INTERNATIONAL MONETARY FUND

IMF Country Report No. 26/19

BHUTAN

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

January 2026

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the Article IV consultation with Bhutan, the following documents have been released and are included in this package:

- A **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time, following discussions that ended on November 4, 2025, with the officials of Bhutan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 22, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
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PRESS RELEASE

PR 26/19

IMF Executive Board Concludes 2025 Article IV Consultation with Bhutan

FOR IMMEDIATE RELEASE

- *Growth is projected at 7.4 percent in FY2025/26 and to remain strong in FY2026/27, reflecting increases in tourism, hydropower exports and capital spending. Inflation is projected to converge towards 4 percent.*

- *The medium-term growth outlook is positive, driven by rising hydropower generation and capital spending, but risks are tilted to the downside. These include delays on hydropower projects, a global slowdown, declines in value of crypto asset holdings, fuel-price increases, and climate-related shocks.*

- *Tighter fiscal and monetary policies along with enhanced financial sector supervision are key to rebuilding buffers and safeguard macroeconomic stability. The Gelephu Mindfulness City (GMC) project has strong potential to spearhead economic diversification and spur FDI, but fiscal and financial risks must be mitigated.*

Washington, DC – January 27, 2026: The Executive Board takes decision under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.[1] The authorities have consented to the publication of the Staff Report prepared for this consultation (footnote: select option 1)./The authorities have not consented to the publication of the Staff Report prepared for this consultation (footnote: select option 2)./The authorities need more time to consider the publication of the Staff Report prepared for this consultation (footnote: select options 3 or 4).[2]

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] *Option 1:* Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/Bhutan page.

Option 2: Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent.

Option 3: Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The authorities have requested additional time to decide on the publication of the staff report. A final decision is expected not later than 28 days from the Board consideration date.

Option 4 (opt-outs): Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The authorities have not yet communicated their decision on the publication of the staff report.

Bhutan has continued to make notable strides in social development while upholding its strong commitment to environmental sustainability. Extreme poverty was eliminated by 2022, inequality has declined, and the country successfully graduated from the UN's Least Developed Country category in December 2023—though this transition also implies a gradual reduction in official development assistance. Bhutan remains a global environmental leader, maintaining more than 60 percent of forest cover and pledging to remain carbon neutral.

The economic recovery gained momentum in 2024 and early 2025, supported by broad-based growth and easing inflation. Real GDP growth accelerated sharply toward the end of the year—reaching 9.1 percent in Q4—and remained strong in the first half of 2025. Key growth drivers were a rebound in industry, continued resilience in services, and the commissioning of major hydropower projects. Inflation, which had declined steadily through most of 2024 as food and non-food pressures eased, began to stabilize below 2 percent toward mid-year. However, it rebounded towards 4 percent in 2025, driven by food inflation. The tourism recovery continued to strengthen under the "high value, low volume" strategy, with tourist arrivals rising by 41 percent and tourism receipts expanding by 35 percent, aided by a growing share of higher-spending non-Indian visitors. At the same time, vulnerabilities persisted: youth unemployment remained elevated, execution of capital spending was slower than planned, and the current account—though improving—remained in significant structural deficit. Nonetheless, foreign reserves strengthened markedly, supported by lower crypto-mining related imports, rising remittances, and higher tourism and hydropower earnings.

The medium-term outlook is favorable, with growth expected to remain strong on the back of rising hydropower generation and continued capital investment. Over time, however, sustaining high and inclusive growth will require expanding the economy beyond hydropower and low-productivity activities to create more private-sector jobs and reduce outward emigration pressures, particularly among youth. The GMC project has the potential to attract investment and support diversification, though it also carries fiscal and financial risks that will require careful management. Strengthening the financial sector will be important to support these objectives and ensure an adequate flow of credit to emerging sectors.

Uncertainty remains elevated, with risks broadly tilted to the downside. Domestically, delays in completing major hydropower projects would dampen output and revenues, while the GMC initiative poses fiscal and financial risks. Its independent tax regime could erode the national tax base, crowd out pro-growth public investment, and generate additional contingent liabilities for the general government. GIDC finances and RMA assets are exposed to declines in crypto-asset values. Externally, Bhutan remains vulnerable to other global risks, including fuel-price volatility, climate-related shocks (such as glacial lake outburst floods), and a global slowdown that could weaken tourism and non-hydro exports.

Executive Board Assessment

Growth is expected to remain robust over the medium term, supported by hydropower commissioning and continued capital spending. With Punatsangchhu II fully operational and investment under the 13th FYP progressing, medium-term activity will be driven by rising electricity production and a steady recovery in services, including tourism. Inflation is projected to stabilize around 4 percent, anchored by the currency peg and the high import content of investment.

A gradual but sustained fiscal consolidation is appropriate to achieve the authorities' medium-term deficit target, allow for pro-growth capital expenditure, and put public debt in a downward trajectory. The authorities have made significant progress in fiscal policy reforms aimed at improving revenue efficiency and their commitment to a fiscal deficit of 3 percent over the FYP is welcomed. However, indirect tax revenue buoyancy stemming from the reform will likely stall. Higher GST rates, which remain low for international standards, combined with other tax policy measures such as the introduction of fuel taxes, and tighter expenditure discipline, remain essential to support fiscal objectives, while allowing space for spending priorities, including pro-growth capital spending. The new financing model for hydropower projects brings new opportunities for Bhutan to materialize its production potential but must be properly managed to mitigate fiscal risks.

Monetary policy needs to be gradually normalized to support reserve accumulation, supported by a strengthened monetary policy framework. The excess liquidity should be absorbed to moderate credit growth and reinforce monetary transmission, including by supporting the development of the interbank market. The implementation of the domestic liquidity management framework is key to improving short-term liquidity management, and staff encourages the authorities to move forward toward establishing an interest rate corridor.

Strengthening the financial sector's resilience is key to safeguarding macroeconomic stability. The authorities' adoption of Bhutanese accounting standards will introduce an expected-credit-loss approach. This will require higher provisioning particularly for restructured loans. The authorities are rightly focusing on the timely recognition of credit risk, the enforcement of prudential norms, and the mitigation of concentration risks in tourism and housing. They should continue their efforts to strengthen risk-based supervision, enhance stress testing, and to take prompt corrective actions to preserve system soundness. The authorities' efforts to strengthen the AML/CFT framework are welcomed, but efforts should continue—including improvements on prosecution and conviction.

Bhutan's external position strengthened further FY2024/25, leading to a notable increase in international reserves, albeit remaining significantly weaker than warranted by fundamentals and policies. Strengthening the fiscal and monetary stance is key to continue reducing the external imbalances and build up reserves. This would mitigate risks from export concentration, reliance on external financing, grants and swap arrangements. The authorities remain committed to increasing reserves further. The Royal Monetary Authority has undertaken significant steps to enhance transparency and governance in reserve management, including a comprehensive internal control assessment of foreign exchange and reserve management systems. They are also working towards implementing the recommendations of recent Fund capacity development mission on reserve management.

While the GMC aims to attract private investment and promote diversification, the legal framework governing its status versus the rest of Bhutan remains at an early stage and needs further clarity on labor, goods, and capital mobility. Financial risks arise from differences between the RMA's regulations and those adopted by the GMC, raising concerns about regulatory and licensing arbitrage and passporting risks. While the GMC adoption of Abhu-Dhabi Global Market regulations is a positive step towards addressing AML/CFT vulnerabilities, complementary laws and strong implementation remain critical. With crypto-asset activities permitted in the GMC, the importance of strong enforcement and supervision is heightened. In addition, fiscal risks need to be carefully managed to protect Bhutan's revenue base and limit spending pressures. Addressing these risks is critical to ensure that the GMC's potential to foster economic diversification and attract FDI fully materializes.

Bhutan: Selected Economic Indicators, 2023/24-2026/27

	2023/24	2024/25	2025/26	2026/27
	Act.	Est.	Proj.	
	(in percent of GDP, otherwise indicated)			
National Accounts				
Nominal GDP (in millions of ngultrum) 1/	260,310	288,054	320,294	352,058
Real GDP growth (percent change) 1/	4.2	6.8	7.4	6.0
Prices				
Consumer prices (EoP; percent change)	1.7	3.3	3.7	4.0
Consumer prices (avg; percent change)	4.3	2.5	3.5	3.8
GDP deflator (percent change)	4.7	3.6	3.5	3.7
General Government Accounts				
Total revenue and grants	27.0	28.4	32.1	30.7
Domestic revenue	21.5	21.6	22.6	20.8
Tax revenue	13.5	15.3	15.3	13.6
Non-tax revenue	8.1	6.3	7.2	7.2
Foreign grants	4.1	6.0	8.8	9.3
Internal and other receipts	1.4	0.8	0.7	0.5
Total expenditure 2/	27.1	31.0	35.0	34.8
Current expenditure	16.7	15.9	17.7	18.0
Capital expenditure	10.3	15.1	17.2	16.8
Primary expenditure 2/	25.2	29.1	33.1	32.2
Primary balance	1.8	-0.7	-1.0	-1.5
Overall balance	-0.2	-2.6	-2.9	-4.1
General government debt 3/	119	118	123	126
Domestic	10	10	10	16
External	109	107	112	110
Monetary Sector				
Broad money (M2) growth (percent change)	3.6	13.6	11.2	12.9
Private credit growth (percent change)	5.6	13.2	11.3	8.5
Balance of Payments				
Current account balance	-20.7	-19.2	-17.7	-19.2
Goods balance	-20.0	-24.7	-18.4	-20.4
Hydropower exports	5.8	6.9	8.6	8.2
Non-hydropower exports	9.5	15.3	11.5	10.6
Imports of goods	41.0	47.5	39.8	41.1
Services balance	1.9	2.7	-0.5	0.3
Primary balance	-5.3	-4.9	-4.4	-4.4
Secondary balance	2.6	7.7	5.5	5.3
Capital account balance	7.3	13.6	16.3	17.1
Financial account balance	-8.9	-24.7	-5.9	-12.8
Net errors and emissions	5.1	-5.5	0.0	0.0
Overall balance	0.5	5.3	4.4	10.7
Gross official reserves (in USD millions)	624	801	964	1400
(In months of goods imports)	5.9	6.0	7.7	9.9
(In months of goods and services imports)	5.0	5.2	6.2	7.9
Memorandum Items				
Hydropower exports growth rate 4/	-25.5	31.2	39.0	5.8
Non-hydropower exports growth rate 4/	-30.5	78.2	-16.2	0.6
Hydropower good imports 4/	28.7	4.7	147.3	72.1
Non-hydropower good imports 4/	-11.5	29.6	-15.2	3.9
Population in million (eop)	0.8	0.8	0.8	0.8

Sources: Bhutanese authorities; and Fund staff projections.

1/ The GDP series does not reflect the value added from cryptocurrency mining due to lack of data.

2/ The expenditure for FY2020/21 and FY2021/22 includes an estimated amount for income support provided to individuals and loan interest payment support to borrowers financed by the National Resilience Fund.

3/ Public and publicly guaranteed debt, including loans for hydropower projects.

4/ Nominal growth rates in local currency. No actual data on the breakdown of imports is available. The decompositions are estimates based on reported project spending and assumptions on import shares.

INTERNATIONAL MONETARY FUND

BHUTAN

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

December 22, 2025

KEY ISSUES

Context. Social conditions have improved significantly in the last decade, raising Bhutan's living standards while inequality and poverty have declined. The economy has been recovering from the pandemic shock, but external imbalances remain and reserves are still below pre-pandemic levels. Growth is strong, driven by hydropower projects, but emigration among the youth remains a challenge.

Outlook and Risks. The near-term economic outlook is favorable with growth expected to accelerate while macroeconomic stability improves. Over the medium-term growth is projected to remain solid supported by hydropower generation and continued capital investment. Public debt will remain high and new hydropower projects under a new financing model may increase risks. Downside risks include delays in hydropower projects and potential fiscal and financial risks from the Gelephu Mindfulness City project, as well as a decline in valuation of Bhutan's large public sector holdings of crypto assets.

Main Policy Recommendations

Fiscal Policy. A gradual fiscal consolidation based on revenue mobilization and accompanied by recurrent spending restraint is needed to maintain debt sustainability while increasing fiscal space for pro-growth investments. The implementation of the recently-approved tax reforms—particularly the GST—is a priority.

Monetary and Financial Sector Policies. A tighter monetary policy stance is needed to support the peg and continue to gradually build-up reserves. This needs to be supported by the implementation of a well-functioning domestic liquidity management framework. The upcoming change in accounting standards, adopting an expected-credit-loss approach, will impact provisioning and capital adequacy. Supervisory efforts need to focus on timely recognition of credit risk, enforcement of prudential norms, and mitigation of concentration risks in tourism and housing.

Other policies. The government's new approach to finance large hydropower projects with strategic partners through special purpose vehicles requires careful design to mitigate fiscal risks. The Gelephu Mindfulness City project provides significant opportunities to diversify the economy and increase FDI, but fiscal and financial risks need to be mitigated.

Approved By
Corinne Deléchat (APD) and Tokhir Mirzoev (SPR)

A staff team consisting of E. Flores (head), P. Kamali (both APD), N. Patel and S. Pienknagura (both RES) visited Thimphu from October 22, 2025, to November 4, 2025. The mission met with Finance Minister Lekey Dorji, Governor Dasho Penjore, Finance Secretary Leki Wangmo, Deputy Governor Yangchen Tshogyel, Deputy Governor Ugyen Choden, senior government officials, development partners, and representatives of the private sector. Mr. Patel and Mr. Kumar (both OED) participated in the concluding meeting. The mission was assisted by R. Salgado, the resident representative, and Mr. D. Wangdi, local economist. A. Guansing, I. Luna, S. Abebe, P. Cifuentes and P. Mahmud provided administrative and research support.

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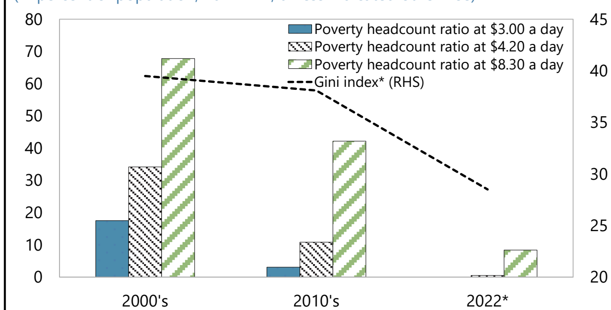
CONTEXT

1. **Bhutan has made notable progress in social development while maintaining its strong commitment to environmental sustainability**. The country eliminated extreme poverty by 2022, reduced inequality, and graduated from the UN's Least Developed Country category in December 2023, a milestone however also associated with a gradual reduction in official development assistance. Bhutan has long been recognized as a global environmental leader, maintaining over 60 percent of its land under forest cover and committing to climate neutrality. Nonetheless, the country remains highly vulnerable to climate-related risks such as floods and landslides.

