery (by 10%), mobile phone allowances (by 50%), and telephones (by 5%).

**Personal income tax rates are reduced**

Despite the revenue shortfall, the national assembly reduced the personal income tax (PIT) rates by 40%. The controversial measure will cost the government Nu.31.8m (US\$683,000). The assembly endorsed the reduction of PIT on all brackets of income groups after an ad hoc committee, comprising members from the finance ministry and the national assembly, submitted a proposal with a PIT ceiling of 15%, as decided by the assembly in 2003.

**An early retirement scheme for civil servants is launched**

The Royal Civil Service Commission (RCSC) has announced an early retirement scheme for civil servants, starting on September 1st. The government has offered financial packages to senior civil servants who want to retire between one and five years before the standard retirement age of 56 years. The scheme was introduced, according to the RCSC, to enable older civil servants to retire or

find alternative careers and to create a career ladder for younger professionals. About 430 civil servants are eligible for the scheme.

**Floods hit eastern Bhutan**

Floods and landslides in eastern Bhutan over three weeks in July claimed 11 lives and washed away or damaged more than 150 houses. After a ten-day tour of the affected areas the agriculture minister, Lyonpo Sangay Ngedup, announced that 65 ha of wetland and 202 ha of dry land had been totally washed away. About 500 tonnes of maize and rice were lost, 22 bridges were destroyed and 39 irrigation canals were damaged or washed away.

**The Bhutan Power Corporation announces a loss**

The Bhutan Power Corporation reported an estimated revenue loss of approximately Nu80m (US\$1.72m) because of the flash floods and landslides in eastern Bhutan. The floods and landslides disrupted power supply to the six eastern districts and damaged and destroyed numerous power transmission pylons and power plants in the districts.

**The government announces free treatment for HIV patients**

The health ministry announced that from August 2004 anti-retroviral drug treatment would be provided free of charge to all Bhutanese HIV patients. The decision was made by the National Aids Commission, which also directed the government to set up a laboratory to train qualified health workers to deliver the drug regimens and to monitor the effects. The government will spend US\$300 on each patient a year excluding the cost of laboratory equipment and of training of medical personnel. The number of Bhutanese infected with HIV/AIDS has increased to 65 with the detection of seven more new cases between July and October. Of these 12 have died. Six commercial sex workers, including five non-Bhutanese, are reported to have left the country.

## The domestic economy

### Economic trends

**Bhutan achieves strong economic growth**

Bhutan achieved a real GDP growth rate of 6.5% in 2003, with agriculture accounting for around 30% of GDP. Growth was driven mainly by the construction, manufacturing and transportation sectors.

**Government expenditure exceeds revenues**

The finance minister, Wangdi Norbu, said that domestic revenue was expected to finance around 42% of the total government expenditure, grants around 32%, and concessional borrowings around 10% for the fiscal year 2003/04 (July-June). The balance would have to be covered through domestic borrowing, Mr Norbu said. Domestic revenue was projected to increase by around 11% over last year, with most of the growth projected to accrue from non-tax revenue, which was expected to increase from 36% to 38% of total revenue. The tax to GDP ratio was estimated at around 11%. Under non-tax revenues, dividends were expected to continue to be the main source, accounting for around 26% of total domestic revenue and mainly owing to the state-owned hydropower projects.

### **Inflation fell to a low of 1.2% in the first six months of 2004**

Inflation dropped to a low of 1.2% (year on year) in the first six months of 2004, according to the consumer price index estimated by the National Statistical Bureau. It is the lowest inflation rate since 1980 and has been attributed to the drop in prices of cereals and vegetables. In the first six months of 2004 prices for food items rose by 1.0% year on year, while the prices for non-food items rose by 1.6% year on year.

#### **Bhutan: inflation**

(%; year on year)

	2001		2002		2003		2004	
	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec
Food	0.8	2.2	2.0	2.0	1.7	0.1	1.0	n/a
Non-Food	8	4.9	3.7	2.7	2	3.1	1.6	n/a

Source: Central Statistical Office.