Poverty and Inequality Trends

(In percent of population, 2021 PPP, unless indicated otherwise)



Sources: World Bank, *World Development Indicators*; and IMF staff calculations.
Note: Poverty headcount ratio at $3.00 a day for 2022 is 0.
Note: The Gini index measures the extent to which the distribution of income or consumption among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.

2. **Bhutan's economy faced a period of subdued growth in 2023 with mounting vulnerabilities, as external conditions and domestic policies weighed on recovery**. While output surpassed pre-pandemic levels and employment improved, growth was softer than in 2022 due to import restrictions following a sharp decline in foreign reserves largely due to financing crypto-mining operations, fiscal consolidation, and a steep increase in the tourism tax that hindered the sector's rebound. Food inflation resurfaced in the second half of the year, adding to the headwinds. Nonetheless, growth began to recover in 2024, supported by the commissioning of major hydropower projects, increased grant-financed capital spending under the 13th Five Year Plan (FYP), and easing outward emigration pressures, and is projected to remain robust supported by upcoming hydropower projects.

3. **Bhutan's key medium-term challenges include diversifying the economy and expanding opportunities for the youth to help reduce outward emigration**. The economy remains heavily dependent on hydropower production and strong trade and development ties with India. Expanding the growth base beyond hydropower and low-productivity sectors is essential to create more private sector jobs and retain young talent. The Gelephu Mindfulness City (GMC) project could support these goals by attracting investment and generating employment, though it also entails fiscal and financial risks. Strengthening the financial sector will be critical to support broader development and ensure it can effectively channel resources to emerging sectors.

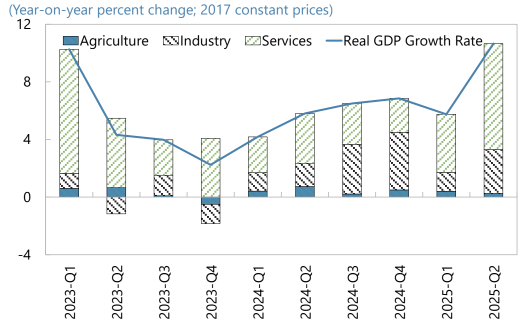
RECENT DEVELOPMENTS, OUTLOOK AND RISKS

A. Recent Developments

4. **Bhutan's economic recovery gained strength through 2024 and into early 2025, supported by broad-based growth and easing inflation**. Real GDP growth accelerated to 9.1 percent in the fourth quarter of 2024, driven by a sharp rebound in industry and continued resilience in services. Growth remained solid in the first two quarters of 2025 at 7.7 and 9.6 percent, respectively. Headline inflation declined steadily over the course of 2024, as both food and non-food price pressures eased, before stabilizing below 2 percent through mid-2024. Headline inflation has trended up in 2025 as food inflation rebounded through 2025H1, while non-food inflation remained subdued.

Real GDP Growth and Sectoral Contributions

(Year-on-year percent change; 2017 constant prices)

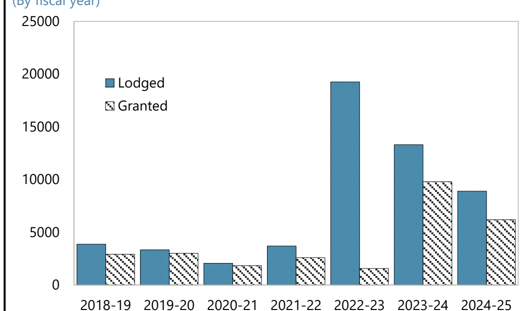


Sources: Bhutan National Statistics Bureau; and IMF staff calculations.

5. **Labor market conditions improved in early 2025, although youth unemployment and outward emigration pressures remain key concerns**. The overall unemployment rate increased modestly to 3.2 percent in 2025Q3 from 3.1 percent in 2024Q3. Youth unemployment rose to 17.8 percent, from 16.5 percent in 2024Q3. While migration pressures have eased somewhat due to tighter visa policies in destination countries, structural labor market challenges persist, particularly for young people.

Australian Student Visas for Bhutanese

(By fiscal year)



Source: Australian Department of Home Affairs

6. **The fiscal position has strengthened, albeit partly owing to low public investment budget execution.** The overall fiscal deficit declined sharply to 0.2 percent of GDP in FY2023/24, driven by both one-off improvements in non-tax revenue and a decline in capital expenditure due to low execution. For FY2024/2025, the deficit widened to about 2.6 percent of GDP as capital spending began to normalize, while tax revenue remained broadly stable as a share of GDP. Improvements in the fiscal balance contributed to a decline in public and publicly guaranteed debt to 118 percent of GDP from 129 percent of GDP in FY2021/22.

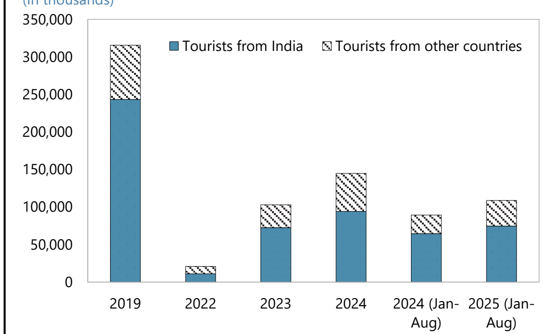
7. **The current account deficit has continued to improve, strengthening foreign reserves**. The deficit declined from 35 percent of GDP in FY2022/23 to 19 percent of GDP in FY2024/25. Key drivers of this improvement include a decline in lumpy crypto mining infrastructure imports, continued increases in remittances on the back of an expanded diaspora, and stronger exports related to tourism and hydropower. These improvements notwithstanding, the current account remains in significant structural deficit, financed primarily through external loans and grants, particularly those linked to hydropower projects. As of October 2025, foreign reserves had increased

to US$1 billion (6 months of imports). This represents a sharp recovery from a low of US$574 million during FY2022/23, though reserves remain below the 2021 peak of US$1.3 billion and the ARA metric of 7 months of imports.[1]

8. **The post-pandemic recovery in tourism has gained momentum**. The country continues to prioritize a "low volume, high value" tourism model, with a strong focus on environmental protection and sustainability. Although they remain below pre-pandemic levels, tourist arrivals increased by 41 percent y/y in 2024, driving a 35 percent growth in tourism receipts, despite the reduction in SDF from US$200 to US$100 per night for non-Indian tourists. The share of non-Indian tourists—with a higher average spending per trip—continued to increase; while tourist arrivals from India reached only about 40 percent of pre-pandemic level, tourist arrivals from other countries have fully recovered. Moreover, with the introduction of the SDF in September 2023 (albeit at lower levels) for Indian tourists, the average spending in this group is higher than pre-pandemic.

Annual Tourist Arrivals

(In thousands)



Source: Ministry of Finance.

9. **Financial stability risks remain elevated**. As of September, the capital adequacy ratio stands at 16 percent, well-above the 12½ percent requirement. Asset quality indicators remain broadly stable with NPLs standing at 3.2 percent (8 percent with charge-offs). However, deferred loans—amounting to about 13.2 percent of the loan portfolio—understate the underlying level of NPLs. As the deferral ended in June 2025, the Royal Monetary Authority (RMA) provided a restructuring window allowing banks to restructure without triggering reclassification. This process ended in October for all but the hotel and tourism sectors, which benefited from an extension through end-December.[2]

10. **The GMC project is advancing, with early progress on the legal framework and financing modalities**. The GMC project seeks to create a high-end market for Bhutanese goods and services. The project involves building a new city spanning 2,600 square km at the border with India. The project is moving forward under a unique legal framework that combines Singaporean common law with financial services regulations modeled on the Abu Dhabi Global Market. While details about the exact design of the legal framework governing the GMC and its relationship with the rest of Bhutan are still at an early stage, recent plans to establish a customs border are a welcome step. The construction of an international airport is underway, as the GMC authority issued the Gelephu Nation Building Bond for Bhutanese residents and fixed-term airport deposits targeted at Bhutanese non-residents.[3] Crypto-mining operations[4] from Druk Holding and Investments (DHI)

[1] See IMF Country Report No. 24/298, Box 1. About 539 million—over 40 percent of total reserves-- were used during 2022 to finance crypto-mining operations.

[2] These sectors account for about 45 percent of deferred outstanding loans.

[3] The bond issuance raised Ngu 3.3billion (about US$37 million) from over 35 thousand retail investors.

[4] See IMF Country Report No. 24/298.

were transferred to the Ghelephu Investment and Development corporation (GIDC)—which likely entailed a significant equity transfer to the GMC.

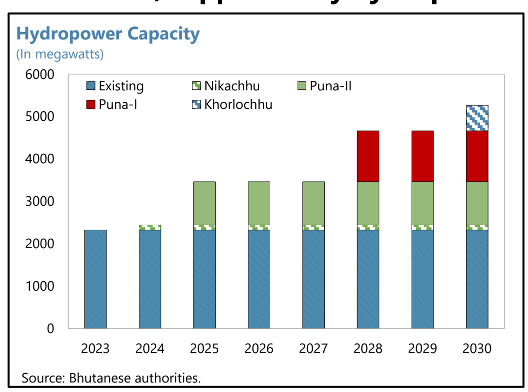
B. Outlook and Risks

11. The near-term economic outlook is favorable, with growth expected to accelerate and macroeconomic stability to improve. Real GDP growth is projected to reach 6.8 and 7.4 percent in FY2024/25 and FY2025/26 respectively, supported by the full commissioning of the Punatsangchhu II hydropower project and a ramp-up in capital spending. Average headline inflation is forecasted to increase to 3.5 percent in FY2025/26 (from 2.5 in the previous year) as inflation gradually converges toward 4 percent, aided by the currency peg and the high import content of investment. The current account deficit is anticipated to remain broadly at the same level, while foreign reserves are projected to improve—partly reflecting expected repayments of the RMA loan between mid-2026 and mid-2027. Recent higher U.S. tariffs are expected to have only a small impact on India's growth given India's relatively low merchandise trade exposure, implying limited indirect impact on Bhutan's economy (Annex III).

Bhutan: Key Macroeconomic Indicators, 2024/25-2029/30

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	(in percent of GDP, unless otherwise indicated)					
Real GDP Growth (percent change)	6.8	7.4	6.0	5.8	6.8	6.5
Consumer Prices (EoP, percent change)	3.3	3.7	4.0	4.0	4.0	4.0
Current Account Balance	-19.2	-17.7	-19.2	-19.7	-18.9	-18.0
Fiscal Deficit	-2.6	-2.9	-4.1	-3.9	-5.5	-4.3

12. Over the medium term, growth is expected to remain solid, supported by hydropower generation and continued capital investment. Real GDP is projected to expand by around 6.5 percent, driven by hydropower generation[5], public investment, and a steady recovery in services including tourism. Inflation is expected to stabilize around 4 percent. The current account deficit is projected to gradually decline as electricity exports increase, strengthening foreign reserves. The fiscal deficit is projected to fluctuate between 3 and 5 percent of GDP underpinned by one-off dividends from the commissioning of hydro projects and a slowing down of external grants as the 13th FYP comes to a close.



13. Public and publicly guaranteed debt levels will remain high and new financing models for hydropower projects may increase risks. Public and publicly guaranteed debt is expected to gradually increase to around 141 percent of GDP by FY2028/29, up from around 118 percent in FY2024/25, as commissioning of Punatsangchhu I and II leads to the recognition of interest earned during their construction. However, these higher costs would be fully reflected in the electricity

[5] See Box 1 in the Debt Sustainability Analysis.

export price and would thus not represent a fiscal burden for the government. Going forward, changes in the financing model for new hydro projects—from one relying on intergovernmental (IG) agreements with the Government of India (GoI) to one seeking strategic partnerships with private investors, and financing from private lenders and international financial institutions—has the potential to boost the revenue stemming from new hydro projects but may imply additional risk-taking by the government, as it would reduce the FDI-like nature which describes a share of Bhutan's external debt commitments to date.[6]

14. Bhutan's economic outlook is subject to a range of downside risks, both domestic and external, that could weigh on growth and macroeconomic stability. Domestically, delays in completing major hydropower projects would dampen output and revenues, while the GMC poses potential fiscal and financial risks. On the fiscal side, its independent tax legislation could erode the tax base, crowd-out pro-growth public investment and create additional contingent liabilities for Bhutan's general government (Annex II). GIDC finances and RMA assets are exposed to sudden changes in crypto assets value (Annex I). While Bitdeer—a Singapore-based private operator—runs independent mining facilities, the state-led operations involve large-scale public investment and the holding of crypto assets, raising concerns about potential balance-of-payments pressures. Externally, Bhutan remains highly exposed to other global risks, including fuel price volatility, climate shocks (e.g., glacial lake outburst floods), and the risk of a global slowdown that could weaken tourism and non-hydro exports.

Authorities' Views

15. The authorities broadly shared staff's assessment of the overall outlook but were somewhat more optimistic on the medium-term growth prospects, viewing some of the risks as more contained. They agreed that activity will accelerate as large hydropower projects come onstream and related investments materialize, and they envisaged higher growth in the medium term. They concurred with staff on key external risks—including a global slowdown, volatile commodity prices, and climate-related shocks—but viewed the risks associated with the GMC project and crypto-related operations as more limited and significantly contained.

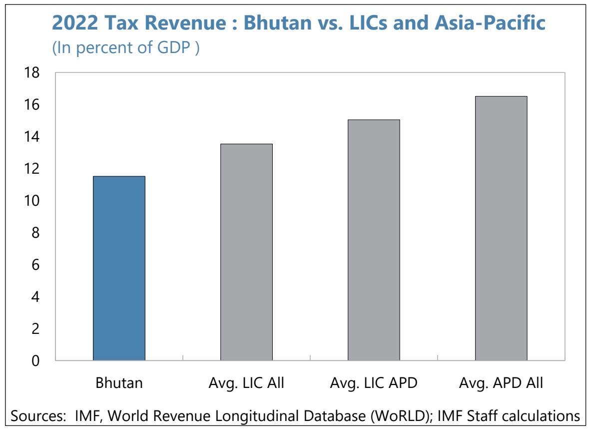
POLICY DISCUSSIONS

A gradual revenue-based fiscal consolidation complemented by some monetary tightening to support the peg and rebuild buffers would be appropriate, given the buoyant economy and the need to rebuild buffers as risks to the external environment have increased. Discussions focused on the recent tax reform and the need to mobilize additional revenue, as well as on the importance of containing current expenditure to allow for pro-growth capital expenditure, mitigating fiscal risks while seeking financing for large hydropower projects, and addressing remaining financial sector vulnerabilities. In addition, the mission discussed potential fiscal and financial risks arising from the GMC.

[6] The GoI bears the construction and financial risks and commits to buy all surplus electricity at a purchase price set at cost (including financing costs, and operation and management charges) plus a margin. See DSA Annex for more details.

A. Fiscal Policy

16. Fiscal policy should focus on achieving the authorities' medium-term goal of a deficit of 3 percent of GDP over the course of a FYP. The authorities' commitment to a fiscal deficit of 3 percent of GDP on average during the 13th FYP is appropriate, as it allows for a steady decline in non-hydro debt, as well as external debt excluding FDI-like debt with the GoI (see DSA Annex). However, staff projects the need for additional efforts to meet this target. Bhutan's strong growth outlook and remaining vulnerabilities suggests that fiscal prudence is warranted. A focus on strengthening fiscal revenue, together with cautious management of the wage bill[7] and other current expenditure, and improvements in the budgeting process, is needed to achieve the target deficit and allow for higher pro-growth capital expenditure, larger and more efficient investments in health and education, and would help build fiscal buffers to cope with potential adverse shocks.



17. Enhanced revenue mobilization is needed to achieve the deficit target, provide space for pro-growth expenditure, and reduce dependence on external grants. The recently-approved package of tax reforms, slated for implementation in January 2026, represents important progress towards a more efficient tax system (Box 1). The new GST, which streamlines exemptions and unifies rates, will simplify the tax system and is expected to enhance compliance. Revisions to the CIT and the replacement of the business tax with a PIT will improve the business environment and the progressivity of the system. However, lower rates under the new system, particularly the GST which was reduced from 7 to 5 percent, will dampen the yield of indirect taxes compared to earlier plans. Moreover, Bhutan's graduation from low-income status, and the life-cycle of investment projects linked to the 13th FYP, will likely entail a gradual reduction in external grants, an important source of fiscal revenue. Thus, further efforts to increase revenue—along the lines suggested by FAD TA—will be needed to achieve both the 3 percent deficit goal over the medium term and the ambitious capital spending plans envisioned in the 13th FYP. Bhutan's relatively low GST rates compared to peers suggest that there is still room to raise revenue through higher rates.[8] Addressing the scope and level of taxation of motor vehicles and fossil fuels—and improving compliance through digital systems—would enhance revenues while supporting environmental goals. Such efforts to increase tax revenue should be complemented with clear legislation around the GMC, including information sharing between the MoF and GMC, to prevent revenue leakage due to potential tax rate differentials. At the same time, continued discipline on current spending, including careful wage-bill management, is needed to protect space for priority investment and social spending.

[7] See IMF Country Report No. 24/298.

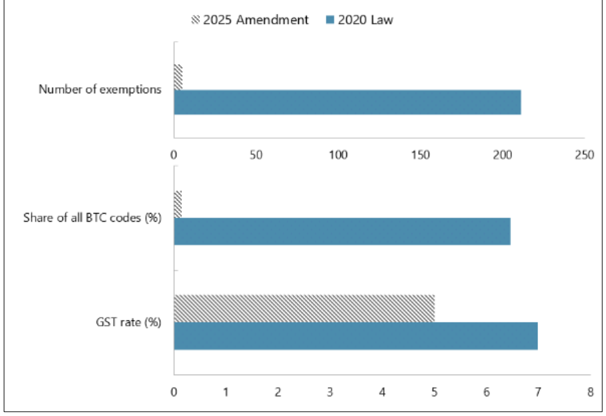
[8] Bhutan's 5 percent GST rate is among the lowest in the Asian and Pacific region—higher only than Myanmar's and Timor-Leste's rates (https://taxsummaries.pwc.com/).

Box 1. Bhutan's Tax Reforms

Parliament approved a comprehensive tax reform aimed at streamlining the tax system and boosting tax efficiency. Amendments to the goods and service tax (GST) bill, excise tax bill, and income tax bills passed in July 2025, with all coming into force in January 2026. The reform modernizes the tax system, broadens the tax base and simplifies the system. The key features of each law are:

The GST implementation will drastically streamline exemptions and unify rates, but its expected impact on revenue mobilization is hindered by relatively low rates. The GST replaces the current sales tax that is characterized by seven rates (0, 5, 10, 20, 25, 30, 50) that applied only to goods, with a single statutory rate. It also reduces the number of exemptions relative to the 2020 GST law, from over 200 to 5,[1] and, importantly, the electricity and telecommunications sectors will be subject to the GST. These changes will greatly facilitate its implementation and reduce administrative costs, and are expected to boost compliance. The revenue impact of the GST law will hinge on whether improvements in compliance and the larger tax base can offset the effects of a lower rate (5 percent, compared to a previous proposal of 7 percent). The authorities' estimates, which assume a significant improvement in compliance, point to a revenue yield of 0.9 percentage points of GDP relative to the sales tax. Assuming more modest improvements in compliance, the reform is expected to result in a loss of revenue about 0.2 percentage points of GDP.

Changes in GST Law: 2020 Law vs. 2025 Amendment



The Excise tax law streamlined the list of excisable goods. In addition, the Bill absorbs the Green Tax into the broader excise tax regime, effectively replacing standalone Green Tax levies. This streamlining, however, implies a reduction of tax rates for products such as vehicles. Overall, the changes are expected to be revenue-neutral.

The income tax was reformed to merge business and personal income tax, exempt small taxpayers, and revise PIT brackets. The reform also lowered the income and corporate tax rates, and introduced a tax on capital income, albeit with a relatively high threshold. The law also includes provisions allowing the government to enter a double taxation agreement with foreign governments, bringing the system closer to best practices.

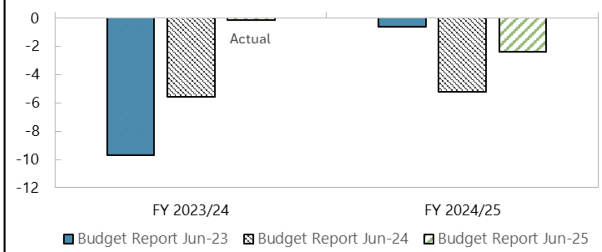
Once the reform is fully implemented, the medium-term revenue impact is expected to be a loss of around 2 percent of GDP compared to the FY2024/25 collection. However, over 75 percent of income taxes are paid by SOEs and will be compensated by higher dividend transfers. In addition, the beginning of operation of new hydro projects will buffer the decline in revenue and further improve direct tax collection starting in FY2029/30.

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Revenue & Grants	**28.4**	**32.1**	**30.7**	**30.4**	**26.2**	**27.2**
Tax revenue	15.3	15.3	13.6	13.8	13.7	14.5
of which direct taxes	10.8	10.8	9.2	9.4	9.3	10.2
of which tax on goods and serv.	4.2	4.2	4.1	4.0	4.0	4.0
Non-tax revenue	6.3	7.2	7.2	7.1	7.8	8.6
of which SOE dividends	1.25	2.73	3.60	3.50	3.86	3.86
Total Budgetary Grants	6.0	8.8	9.3	9.0	4.2	3.1

[1] The number of exemptions refers to the number of six-digit codes of Bhutan's trade classification (BTC) exempted from the statutory GST rate under Schedule IV, C, of the GST law

18. Stronger medium-term budgeting (MTB) is a priority to reduce expenditure volatility, contain current spending and improve spending efficiency. Current expenditure is expected to increase over the projection horizon due to family support programs (third child policy), revisions to education stipends, higher transfers to local governments, and a re-classification of capital expenditure items to current expenditure.[9] The authorities have laid the foundations of an MTB framework by asking budget entities to formulate estimates for two outer years. However, medium-term fiscal projections are not converted into binding multi-year ceilings and many public entities either do not submit multi-year forward estimates or tie them to FYPs. Estimates that reflect reliable expenditure baseline costing over the budget year plus two outer years and a rolling MTBF would help enhance coordination between planning (notably the FYP) and budgeting, improve efficiency, contain current expenditures by improving accountability, and reduce the volatility in capital spending, while helping cope with revenue volatility associated with one-off revenues. This, in turn, could improve estimates of fiscal outcomes and improve the credibility of Bhutan's fiscal anchor. This effort should be complemented by other reforms, such as periodic assessments of the adequacy and design of the wage-setting mechanisms in the public sector, spending reviews and the introduction of specific, short-term, fiscal targets to guide annual updates of the medium-term fiscal framework, as well as enhancements in program and performance budgeting and the financial management information system. Continued progress in the implementation of a Treasury Single Account would consolidate cash management and reduce idle cash balances across government agencies, while integrating capital-project appraisal and monitoring would raise investment efficiency. Finally, stronger oversight and transparency on SOE operations, applying the same disclosure requirements as those for publicly-listed companies, would be essential for enhanced reporting and policy design.

Fiscal Deficit 1/
(% GDP)



1/ All figures are estimates, except FY 2023/24 Budget Report Jun-25, which is actual
Source: Bhutan Budget Reports

19. Going forward, fiscal prudence and careful management of new hydropower and domestic borrowing will be key to limit debt sustainability risks. The risk of debt distress is assessed to be moderate, as in the 2024 AIV DSA. While public debt in Bhutan is high, it is expected to decline over the medium-term and the FDI-like nature of current hydro debt significantly mitigates risks. However, the transition toward new financing models for hydropower projects—which move beyond traditional inter-governmental arrangements with India and foster private participation—could pose risks for debt sustainability if not properly managed. These risks should be limited by strong managerial independence, arms-length relations with the government, regular audits and comprehensive reporting by the corporations (special purpose vehicles, see DSA) recently established to run these projects. Strengthening the domestic debt framework by publishing a regular issuance calendar, expanding the investor base, and developing the local bond market will help diversify funding sources, improve market depth, and reduce rollover and interest-rate risks over time.

[9] In Bhutan, capital investment is broader than the Net Acquisition of Non-Financial Assets in GFSM 2014. See IMF Country Report No. 24/298.

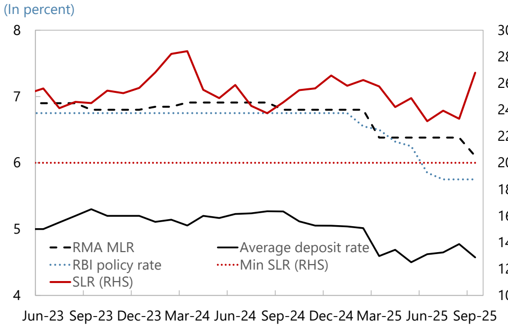
Authorities' Views

20. The authorities recognized the importance of meeting their medium-term deficit target through revenue-based consolidation while mitigating public debt risks. They emphasized the importance of the recently-approved tax reform, which they view as a key step to enhance the efficiency of the tax system and to boost revenue collection through improved compliance and the streamlining of exemptions. They noted their full commitment to ensuring seamless implementation of the new tax system. They also highlighted ongoing conversations between Bhutan's Department of Revenue and Customs and the GMC to find solutions that mitigate risks to revenue mobilization. They agreed that a stronger MTB could help improve expenditure efficiency, contain current expenditure pressures, and reduce capital expenditure volatility. The authorities concurred with staff's assessment of moderate risk of debt distress, highlighting the limited risk associated with new hydropower projects due to the nonrecourse nature of debt and the establishment of special purpose vehicles which limit risks to the budget. Moreover, they emphasized the need for Bhutan to take risks, such as moving to the new financing structure to fully develop their hydropower potential in order to achieve their ambitious development objectives.

B. Monetary, External and Financial Sector Policies

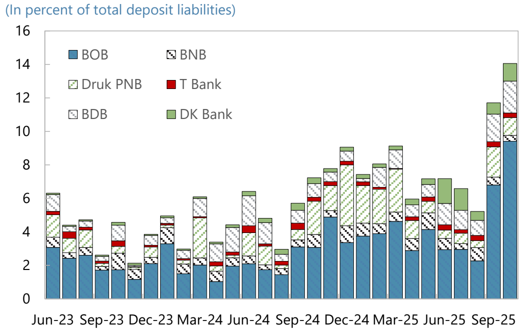
21. The accommodative monetary policy stance prevailing since the pandemic is yet to be unwound. The cash reserve ratio remains at 8 percent—below pre-pandemic levels—and the RMA lowered its minimum lending rate (MLR) in March 2025 following the reduction in the Reserve Bank of India's policy rate. With ample excess liquidity, deposit rates declined, and credit growth accelerated to 14.6 percent (y/y) by September 2025, compared to 8 percent in October 2024. A neutral monetary stance and reserve requirements set at pre-pandemic levels would better support reserve accumulation and facilitate the creation of an active interbank market, as well as the implementation of the domestic liquidity management framework (DLMF). The recent decision of the Ministry of Finance to list all government bonds' issuances in the stock exchange, which is the central security depository, will facilitate collateralized repo operations and the implementation of the DLMF. In this context, the RMA should move steadily towards implementation of the interest rate corridor.[10]

Interest Rate and Statutory Liquidity Ratio
(In percent)



Sources: Royal Monetary Authority; and Haver Analytics.

Banking System Excess Reserves at RMA
(In percent of total deposit liabilities)



Sources: Royal Monetary Authority of Bhutan; and staff calculations.

[10] Oleg Churiy, and Bernard J Laurens. "Bhutan: Development of an Interest Rate Corridor Framework", *High-Level Summary Technical Assistance Reports* 2025, 006 (2025)

22. Reserves have increased but additional buffers are needed to support the peg. The exchange rate peg provides an effective nominal anchor and facilitates transactions with India, albeit at the cost of losing the exchange rate as a shock absorber and limiting the ability to run countercyclical monetary policy. At close to 5.2 months of imports at the end of FY2024/25 and 6 months at end-October 2025, reserves remain below the ARA metric (7 months of imports,[11] Appendix 2). Additional buffers would be desirable given uncertainty in financing the structural BOP deficit as significant downside risks remain.

23. The external position is substantially weaker than warranted by fundamentals and desirable policies. While improving significantly over the last two years, the current account deficit remains large at 19 percent of GDP in FY2024/25, and is projected to remain so over the medium term. This translates into a large and growing negative NIIP position, financed mainly via long-term debt from development partners. A gradually stronger fiscal stance and tighter monetary policy would support a reduction of external imbalances, while reducing reliance on external grants.

24. Bhutan's export base remains highly concentrated in hydropower and minerals, with India absorbing nearly 90 percent of total exports. Diversification is hindered by both policy-determined trade costs—such as high average tariffs on non-Indian imports—and non-policy barriers, including high transport and logistics costs. In contrast, services exports, notably tourism and IT-enabled services, have grown rapidly in recent years. Targeted investments in trade facilitation, infrastructure, and regional integration would help sustain this momentum, unlock new markets and reduce vulnerabilities from export concentration.