## **Agriculture**

### **An auction of high-altitude herbs**

In the first legal auction of the high-altitude herb, *cordyceps sinensis*, a bidder paid Nu90,000 (US\$1,935) for 101 kg (earlier the herb was illegally harvested and sold). This was more than double the Nu37,000/kg reserve price fixed by the government. A total of 96 collectors paid Nu607,523 (US\$13,042) in taxes to the government, calculated at 10% of the minimum fixed price. The cordyceps, believed to be an aphrodisiac, is popular in South-east Asia.

## **Tourism**

### **Tourist arrivals increase in 2004**

Between January and September 2004 tourist arrivals were up by 25% year on year to a total of 5,357. Tour operators are optimistic, despite problems in the region including the Maoist rebellion in Nepal. The first of Druk Air's (Bhutan's national airline) two new 120-seat Airbus A319 jets began operations on October 19th, connecting the town of Paro with Bangkok, Delhi, Kolkata, Dhaka, Kathmandu and Yangon. The two new jets were purchased at a cost of about US\$39m each.

## **Infrastructure**

### **B-Mobile launches international roaming**

Bhutan Telecom's B-Mobile, the sole cellular service provider in the country, has linked up with cellular operators in other countries to launch international roaming facilities for cellular users. Roaming agreements have been signed with 21 operators in 15 countries including the US, Singapore, HK, and countries in Europe. Although only 900 users have asked for the service, B-Mobile expects more roamers from other countries to use the B-Mobile network once the service is launched "in the near future". In September Bhutan Telecom introduced the VOIP (Voice Over Internet Protocol) service.

## Financial and other services

### **The financial sector continues to perform well**

According to the finance ministry, the financial sector continues to perform well, and that total assets of all Bhutanese banks grew by around 7% over the past year. Domestic credit to the private sector also picked up in the past year, growing by around 35%. Assets of the two commercial banks grew by 5% in the past year, while their average non-performing loans ratio was around 8%.

### **The Bhutan National Bank begins issuing visa cards**

The first international gold Visa card was introduced by the Bhutan National Bank (BNB) in September and cardholders can now shop online for books, hi-tech gadgets, computers, and airline tickets. The BNB will also provide cardholders with an e-mail account through which they can view their accounts but the facility is restricted to viewing only, and cannot be used for online banking. BNB also signed an agreement on September 15th with JCB, a leading international Japanese credit-card company, to allow JCB cardholders to use their cards in Bhutan. About 25% of foreign visitors to Bhutan are Japanese, with 952 Japanese tourists having visited Bhutan in 2003.

## Foreign trade and payments

### **Bhutan continues to run a trade deficit**

Bhutan's total exports were worth Nu6,190m (US\$132m) in 2003, up 13% from 2002. India was the largest market with total exports of Nu5,926m, followed by Bangladesh with exports of Nu223.9m. After the main export, electricity, export items included carbides, ferro-silicon, cement, mineral and aerated water, particle board and oranges, followed by mineral products, juice mixtures and textiles. Total imports were worth Nu11,598m, up from Nu10,079m the previous year. The country imported Nu10,260m worth of goods from India in 2003 followed by Nu200.2m from Japan and Nu198.9m from Singapore. Imports from Thailand came to a total of Nu148.8m. Import items included fuel, cereals, motor vehicles, machinery and mechanical appliances, metal products, plastic and rubber products.

### **Import cover remains healthy**

In 2003 Bhutan's balance of payments recorded yet another surplus with foreign-exchange reserves reaching US\$366m, sufficient to finance over 22 months of imports. The strong Indian rupee has also led to the ngultrum growing in value against the US dollar (the currency is pegged to the Indian rupee). The increase in reserves, according to the Royal Monetary Authority (RMA), was mainly propelled by the inflow of loans, grants and foreign direct investment (FDI), which stood at Nu118m at end-2003 (largely the construction of international hotels).

Totals outstanding debt stood at US\$471.8m in December 2003, or around 67% of GDP, but the debt-service ratio was only around 4.3%, reflecting the concessional nature of the loans.