25. Addressing financial stability vulnerabilities will be essential to safeguard macroeconomic stability. The implementation in January 2026 of new Bhutanese accounting standards, which introduce an expected credit-loss approach, will require higher provisioning particularly for restructured loans.[12] Supervisory efforts need to focus on timely recognition of credit risk, enforcement of prudential norms, and mitigation of concentration risks in tourism and housing. The new prudential regulations, including higher risk weights for such exposures, represent important progress. Continued development of risk-based supervision (including AML/CFT), enhanced stress testing, and prompt corrective actions will help preserve system soundness. Following the completion of the National Risk Assessment, sustained progress in strengthening the AML/CFT framework, including through effective prosecution and conviction, remains critical to protect financial integrity.

Authorities' Views

26. Authorities fully recognize the need to strengthen policy buffers given Bhutan's exposure to external shocks and a volatile global environment. They agree that rebuilding foreign reserves is essential to safeguard macroeconomic stability. While the future loan repayments by GDL should

[11] Loan principal repayments to RMA are expected to further boost reserves by US$475 million over 2026 and 2027.

[12] The RMA estimates that current capital buffers are sufficient to cover the additional provisions required by the new accounting standards.

strengthen reserves, the authorities acknowledge the need to sustain the momentum to build up buffers for future shocks.

27. They also agree on the need to tighten monetary policy, enhance the monetary policy framework and address financial sector vulnerabilities. The RMA concurs on the need to reduce excess liquidity and to push ahead with the implementation of the domestic liquidity management framework. They agree that the change in accounting standards will impact provisioning and capitalization, and might require their prompt action to ensure regulatory compliance. Moreover, they remain committed to address weaknesses in their AML/CFT framework, including the need to strengthen enforcement through indictments and convictions.

C. The Gelephu Mindfulness City Project

28. The GMC has the potential to attract private investment and foster diversification, but it can also entail risks. The project aims to attract investments in key sectors and activities in which Bhutan has a comparative advantage due to their potential for cheap and green electricity, such as data centers and AI training clusters. To this end, a separate regulatory framework is being crafted under the "one country, two systems" banner. Such approach seeks to govern labor, goods, and capital mobility in a way that fosters investment, while mitigating fiscal and financial risks.[13]

29. Financial risks arising from the GMC need to be addressed. There is a risk of licensing and regulatory arbitrage as RMA's regulations differ from those in the GMC. Passporting risks—vulnerabilities and exposure when financial institutions are allowed to operate across jurisdictions without obtaining a separate license—need to be limited. RMA's preference for locally-incorporated subsidiaries is a step in the right direction. Addressing potential ML/TF risks in the GMC will be critical, as a strong legal framework needs to be complemented with enforcement and supervision. This includes also crypto-assets, as the GMC allows on-ramping[14]—in contrast to the rest of Bhutan.

30. Fiscal risks arising from the GMC, especially with regards to an erosion of Bhutan's tax base, need to be properly managed. Expected tax differentials between Bhutan and the GMC pose risks to the revenue base. The plan to establish a customs border separating the GMC from the rest of Bhutan is a welcome step to help prevent GST arbitrage. Additional legal and regulatory actions will be required to prevent firms and individuals from taking actions that could erode Bhutan's tax revenue. Further, Bhutan's spending on the GMC should be contained to avoid additional pressures on debt sustainability or the creation of contingent liabilities—including from SOEs.

Authorities' Views

31. The authorities recognize the risks associated with the GMC but stressed the pivotal role they expect it to play in boosting growth and fostering structural transformation. By attracting investment and providing incentives for the development of new economic activities, the

[13] The GMC was established by a Royal Decree that is yet to be published. Law 1 adopted several Singapore common laws and the Abhu Dhabi Global Market financial regulations.

[14] The process of converting fiat money into crypto assets.

authorities view the GMC as a potential source of growth and good jobs. This can help Bhutan achieve its development goals and deter outward migration, especially of young workers. The authorities recognize that the project entails risks and are committed to crafting a regulatory framework that limits tax revenue losses and risks to the financial sector.

D. Structural Issues

32. Further efforts are needed to diversify the economy by attracting new private sector investment, including through FDI to non-traditional sectors with high value added. The new FDI policy, which eases restrictions on access to foreign exchange, local employment requirements, and increases foreign ownership caps, is a step in the right direction. Establishing a one-stop investor service to streamline business registration and reduce red tape for foreign investors, advancing trade agreements, and improving infrastructure—particularly in transportation and warehousing—will also be critical to enhancing Bhutan's attractiveness to both domestic and foreign investors.

33. Labor market conditions remain challenging, particularly for Bhutan's youth. Job creation in the private sector remains a key policy priority, as overall labor force participation is high but employment opportunities for young people remain limited. Upskilling and reskilling programs and linking education more closely to firms' needs would help address this challenge. Despite some easing in migration pressures, partly due to tighter visa policies in key destination countries, youth unemployment remains elevated. Addressing migration pressures will also require expanding domestic opportunities that make staying in Bhutan more attractive for young workers.

34. The authorities have made significant progress in strengthening statistical capacity, though important data gaps remain. Recent improvements include the introduction of quarterly GDP and labor force statistics, which are critical for timely policy analysis. However, questions remain about how economic activity related to the GMC will be captured in official statistics, and transparency around crypto mining operations remains limited despite ongoing technical support from the IMF. Continued engagement with the Fund's CD programs—which Bhutan actively utilizes—will be important to address these remaining gaps and improve data transparency.

Authorities' Views

35. The authorities agree with the need to improve diversification and strengthen data quality. They stressed efforts to secure new trade agreements (e.g. with Thailand) to broaden export opportunities, as well as ongoing reforms aimed at improving the business environment, facilitating FDI, and streamlining export processes. They view the GMC as playing a key catalytic role in attracting investment and supporting economic diversification. They remain committed to improving statistics, including related to GMC activity, and stress that they will continue their efforts towards properly recording crypto assets transactions.

STAFF APPRAISAL

36. Growth is expected to remain robust over the medium term, supported by hydropower commissioning and continued capital spending. With Punatsangchhu II fully operational and investment under the 13th FYP progressing, medium-term activity will be driven by rising electricity production and a steady recovery in services, including tourism. Inflation is projected to stabilize around 4 percent, anchored by the currency peg and the high import content of investment.

37. A gradual but sustained fiscal consolidation is appropriate to achieve the authorities' medium-term deficit target, allow for pro-growth capital expenditure, and put public debt in a downward trajectory. The authorities have made significant progress in fiscal policy reforms aimed at improving revenue efficiency and their commitment to a fiscal deficit of 3 percent over the FYP is welcomed. However, indirect tax revenue buoyancy stemming from the reform will likely stall. Higher GST rates, which remain low for international standards, combined with other tax policy measures such as the introduction of fuel taxes, and tighter expenditure discipline, remain essential to support fiscal objectives, while allowing space for spending priorities, including pro-growth capital spending. The new financing model for hydropower projects brings new opportunities for Bhutan to materialize its production potential but must be properly managed to mitigate fiscal risks.

38. Monetary policy needs to be gradually normalized to support reserve accumulation, supported by a strengthened monetary policy framework. The excess liquidity should be absorbed to moderate credit growth and reinforce monetary transmission, including by supporting the development of the interbank market. The implementation of the domestic liquidity management framework is key to improving short-term liquidity management, and staff encourages the authorities to move forward toward establishing an interest rate corridor.

39. Strengthening the financial sector's resilience is key to safeguarding macroeconomic stability. The authorities' adoption of Bhutanese accounting standards will introduce an expected-credit-loss approach. This will require higher provisioning particularly for restructured loans. The authorities are rightly focusing on the timely recognition of credit risk, the enforcement of prudential norms, and the mitigation of concentration risks in tourism and housing. They should continue their efforts to strengthen risk-based supervision, enhance stress testing, and to take prompt corrective actions to preserve system soundness. The authorities' efforts to strengthen the AML/CFT framework are welcomed, but efforts should continue—including improvements on prosecution and conviction.

40. Bhutan's external position strengthened further FY2024/25, leading to a notable increase in international reserves, albeit remaining significantly weaker than warranted by fundamentals and policies. Strengthening the fiscal and monetary stance is key to continue reducing the external imbalances and build up reserves. This would mitigate risks from export concentration, reliance on external financing, grants and swap arrangements. The authorities remain committed to increasing reserves further. The Royal Monetary Authority has undertaken significant steps to enhance transparency and governance in reserve management, including a comprehensive internal control assessment of foreign exchange and reserve management systems. They are also working towards implementing the recommendations of recent Fund capacity development mission on reserve management.

41. While the GMC aims to attract private investment and promote diversification, the legal framework governing its status versus the rest of Bhutan remains at an early stage and needs further clarity on labor, goods, and capital mobility. Financial risks arise from differences between the RMA's regulations and those adopted by the GMC, raising concerns about regulatory and licensing arbitrage and passporting risks. While the GMC adoption of Abhu-Dhabi Global Market regulations is a positive step towards addressing AML/CFT vulnerabilities, complementary laws and strong implementation remain critical. With crypto-asset activities permitted in the GMC, the importance of strong enforcement and supervision is heightened. In addition, fiscal risks need to be carefully managed to protect Bhutan's revenue base and limit spending pressures. Addressing these risks is critical to ensure that the GMC's potential to foster economic diversification and attract FDI fully materializes.

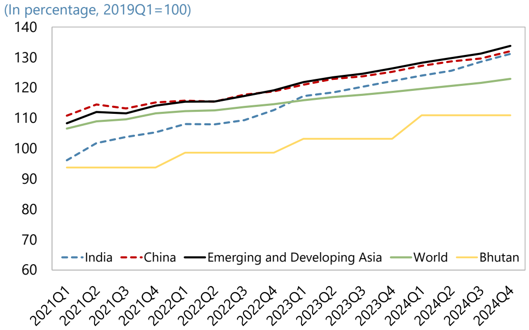
42. Staff recommends that the next Article IV consultation with Bhutan takes place on a 12-month cycle.

Figure 1. Bhutan: Real Sector Developments

Bhutan's post-pandemic recovery was slower than peers.

Real GDP Growth Rate

(In percentage, 2019Q1=100)

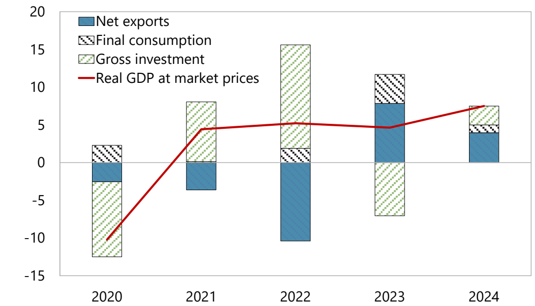


Sources: Haver Analytics; IMF WEO Data; and IMF staff calculations.
Note: Data for Bhutan represented annually for all quarters within the same year.

In 2023–24, growth was driven mainly by net exports, with consumption steady and investment rebounding in 2024 after a dip in 2023.

Sources of Growth

(In percent contribution to real GDP growth)

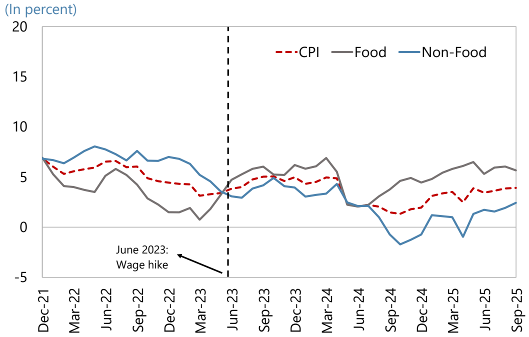


Sources: Haver Analytics; and IMF staff calculations.

In early 2024, inflation declined as the impact of the 2023 wage increase dissipated and food prices eased,

Consumer Price Inflation

(In percent)

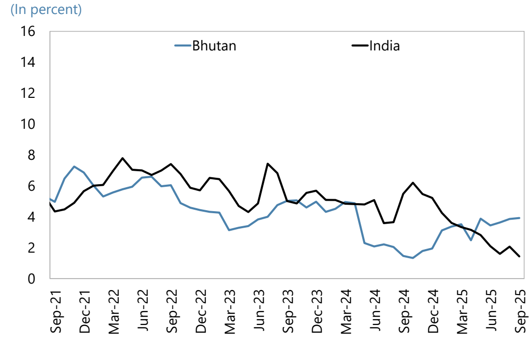


Sources: Haver Analytics; and IMF staff calculations.

Inflation in Bhutan continues to broadly track India's price dynamics.

CPI Inflation Relative to India

(In percent)

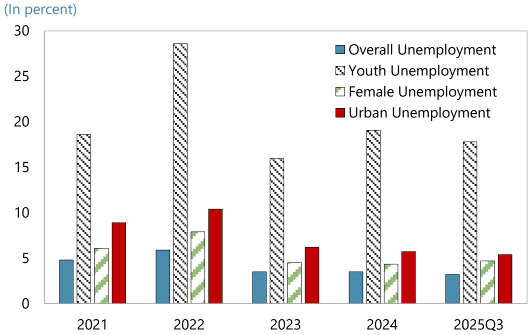


Sources: Haver Analytics; and IMF staff calculations.

Unemployment has gradually declined since its 2022 peak, but youth unemployment remains high

Unemployment Rate

(In percent)

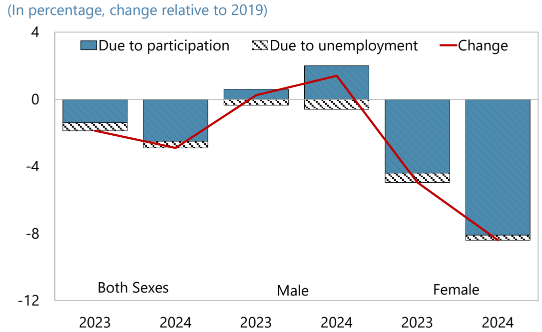


Source: Bhutan National Statistics Bureau Labor Force Survey Report.

Since 2019, employment has held broadly steady for men but has fallen sharply for women, reflecting a significant drop in female labor force participation.

Employment to Population

(In percentage, change relative to 2019)

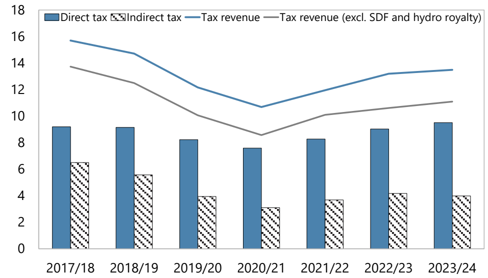


Sources: Bhutan National Statistics Bureau Labor Force Survey Report; and IMF staff calculations.

Figure 2. Bhutan: Fiscal Developments

Tax revenue has recovered recently, but delays in GST implementation have structurally hindered indirect taxes…

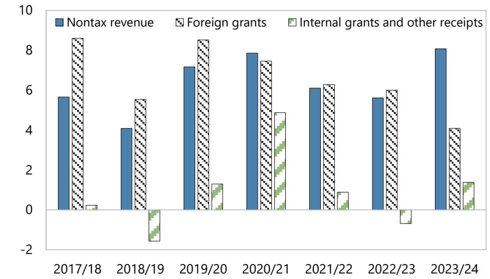
Tax Revenue
(In percent of GDP)



Sources: Bhutanese authorities; and IMF staff calculations.
Note: FY2023/24 GDP is a projection.

…while nontax revenue and grants have decreased.

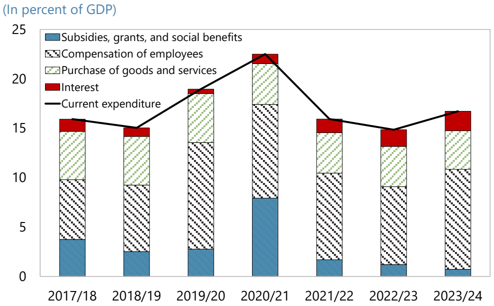
Other Revenues and Grants
(In percent of GDP)



Sources: Bhutanese authorities; and IMF staff calculations.
Note: FY2023/24 GDP is a projection.

Current expenditure has declined mostly due to the unwinding of Covid support measures…

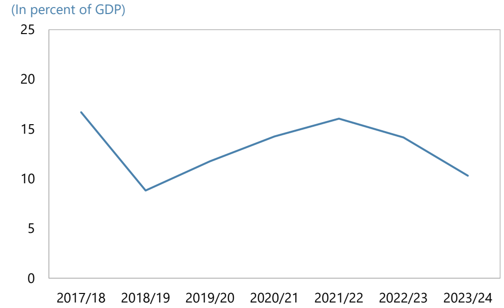
Current Expense
(In percent of GDP)



Sources: Bhutanese authorities; and IMF staff calculations.
Note: FY2023/24 GDP is a projection

…while capital expenditure declined in FY2023/24 as the 12th FYP came to an end

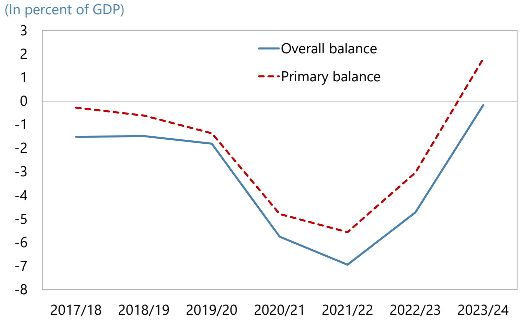
Capital Expenditure
(In percent of GDP)



Sources: Bhutanese authorities; and IMF staff calculations.
Note: FY2023/24 GDP is a projection.

The fiscal deficit improved markedly, in part due to low capital expenditure.

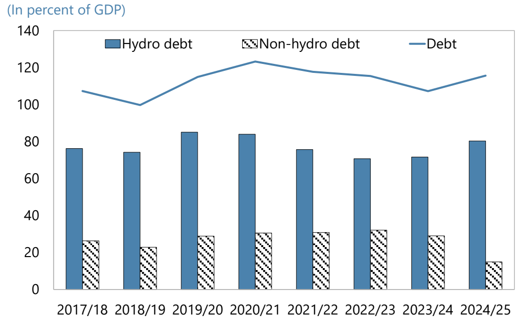
Fiscal Balance
(In percent of GDP)



Sources: Bhutanese authorities; and IMF staff calculations.
Note: FY2023/24 GDP is a projection.

Public debt steadily declined post-pandemic until hydro debt increased in FY2024/25…

Public Debt
(In percent of GDP)

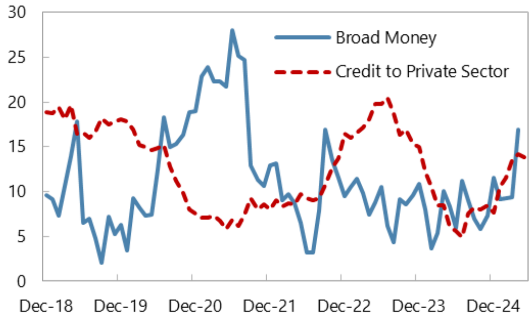


Sources: Bhutanese authorities; and IMF staff calculations.
Note: FY2023/24 GDP is a projection.

Figure 3. Bhutan: Financial and Monetary Developments

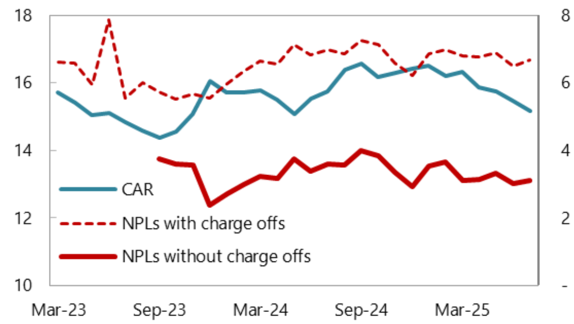
After a period of tepid growth, credit is accelerating again....

Broad Money and Credit Growth
(Annual Percentage Change)



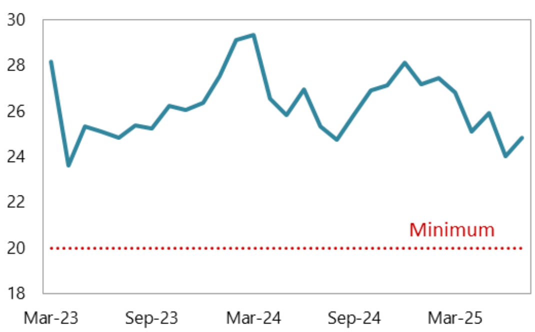
...as capital adequacy and asset quality have remained broadly stable...

Capital to Risk-Weighted Assets and Non-Performing Loan Ratio
(In percent)



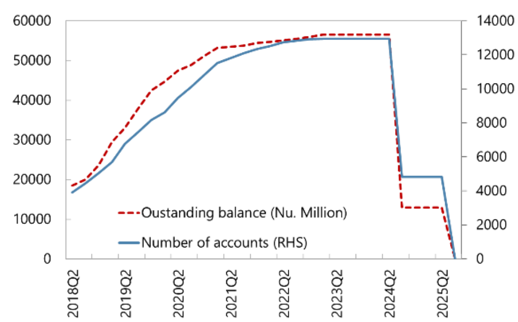
...and banks continue to hold ample liquidity.

Statutory Liquidity Requirement
(In percent)



But pressures may arise as doubtful loans can no longer be deferred, and more stringent provisioning is envisaged for 2026.

Deferred Loans



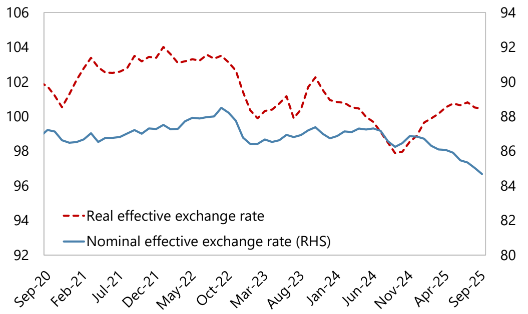
Sources: Royal Monetary Authority of Bhutan

Figure 4. Bhutan: External Developments

The REER and NEER trends have diverged in the first half of 2025 as inflation remained subdued despite a nominal depreciation.

Nominal and Real Effective Exchange Rate

(Index, 2010=100)

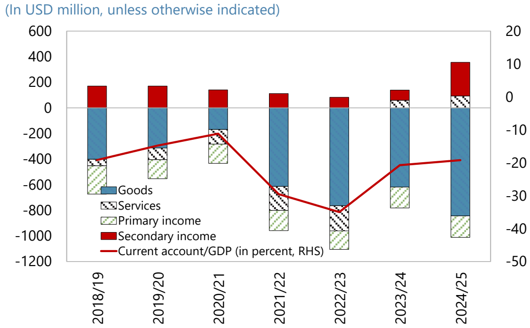


Sources: IMF INS data.

The current account deficit remains wide, driven primarily by goods exports, with services exports increasingly acting as an offset

Current Account and Components

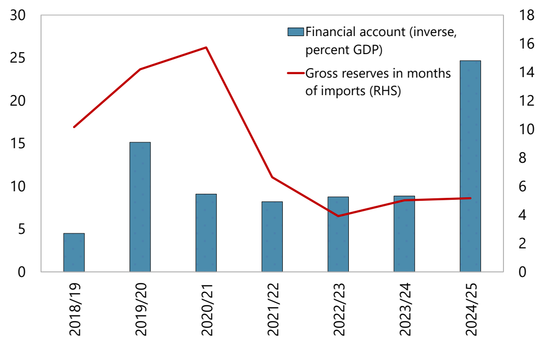
(In USD million, unless otherwise indicated)



Sources: Royal Monetary Authority of Bhutan; and IMF staff calculations.

Reserves staged a significant recovery in FY2024/25 but remain well below the pre-pandemic peak.

Financial Account and Gross Reserves

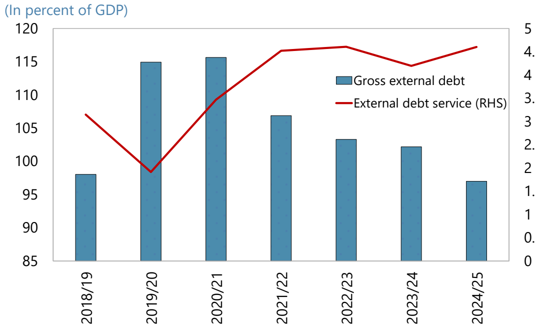


Sources: Royal Monetary Authority of Bhutan; and IMF staff calculations.

Gross external debt has declined over the last two years, but debt service remains elevated

External Debt and Debt Service

(In percent of GDP)

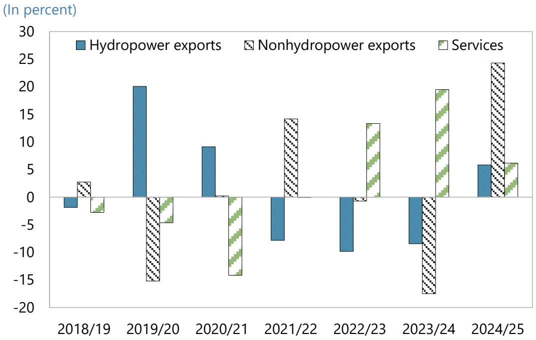


Sources: Royal Monetary Authority of Bhutan; and IMF staff calculations.

Services continue to be the main driver of export growth

Contributions to Export Growth

(In percent)

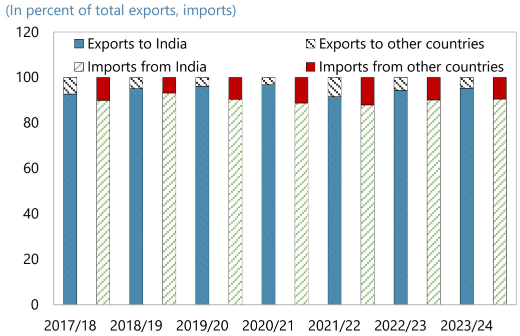


Sources: Royal Monetary Authority of Bhutan; and IMF staff calculations.

Export concentration remains critically high, with India as the dominant trade partner

Foreign Trade

(In percent of total exports, imports)

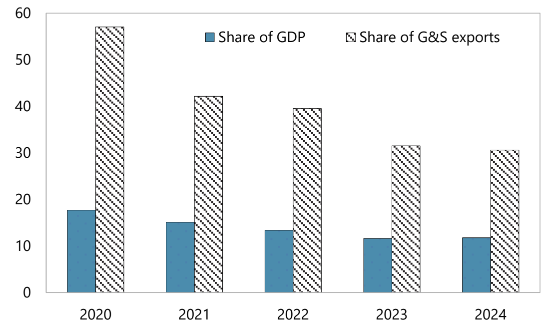


Sources: IMF DOT database; and IMF staff calculations.

Figure 5. Bhutan: Hydropower Sector Developments

The electricity sector continues to dominate exports, though its share of GDP has fallen.

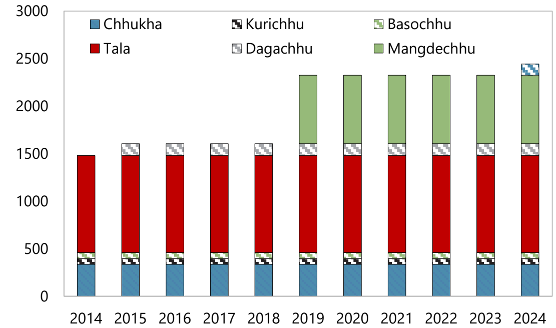
Electricity Sector
(In percent)



Sources: Bhutan authorities; and IMF staff calculations.

Hydropower capacity expanded in 2019 but has since remained broadly unchanged.

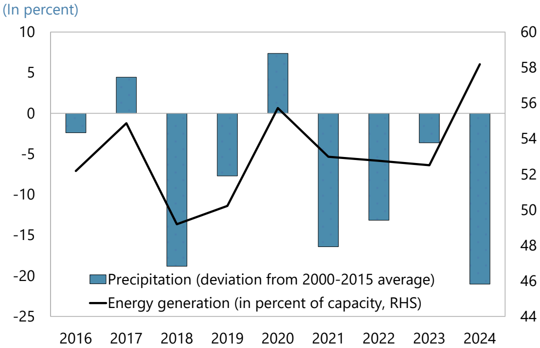
Hydropower Capacity
(In megawatts)



Sources: Bhutanese authorities.

Hydropower generation, which had decreased for a few years, recovered in 2024.

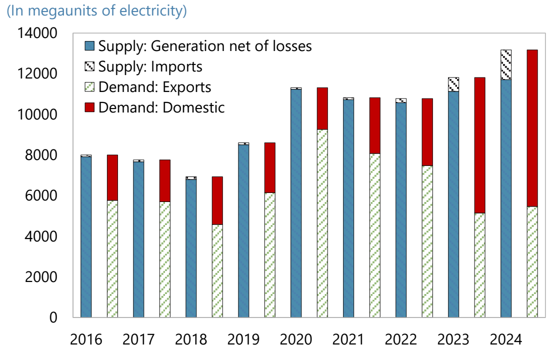
Energy Generation and Precipitation
(In percent)



Sources: Bhutanese authorities; and IMF staff calculations.

Rising domestic demand amid stagnant generation has reduced electricity exports.

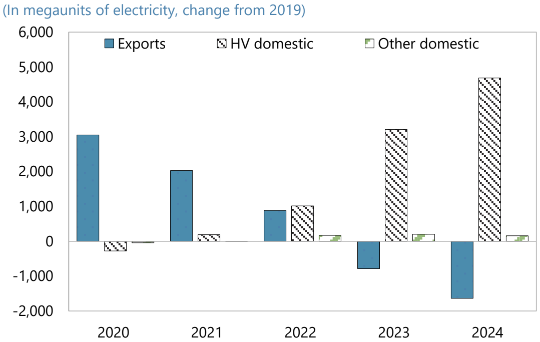
Electricity Supply and Demand
(In megaunits of electricity)



Sources: Bhutanese authorities; and IMF staff estimates.

Surging high-voltage demand—likely from crypto mining—has driven electricity use.

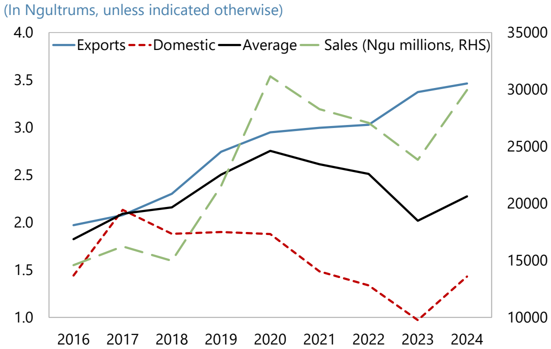
Electricity Use
(In megaunits of electricity, change from 2019)



Sources: Bhutan Ministry of Energy and Natural Resources; and IMF staff calculations.

A shift to lower-priced domestic sales cut revenues.

Sales Price per Megaunits of Electricity
(In Ngultrums, unless indicated otherwise)



Sources: Bhutan Power System Operator; Bhutan National Statistics Bureau; and IMF staff calculations.

Table 1. Bhutan: Selected Economic and Financial Indicators, 2019/20-2029/30

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Act.	Act.	Act.	Act.	Act.	Est.	←		Proj.		→
	(In percent of GDP, unless otherwise indicated)										
National Accounts											
Nominal GDP (in millions of ngultrum) 1/	187,378	193,386	216,239	238,601	260,310	288,054	320,294	352,058	386,754	429,340	475,429
Real GDP growth (percent change) 1/	-2.5	-3.3	4.8	5.0	4.2	6.8	7.4	6.0	5.8	6.8	6.5
Prices											
Consumer prices (EoP; percent change)	4.5	7.4	6.6	3.8	1.7	3.3	3.7	4.0	4.0	4.0	4.0
Consumer prices (avg; percent change)	3.0	8.2	5.9	4.5	4.3	2.5	3.5	3.8	4.0	4.0	4.0
GDP deflator (percent change)	4.0	6.7	6.7	5.0	4.7	3.6	3.5	3.7	3.8	3.9	4.0
General Government Accounts											
Total revenue and grants	29.1	30.9	25.1	24.1	27.0	28.4	32.1	30.7	30.4	26.2	27.2
Domestic revenue	19.3	18.5	18.1	18.8	21.5	21.6	22.6	20.8	20.9	21.5	23.2
Tax revenue	12.2	10.7	12.0	13.2	13.5	15.3	15.3	13.6	13.8	13.7	14.5
Non-tax revenue	7.2	7.9	6.1	5.6	8.1	6.3	7.2	7.2	7.1	7.8	8.6
Foreign grants	8.5	7.5	6.3	6.0	4.1	6.0	8.8	9.3	9.0	4.2	3.1
Internal and other receipts	1.3	4.9	0.9	-0.7	1.4	0.8	0.7	0.5	0.5	0.5	0.9
Total expenditure 2/	30.9	36.6	32.1	28.8	27.1	31.0	35.0	34.8	34.2	31.7	31.6
Current expenditure	19.0	22.5	15.9	14.8	16.7	15.9	17.7	18.0	18.6	19.4	20.1
Capital expenditure	11.8	14.3	16.1	14.2	10.3	15.1	17.2	16.8	15.6	12.3	11.4
Primary expenditure 2/	30.5	35.7	30.7	27.2	25.2	29.1	33.1	32.2	30.6	27.2	26.4
Primary balance	-1.4	-4.8	-5.6	-3.0	1.8	-0.7	-1.0	-1.5	-0.3	-1.0	0.9
Overall balance	-1.8	-5.8	-7.0	-4.7	-0.2	-2.6	-2.9	-4.1	-3.9	-5.5	-4.3
General government debt 3/	126	134	129	126	119	118	123	126	125	141	134
Domestic	3	11	15	16	10	10	10	16	16	18	17
External	123	123	114	110	109	107	112	110	109	123	117
Monetary Sector											
Broad money (M2) growth (percent change)	14.9	28.2	9.5	10.9	3.6	13.6	11.2	12.9	11.9	11.0	10.7
Private credit growth (percent change)	14.9	6.8	9.3	19.8	5.6	13.2	11.3	8.5	9.2	12.0	10.3
Balance of Payments											
Current account balance	-14.8	-11.2	-29.5	-35.0	-20.7	-19.2	-17.7	-19.2	-19.7	-18.9	-18.0
Goods balance	-12.1	-6.4	-21.4	-26.2	-20.0	-24.7	-18.4	-20.4	-20.6	-18.5	-16.6
Hydropower exports	12.1	14.6	11.3	8.5	5.8	6.9	8.6	8.2	7.6	9.0	10.2
Non-hydropower exports	13.0	12.8	15.4	14.9	9.5	15.3	11.5	10.6	10.8	8.2	7.6
Imports of goods	37.1	33.9	48.2	49.5	41.0	47.5	39.8	41.1	40.7	37.7	36.6
Services balance	-3.5	-4.4	-6.5	-6.7	1.9	2.7	-0.5	0.3	1.2	1.4	2.2
Primary balance	-5.7	-5.7	-5.5	-4.9	-5.3	-4.9	-4.4	-4.4	-5.3	-5.8	-7.2
Secondary balance	6.6	5.4	3.9	2.8	2.6	7.7	5.5	5.3	5.0	4.0	3.6
Capital account balance	7.1	3.8	4.8	4.2	7.3	13.6	16.3	17.1	9.5	4.0	2.0
Financial account balance	-15.1	-9.1	-8.2	-8.8	-8.9	-24.7	-5.9	-12.8	-15.5	-14.8	-13.0
Net errors and emissions	5.4	-4.8	1.5	9.9	5.1	-5.5	0.0	0.0	0.0	0.0	0.0
Overall balance	12.9	-3.0	-15.1	-12.1	0.5	5.3	4.4	10.7	5.2	-0.1	-3.0
Gross official reserves (in USD millions)	1344	1332	840	574	624	801	964	1400	1628	1614	1444
(In months of goods imports)	17.5	18.1	7.6	4.8	5.9	6.0	7.7	9.9	10.6	10.3	8.6
(In months of goods and services imports)	14.2	15.7	6.6	3.9	5.0	5.2	6.2	7.9	8.5	8.2	6.9
Memorandum Items											
Hydropower exports growth rate 4/	105.6	25.1	-13.2	-17.6	-25.5	31.2	39.0	5.8	1.7	30.7	25.0
Non-hydropower exports growth rate 4/	-24.1	2.4	34.2	6.8	-30.5	78.2	-16.2	0.6	12.3	-16.1	2.7
Hydropower good imports 4/	-1.3	-23.1	-9.1	24.9	28.7	4.7	147.3	72.1	-4.6	-16.8	-33.5
Non-hydropower good imports 4/	-2.5	-4.2	64.1	13.0	-11.5	29.6	-15.2	3.9	12.7	7.1	14.6
Population in million (eop)	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
External financing gap in US million	…	…	…	0	0	0	0	0	0	0	0

Sources: Bhutanese authorities; and Fund staff projections.

1/ The GDP series does not reflect the value added from cryptocurrency mining due to lack of data.

2/ The expenditure for FY2020/21 and FY2021/22 includes an estimated amount for income support provided to individuals and loan interest payment support to borrowers financed by the National Resilience Fund.

3/ Public and publicly guaranteed debt, including loans for hydropower projects.

4/ Nominal growth rates in local currency. No actual data on the breakdown of imports is available. The decomposition are estimates based on reported project spending and assumptions on import shares.

Table 2. Bhutan: Summary Operations of the Central Government, 2019/20-2029/30

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Act.	Act.	Act.	Act.	Act.	Prov.	←		Proj.		→
	(in millions of ngultrum, unless otherwise specified)										
Revenue and Grants	54,604	59,696	54,355	57,543	70,195	81,726	102,774	108,071	117,438	112,321	129,508
Domestic revenue	36,219	35,855	39,043	44,875	56,014	62,208	72,286	73,292	80,640	92,288	110,230
Tax revenue	22,793	20,662	25,843	31,487	35,038	44,008	49,077	47,846	53,208	58,788	69,125
Direct tax	15,408	14,668	17,881	21,537	24,697	31,034	34,651	32,342	36,368	40,095	48,424
Indirect tax	7,385	5,993	7,962	9,950	10,341	12,974	14,426	15,505	16,839	18,694	20,700
Nontax revenue	13,426	15,194	13,200	13,388	20,977	18,200	23,208	25,446	27,432	33,500	41,105
Foreign grants	15,958	14,418	13,584	14,309	10,615	17,216	28,097	32,902	34,836	17,977	14,794
India	11,444	10,324	9,644	10,968	6,773	13,009	19,867	18,454	16,807	10,286	10,164
Other	4,514	4,094	3,939	3,341	3,842	4,207	8,231	14,448	18,028	7,691	4,631
Internal grants and other receipts	2,427	9,423	1,913	-1,640	3,565	2,301	2,391	1,877	1,962	2,056	4,484
Expenditure	57,989	70,836	69,387	68,820	70,626	89,308	112,047	122,528	132,423	136,094	150,100
Current expenditure	35,525	43,516	34,445	35,428	43,425	45,874	56,814	63,343	72,023	83,461	95,724
Compensation of employees	20,213	18,351	18,979	18,827	26,311	27,191	28,143	29,437	30,816	33,780	37,407
Purchase of goods and services	9,302	7,986	8,843	9,699	10,127	11,202	12,456	13,691	15,040	16,696	18,489
Interest	832	1,863	2,988	4,037	5,123	5,565	6,078	9,072	13,925	19,395	24,781
Subsidies, grants, and social benefits	5,179	15,316	3,635	2,865	1,864	1,916	10,138	11,144	12,242	13,590	15,049
Capital expenditure	22,047	27,576	34,712	33,798	26,798	43,435	55,233	59,185	60,400	52,633	54,376
Structure	14,598	20,450	24,226	27,133	17,123	17,522	26,452	28,606	27,581	17,487	17,835
Other	7,449	7,126	10,486	6,665	9,675	25,913	28,781	30,579	32,819	35,145	36,541
Advance/suspense (Net)	417	-256	230	-406	403	0	0	0	0	0	0
Primary Balance	-2,554	-9,276	-12,044	-7,240	4,691	-2,018	-3,195	-5,386	-1,060	-4,378	4,189
Overall Balance	-3,385	-11,140	-15,032	-11,277	-431	-7,583	-9,273	-14,458	-14,985	-23,773	-20,592
Financing	3,385	11,140	15,032	11,277	431	7,583	9,273	14,458	14,985	23,773	20,592
Net lending	-737	-779	-3,653	-4,255	-3,530	-3,487	69,897	35,861	23,855	91,843	10,228
Net borrowings	2,648	10,360	11,378	7,022	-3,099	4,096	79,171	50,319	38,840	115,616	30,820
Net external	3,527	1,487	3,527	2,372	5,749	-3,631	76,996	34,600	35,420	105,784	27,107
Borrowings	5,303	5,212	8,974	8,022	11,901	2,438	84,342	43,869	48,562	124,687	52,188
Repayments	1,776	3,725	5,447	5,651	6,152	6,069	7,346	9,269	13,142	18,903	25,081
Net domestic	569	10,432	7,852	4,595	2,838	7,727	2,174	15,718	3,420	9,833	3,713
Borrowings	569	10,445	7,865	4,595	6,840	7,727	14,814	30,296	23,958	25,070	22,100
Repayments	0	13	13	0	4,003	0	12,639	14,577	20,538	15,238	18,387
Memorandum Items											
Tax revenue (excl. SDF and hydro royalty)	18,852	16,565	21,826	25,319	28,819	35,678	38,870	36,067	39,428	44,454	49,702
Public debt 1/	236,185	259,709	279,097	300,475	308,998	339,044	393,371	443,491	484,900	603,489	637,468
External	229,667	238,174	246,299	262,761	282,467	309,318	359,943	386,043	422,896	527,576	556,888
Hydro	159,360	162,359	162,944	168,648	167,195	170,088	239,123	270,558	303,990	409,002	425,517
Non-hydro	70,307	75,815	83,355	94,113	115,272	139,231	120,820	115,484	118,906	118,574	131,371
Domestic	6,518	21,535	32,798	37,713	26,531	29,726	33,427	57,448	62,004	75,913	80,581
Non-hydro debt	76,826	97,350	116,152	131,826	141,803	168,956	154,247	172,932	180,910	194,487	211,951

Sources: Data provided by the Royal Government of Bhutan; and IMF staff estimates and projections.
1/ Public debt covers the non-financial public sector and the RMA. From 2021/22 onwards, it includes non-guaranteed SOE debt and consolidates intra-public sector holdings.

Table 3. Bhutan: Summary Operations of the Central Government, 2019/20-2029/30

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Act.	Act.	Act.	Act.	Act.	Prov.	←		Proj.		→
	(In percent of GDP, unless otherwise indicated)										
Revenue and Grants	29.1	30.9	25.1	24.1	27.0	28.4	32.1	30.7	30.4	26.2	27.2
Domestic revenue	19.3	18.5	18.1	18.8	21.5	21.6	22.6	20.8	20.9	21.5	23.2
Tax revenue	12.2	10.7	12.0	13.2	13.5	15.3	15.3	13.6	13.8	13.7	14.5
Direct tax	8.2	7.6	8.3	9.0	9.5	10.8	10.8	9.2	9.4	9.3	10.2
Indirect tax	3.9	3.1	3.7	4.2	4.0	4.5	4.5	4.4	4.4	4.4	4.4
Nontax revenue	10.1	8.6	10.1	10.6	11.1	12.4	12.1	10.2	10.2	10.4	10.5
Foreign grants	8.5	7.5	6.3	6.0	4.1	6.0	8.8	9.3	9.0	4.2	3.1
India	6.1	5.3	4.5	4.6	2.6	4.5	6.2	5.2	4.3	2.4	2.1
Other	2.4	2.1	1.8	1.4	1.5	1.5	2.6	4.1	4.7	1.8	1.0
Internal grants and other receipts	1.3	4.9	0.9	-0.7	1.4	0.8	0.7	0.5	0.5	0.5	0.9
Expenditure	30.9	36.6	32.1	28.8	27.1	31.0	35.0	34.8	34.2	31.7	31.6
Current expenditure	19.0	22.5	15.9	14.8	16.7	15.9	17.7	18.0	18.6	19.4	20.1
Compensation of employees	10.8	9.5	8.8	7.9	10.1	9.4	8.8	8.4	8.0	7.9	7.9
Purchase of goods and services	5.0	4.1	4.1	4.1	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Interest	0.4	1.0	1.4	1.7	2.0	1.9	1.9	2.6	3.6	4.5	5.2
Subsidies, grants, and social benefits	2.8	7.9	1.7	1.2	0.7	0.7	3.2	3.2	3.2	3.2	3.2
Capital expenditure	11.8	14.3	16.1	14.2	10.3	15.1	17.2	16.8	15.6	12.3	11.4
Structure	7.8	10.6	11.2	11.4	6.6	6.1	8.3	8.1	7.1	4.1	3.8
Other	4.0	3.7	4.8	2.8	3.7	9.0	9.0	8.7	8.5	8.2	7.7
Advance/suspense (Net)	0.2	-0.1	0.1	-0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Primary Balance	-1.4	-4.8	-5.6	-3.0	1.8	-0.7	-1.0	-1.5	-0.3	-1.0	0.9
Overall Balance	-1.8	-5.8	-7.0	-4.7	-0.2	-2.6	-2.9	-4.1	-3.9	-5.5	-4.3
Financing	1.8	5.8	7.0	4.7	0.2	2.6	2.9	4.1	3.9	5.5	4.3
Net lending	-0.4	-0.4	-1.7	-1.8	-1.4	-1.2	21.8	10.2	6.2	21.4	2.2
Net borrowings	1.4	5.4	5.3	2.9	-1.2	1.4	24.7	14.3	10.0	26.9	6.5
Net external	1.9	0.8	1.6	1.0	2.2	-1.3	24.0	9.8	9.2	24.6	5.7
Borrowings	2.8	2.7	4.2	3.4	4.6	0.8	26.3	12.5	12.6	29.0	11.0
Repayments	0.9	1.9	2.5	2.4	2.4	2.1	2.3	2.6	3.4	4.4	5.3
Net domestic	0.3	5.4	3.6	1.9	1.1	2.7	0.7	4.5	0.9	2.3	0.8
Borrowings	0.3	5.4	3.6	1.9	2.6	2.7	4.6	8.6	6.2	5.8	4.6
Repayments	0.0	0.0	0.0	0.0	1.5	0.0	3.9	4.1	5.3	3.5	3.9
Memorandum Items											
Tax revenue (excl. SDF and hydro royalty)	10.1	8.6	10.1	10.6	11.1	12.4	12.1	10.2	10.2	10.4	10.5
Public debt 1/	126.0	134.3	129.1	125.9	118.7	117.7	122.8	126.0	125.4	140.6	134.1
External	122.6	123.2	113.9	110.1	108.5	107.4	112.4	109.7	109.3	122.9	117.1
Hydro	85.0	84.0	75.4	70.7	64.2	59.0	74.7	76.9	78.6	95.3	89.5
Non-hydro	37.5	39.2	38.5	39.4	44.3	48.3	37.7	32.8	30.7	27.6	27.6
Domestic	3.5	11.1	15.2	15.8	10.2	10.3	10.4	16.3	16.0	17.7	16.9
Non-hydro debt	41.0	50.3	53.7	55.2	54.5	58.7	48.2	49.1	46.8	45.3	44.6

Sources: Data provided by the Royal Government of Bhutan; and IMF staff estimates and projections.

Note: FY2025/26 GDP is a projection.

1/ Public debt covers the non-financial public sector and the RMA. From 2021/22 onwards, it includes non-guaranteed SOE debt and consolidates intra-public sector holdings.

Table 4. Bhutan: Balance of Payments, 2019/20-2029/30

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Act.	Act.	Act.	Act.	Act.	Est.	←		Proj.		→
	(In millions of U.S. dollars, unless otherwise indicated)										
Current Account Balance (including Official Grants)	**-382**	**-292**	**-847**	**-1022**	**-642**	**-655**	**-669**	**-795**	**-893**	**-946**	**-987**
Trade balance (Goods, net)	-314	-168	-613	-765	-618	-844	-694	-843	-932	-925	-912
Exports	647	720	767	684	653	775	809	853	910	956	1099
Hydropower	312	383	325	247	179	234	323	341	345	449	558
Other	335	337	442	436	295	522	436	437	488	408	417
Imports	960	888	1380	1448	1271	1619	1503	1697	1841	1881	2011
Hydropower-related	76	57	51	59	74	77	227	389	369	305	236
Services, net	-91	-114	-188	-196	60	93	-17	12	53	70	124
Credit	133	22	22	127	285	343	341	440	506	545	614
Debit	224	136	210	323	225	249	359	428	454	476	490
Primary income	-148	-150	-158	-144	-164	-168	-166	-183	-238	-291	-395
Credit	29	22	24	36	29	36	47	52	56	62	69
Debit	178	172	182	180	192	203	214	234	294	353	464
Interest paid on hydropower loans	3	18	31	29	29	37	63	94	98	98	124
Other interest	27	19	22	26	44	36	18	5	34	89	112
Other	-18	-5	-2	0	-11	-2	61	62	73	61	154
Secondary income	171	141	112	83	80	263	208	219	224	200	196
Credit	191	181	154	167	162	315	308	328	344	332	342
Budgetary grants	94	77	48	50	36	36	43	50	53	27	22
Debit	21	41	41	84	82	52	100	109	120	132	146
Capital Account Balance 1/	**184**	**101**	**137**	**123**	**227**	**465**	**614**	**707**	**428**	**198**	**110**
Budgetary grants for investment	89	83	117	69	70	54	288	336	354	182	149
Grants for hydropower development	95	17	20	54	6	259	153	156	151	116	86
Financial Account Balance	**-392**	**-238**	**-235**	**-256**	**-275**	**-841**	**-222**	**-530**	**-700**	**-741**	**-715**
Direct investment, net	9	-5	-9	-10	-3	-111	-160	-83	-53	-65	-65
Portfolio investment, net	0	0	0	0	0	0	0	0	0	0	0
Other Investment, net	-400	-233	-226	-245	-272	-493	-62	-447	-647	-676	-649
Budget	-107	-56	-97	-80	-82	-135	258	-98	-169	-74	-63
Hydro loans	-125	-39	-5	-61	20	-9	-154	-395	-447	-572	-560
RMA loans	0	0	0	0	0	0	0	82	0	0	0
Decrease in commercial banks net assets	-2	2	7	-10	-7	-4	-5	-5	-5	-5	-6
Private sector loans	-11	-4	3	2	-11	-8	-10	-10	-4	1	7
Other	-154	-136	-134	-96	-192	-337	-151	-21	-23	-25	-27
Net Errors & Omissions	140	-125	42	291	157	-189	0	0	0	0	0
Overall Balance	**333**	**-79**	**-432**	**-353**	**16**	**181**	**167**	**441**	**236**	**-7**	**-162**
Financing	**333**	**-79**	**-432**	**-353**	**16**	**181**	**167**	**441**	**236**	**-7**	**-162**
Accumulation of reserve assets	277	-55	-429	-353	16	181	167	441	236	-7	-162
SDR allocation	0	0	-29	0	0	0	0	0	0	0	0
Reduction of arrears	0	0	0	0	0	0	0	0	0	0	0
RSF (net)	...	...	...	0	0	0	0	0	0	0	0
Financing Gap	...	...	...	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
EFF/ECF	...	...	...	0	0	0	0	0	0	0	0
Donors	...	...	...	0	0	0	0	0	0	0	0
Memorandum Items					(In percent of GDP)						
Current account balance	-14.8	-11.2	-29.5	-34.97	-20.7	-19.2	-17.7	-19.2	-19.7	-18.9	-18.0
Trade balance (goods)	-12.1	-6.4	-21.4	-26.2	-20.0	-24.7	-18.4	-20.4	-20.6	-18.5	-16.6
Services balance	-3.5	-4.4	-6.5	-6.7	1.9	2.7	-0.5	0.3	1.2	1.4	2.2
Primary income	-5.7	-5.7	-5.5	-4.9	-5.3	-4.9	-4.4	-4.4	-5.3	-5.8	-7.2
Secondary income	6.6	5.4	3.9	2.8	2.6	7.7	5.5	5.3	5.0	4.0	3.6
Capital account balance	7.1	3.8	4.8	4.2	7.3	13.6	16.3	17.1	9.5	4.0	2.0
Financial account balance	15.1	9.1	8.2	8.8	8.9	24.7	5.9	12.8	15.5	14.8	13.0
Direct investment, net	0.3	-0.2	-0.3	-0.4	-0.1	-3.3	-4.2	-2.0	-1.2	-1.3	-1.2
Overall balance	12.9	-3.0	-15.1	-12.1	0.5	5.3	4.4	10.7	5.2	-0.1	-3.0
External debt	121.3	126.0	111.9	113.6	112.3	111.0	120.6	125.2	130.3	148.8	146.1
Trade balance	-12.1	-6.4	-21.4	-26.2	-20.0	-24.7	-18.4	-20.4	-20.6	-18.5	-16.6
Gross official reserves (in USD millions)	1344	1332	840	574	624	801	964	1400	1628	1614	1444
(In months of goods imports)	17.5	18.1	7.6	4.8	5.9	6.0	7.7	9.9	10.6	10.3	8.6
(In months of goods and services imports)	14.2	15.7	6.6	3.9	5.0	5.2	6.2	7.9	8.5	8.2	6.9

Sources: Data provided by the Royal Government of Bhutan; and IMF staff estimates and projections.

1/ Including grants for hydropower projects (Tala, Puna I, Puna II, Mangdechhu, Kholongchhu, Bunakha, Chamkarchhu, and Wangchhu).

Note: FY2025/26 GDP is a projection.

Table 5. Bhutan: Monetary Aggregates, 2018/2019–2023/2024

	2018/19 June	2019/20 June	2020/21 June	2021/22 June	2022/23 June	2023/24 June
	(In Millions of ngultrum, end of period)					
Net foreign assets	59,022	78,646	88,129	84,698	67,058	66,640
Claims on nonresidents	78,026	105,399	115,003	114,529	98,343	101,494
Central Bank	73,053	100,398	110,150	109,971	93,048	96,453
Other Depository Corporations	4,972	5,001	4,853	4,558	5,295	5,041
Liabilities to Nonresidents	-19,003	-26,753	-26,874	-29,832	-31,285	-34,855
Central Bank	-18,757	-26,527	-26,669	-29,648	-31,123	-34,714
Other Depository Corporations	-247	-226	-205	-184	-162	-141
Net domestic assets	54,954	52,157	79,402	98,554	135,948	143,725
Net Claims on Central Government	-5,331	-17,978	-1,419	5,994	15,139	8,354
Claims on State and Local Government	0	0	0	0	0	0
Claims on Public Nonfinancial Corporations	4,685	4,622	7,366	5,388	4,900	5,562
Claims on NBFIs	664	646	139	3,251	1,380	1,681
Claims on private sector	105,314	120,957	129,207	141,210	169,123	178,574
Corporates	34,647	41,935	45,975	47,918	55,443	48,407
Households	70,667	79,022	83,232	93,291	113,680	130,167
Capital and Reserves (-)	38,860	39,460	36,962	43,543	49,179	50,838
Other items, net (-, including discrepancy)	11,517	16,630	18,929	13,746	5,415	-391
Broad Money	113,530	130,459	167,284	183,121	203,006	210,364
Currency in Circulation	9,745	11,785	11,876	10,239	9,536	9,368
Transferable Deposits	52,576	62,460	81,901	88,845	99,259	99,062
Other Deposits	51,209	56,214	73,506	84,037	94,211	101,933
Securities	0	0	0	0	0	0
Other Liabilities	446	344	248	131	0	0
	(Annual percentage change)					
Net foreign assets	-3.68	33.25	12.06	-3.89	-20.83	-0.62
Net domestic assets	6.44	-5.09	52.24	24.12	37.94	5.72
Claims on private sector	16.62	14.85	6.82	9.29	19.77	5.59
Corporates	12.81	21.04	9.63	4.23	15.70	-12.69
Households	18.58	11.82	5.33	12.09	21.86	14.50
Broad Money	0.55	14.91	28.23	9.47	10.86	3.62
	(In millions of U.S. dollars, end of period)					
Net foreign assets	191.25	163.09	134.30	152.61	131.66	83.35
Net domestic assets	178.07	108.16	121.00	177.58	266.92	179.77
Claims on private sector	341.26	250.83	196.89	254.44	332.05	223.36
Corporates	112.27	86.96	70.06	86.34	108.86	60.55
Households	228.99	163.87	126.83	168.10	223.20	162.81
Memorandum items:						
Velocity (GDP/Broad Money)	0.23	0.24	0.20	0.26	0.28	0.30
Ngultrum per U.S. dollar (end of period)	308.61	482.23	656.23	554.98	509.32	799.48

Sources: International Financial Statistics and IMF Staff.

Table 6. Bhutan: Selected Economic and Financial Stability Indicators, 2014/15-2024/25

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	June	June	June	June	June	June	June	June	June	June	June
Risk-Weighted Capital Adequacy Ratio											
Financial sector	17.2	16.9	17.3	16.2	12.6	11.6	13.5	15.0	15.1	16.3	16.1
Banks	17.5	17.9	17.2	16.4	15.8	12.1	13.9	14.4	15.1	15.5	15.5
Nonbanks	15.7	13.0	17.4	15.1	-5.1	9.1	10.9	19.0	25.9	22.3	20.8
Non-Performing Loans (including write-offs)											
Financial sector	9.5	9.1	11.4	10.4	15.0	16.3	14.1	8.6	7.7	8.6	8.0
Banks	9.7	9.8	12.5	10.8	9.9	14.5	11.5	6.5	7.9	6.8	6.5
Nonbanks	7.9	5.8	6.8	9.4	30.6	21.8	22.4	15.8	17.0	16.0	14.6
Return on Assets (Banks Only)	1.2	0.3	-1.1	1.2	0.3	-3.1	0.1	1.1	1.3	1.1	1.1
Credit to Deposit Ratio (Banks Only)	86.4	86.6	73.4	78.9	87.4	81.1	75.0	74.3	79.2	79.1	81.8
Statutory Liquidity Requirement Ratio (SLR)											
Banks	29.6	26.0	33.8	31.0	22.6	27.6	32.9	31.1	25.1	26.9	24.0
Nonbanks	23.5	12.8	10.4	13.1	10.5	11.9	17.5	16.1	17.4	15.0	13.5

Sources: Data provided by the Royal Government of Bhutan; and IMF FSI database.

Annex I. Crypto-Mining Operations in Bhutan

Bhutan maintains one of the largest official crypto-asset portfolios in the world, while the private sector continues to invest in crypto-mining infrastructure. This endeavor offers significant economic upsides and leverages an important source of comparative advantage for Bhutan given widespread availability of low-cost clean energy. At the same time, vigilant risk management and adaptive policy measures are warranted to ensure that crypto operations strengthen the nation's prosperity without undermining its stability.

Background and Recent Developments

1. Bitdeer, a major industry player, has rapidly expanded its crypto-mining capacity over the past year by partnering with DHI. This venture taps into Bhutan's abundant low-cost hydropower and cool climate which are favorable for Bitcoin mining. In mid-2023, a 100 MW mining data center in Gedu became operational. Subsequently, a much larger 500 MW facility started operations at Jigmeling and become fully operational by October 2025. In this venture, Bhutan faces limited financial risk while earning a portion of mining revenues and gaining a few local jobs. In addition to Jigmeling and Gedu, four state-run mining sites operate nationwide.

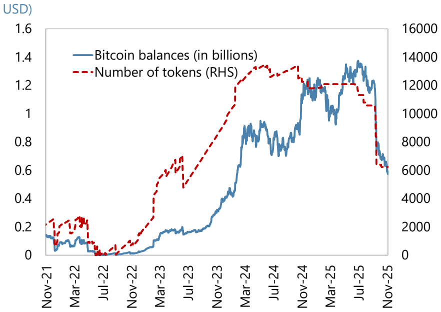
2. Bhutan's state mining program has accumulated a large Bitcoin reserve. Boosted by the 2024–25 price boom, the value of Bhutan's remaining crypto holdings has swelled. As of mid-2025, it likely held over 10,000 BTC (worth over US$1 billion), making Bhutan the sixth largest government Bitcoin holder in the world, and by far the most significant as a share of GDP at close to 40 percent.[1] The authorities consider this holding as a strategic reserve and emphasize that most of the portfolio is held long-term, with limited sales to finance operational costs.

Sovereign Holdings of Crypto-Assets

Country	In USD million	In percent of GDP
Bhutan	1,170.00	34.33
Ukraine	5,330.00	2.54
El Salvador	720.9	1.97
United Kingdom	7,050.00	0.18
UAE	740.00	0.13
China	17,600.00	0.09
United States	22,800.00	0.07
Venezuela	27.6	0.03
Finland	10	0.00

Sources: Coinpedia; and WEO Oct 2025.

Bitcoin Balances and Number of Tokens
(In USD)



Source: Arkham.

3. However, there is significant uncertainty regarding public sector bitcoin holdings levels. The authorities have not disclosed the amount of their holdings, and do not deny nor corroborate the accuracy of Arkham Intelligence's estimates. Those estimates show a large decline in bitcoin holdings in late September, but it is unclear to what extent it was an actual shift in the portfolio or it just a move to a wallet that has not been identified. Based on Arkham's data, state

[1] This is based on information from Coinpedia, and Arkham Intelligence, as Bhutan does not disclose financial statement for its crypto mining operation or crypto asset holdings.

bitcoin holdings as of November 24th amounted to about US$550million. The decline reflects a reduction of 43 percent in holdings and a 22 percent decline in the price of bitcoin since mid-September.

4. The rapid growth of crypto mining is consuming a significant share of Bhutan's electricity, creating an energy trade-off with economic implications. In 2023, domestic electricity usage surged by over 60 percent (driven by new industrial loads from crypto mining), while power exports to India dropped by about a third, and electricity imports surged during the dry winter months to meet internal demand.

Challenges and Risks

5. Bhutan's holding of crypto assets carries significant risks, albeit the authorities have taken steps to mitigate them. Notwithstanding the favorable environment for mining, Bitcoin prices are highly volatile even relative to risky portfolios such as equities. For instance, during the last crypto crash in 2022, Bitcoin fell by over 75 percent, while the November 2025 sell-off led to a 17½ percent decline. A similar future downturn could sharply erode Bhutan's crypto assets value, cut into mining revenues, and potentially put strain on GDL repayments to the RMA. However, it is important to notice that Bhutan has low energy costs which provides the country with an important advantage over other miners. In addition, GDL has a stop-loss strategy to mitigate such risk. The past budgetary transfers of crypto-mining profits to finance the increase in the wage bill were only temporary and no longer envisaged for this fiscal year.

6. Large-scale crypto mining also poses operational challenges which Bhutan is addressing. On the operational side, the heavy power usage of mining requires careful management given the seasonal nature of hydropower generation. The authorities have clearly stated that consumers and other industries have priority access to electricity over crypto mining operations. Bhutan's solution is to make crypto mining flexible, with consideration of the additional cost of energy imports during the dry season. For instance, the new facility in Jigmeling is set to power down in winter.

7. Regulatory challenges are likely to take center stage as Bhutan scales up its crypto operations. Notwithstanding their own investment in mining, the authorities have maintained a cautious regulatory stance on cryptocurrency. Crypto asset on-ramping is not allowed in Bhutan, and the RMA has confined crypto activities to a special regulatory sandbox with strict conditions to prevent risks to the financial system. This controlled approach has so far shielded Bhutan's banks and consumers from potential crypto-related shocks and disruptions. However, with on-ramping allowed in the GMC, as the sector grows the government will need to establish clearer laws and guidelines including anti-money-laundering rules, consumer protection, and integration with other financial regulations to ensure that expanded crypto activity doesn't create loopholes or vulnerabilities.

8. Lastly, managing a large digital asset portfolio also raises the stakes for cybersecurity. Any breach or loss of keys in this domain could have significant financial repercussions. These risks call for a need to invest proactively in robust security measures, both physical and digital.

Accounting of Crypto Assets Without a Corresponding Liability in Balance of Payments

9. **Staff have stressed the importance of recording crypto assets operation in the national statistics.** The large operations by GDL and Bitdeer are currently not fully recorded in Bhutan's statistics. While some operations are, like the imports of crypto-mining equipment, the crypto assets operations are not properly reflected. Further efforts are needed to record these operations, including on the balance of payments. Below is a description of current developments.

10. **The classification of crypto-related transactions in the balance of payments (BOP) focuses on cross-border flows and ownership changes of crypto assets**. There is still no global agreement on the proper recording of crypto assets without a corresponding liability, but while there is broad consensus that it is a non-financial asset, there is still debate on whether it should be considered as produced or non-produced.[2] Under the former, the key principles include:

- **Service Exports:** Mining for foreign entities is recorded under computer and information services.
- **Acquisition of Crypto Assets:** Newly mined crypto without a corresponding liability is recorded in the capital account as non-produced non-financial assets.
- **Sales and Transfers:** Sales to non-residents affect the financial account; transfers to the monetary authority are recorded as reserve asset changes.
- **Valuation Changes:** Price changes affect the International Investment Position (IIP), not the current account.

[2] The authorities consider that produced non-financial is a more adequate classification but are waiting for a consensus to emerge among the international community.

Table 1. Bhutan: BOP Accounting of Crypto Transactions: Illustrative Examples

		T		T+1		T+2			T+3	
		Country A		Country A		Country A		ROW	Country A	
		Credit	Debit	Credit	Debit	Credit	Debit		Credit	Debit
Balance of Payments										
1	**Current Account**									
1.A	Goods and services									
1.A.a	Goods									
1.A.b	Services						3			
1.A.b.7	Financial services									
1.A.b.10	Computer and information services									
1.A.b.10.1	Computer services									
1.A.b.10.2	Information services	100								
1.B	Earn income									
1.C	Transfer income									
2	**Capital account**									
2.1	Acquisition of nonproduced nonfinancial assets									
2.1.4	Crypto assets without a corresponding liability		100			83			10	
2.2	Capital Transfer									
3	**Financial Account**									
3.1	Direct Investment									
3.2	Portfolio Investment									
3.3	Financial derivatives									
3.4	Other investment						0			
3.5	Reserve assets									10
International Investment Position										
	Assets									
	Direct investment									
	Portfolio									
	Financial derivatives									
	Other investment						0			
	Reserve assets									10
	Liabilities									
	Direct investment									
	Portfolio									
	Financial derivatives									
	Other investment									

Source: IMF staff calculations.

Note: The table illustrates examples of crypto transactions over four years, mapped to BOP line items
T: A miner in Bhutan verifies Bitcoin transactions for non-residents, earning $10 in fees and $90 in block rewards. The bitcoin payments are kept in a foreign account. Electricity cost: $80.
T+1: Bitcoin price rises by 25%. No mining or trading occurs.
T+2: Miner sells $80 worth of Bitcoin to a non-resident to pay for domestic electricity. Pays $3 validation fee.
T+3: Miner sells $10 worth of Bitcoin to a non-resident and transfers proceeds to the monetary authority, increasing reserves.

Annex II. Implications of Global Trade Tensions and Geoeconomic Fragmentation for Bhutan

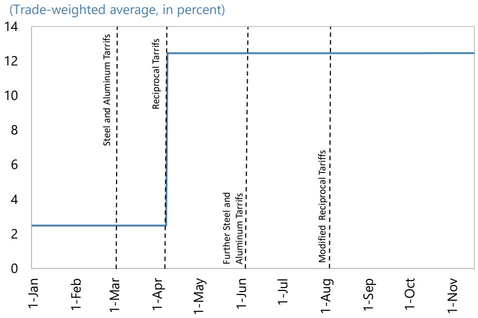
1. Rising global trade tensions and geoeconomic fragmentation pose new challenges for small, open economies. The global trade landscape has become increasingly uncertain amid escalating geopolitical rivalries, the weaponization of trade policy, and the reshaping of global supply chains. These developments have led to a slowdown in global trade growth, rising trade barriers, and a shift toward regionalization. For countries like Bhutan which are deeply reliant on a narrow set of trading partners and export sectors, the implications of these shifts warrant close attention.

2. In the near term, Bhutan's direct exposure to global trade tensions remains limited. Bhutan's strong trade ties with India ameliorates direct exposures. Bhutan's exports to the United States—a key player in ongoing trade disputes—are minimal, accounting for less than 1 percent of total merchandise exports in 2024. Moreover, while Bhutan maintains a bilateral trade deficit with the U.S., reciprocal tariffs were set at 10 percent. This limited exposure is concentrated on ferroalloys (mainly ferro-silicon) which accounts for most of the exports to the U.S.

3. That said, Bhutan is potentially subject to significant indirect exposure through India via sectors vulnerable to global tariff regimes. In 2024, ferroalloys (primarily ferro-silicon) exports—mainly to India—accounted for about 41 percent of Bhutan's total merchandise exports. These inputs are critical for India's ferro-alloy and aluminum industries which are large exporters. Tariffs imposed by the U.S. on these Indian exports could reduce demand for Bhutanese inputs, exposing Bhutan to second-round effects of global trade fragmentation. While indirect, this channel can be economically significant and underscores Bhutan's sensitivity to shifts in India's external trade environment.

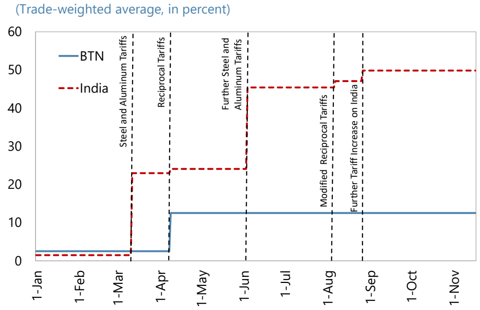
4. Moreover, Bhutan remains vulnerable to medium-term risks due to high export concentration. The country's export base is heavily concentrated both in terms of products and trading partners. Hydropower alone accounted for about a third of total exports in FY2023/24, with minerals and base metals accounting for another third. On the partner side, India remains overwhelmingly dominant, absorbing nearly 90 percent of Bhutan's total exports (Figure 4). This high concentration increases Bhutan's vulnerability to partner-specific shocks, including changes in Indian trade policy, demand fluctuations, and disruptions in cross-border infrastructure. The lack of diversification limits Bhutan's ability to pivot to alternative markets in the event of external shocks.

US Tariffs on Bhutan, 2025
(Trade-weighted average, in percent)



Source: WTO tariff and trade data.

US Tariffs on Steel and Iron, 2025
(Trade-weighted average, in percent)



Source: WTO tariff and trade data.

5. There is scope to mitigate these vulnerabilities by enhancing export product and trading partner diversification and reducing trade barriers. On the upside, Bhutan could benefit from greater integration into regional and global trade networks. The country's average tariff rate on non-Indian imports remains relatively high at around 21 percent. Reducing these barriers—through bilateral free trade agreements (e.g., FTA with Thailand to be implemented in January 2026) or by pursuing WTO accession—could help broaden Bhutan's trade base, improve competitiveness, and support long-term growth. In addition, targeted investments in trade facilitation, logistics, and export-oriented sectors could help unlock new markets and reduce reliance on a narrow set of products and partners.

Appendix I. Data Adequacy Assessment

Table 1. Bhutan: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
C							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	B	C	C	B	C	C
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	C	B	B		
Granularity 3/	C		B	B	B		
			A		A		
Consistency			C	C		C	
Frequency and Timeliness	C	B	C	C	C		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. While there has been significant progress in several areas, certain shortcomings somewhat hamper surveillance. Key issues are the limited release of high-frequency indicators (including tourism arrivals), lack of quarterly reports of fiscal operations, the limited release of data surrounding the bitcoin mining operations, and the large errors and omissions in the Balance of Payments. However, the recent introduction of quarterly GDP and labor force statistics marks a significant improvement in national accounts, enhancing the timeliness and depth of policy analysis.

Changes since the last Article IV consultation. The national accounts improved significantly with the introduction of quarterly data, enhancing the timeliness and relevance of economic analysis. The CPI is now reported at the regional level, providing more granular insights into price developments.

Corrective actions and capacity development priorities. Supported by the IMF, the authorities are in the process of improving their BOP statistics, and improving their fiscal reporting--including compliance with GFSM2014 and updating their chart of accounts.

Use of data and/or estimates different from official statistics in the Article IV consultation. None

Other data gaps. Data on migration flows is crucial to assess the impact of the recent surge in emigration--particularly to Australia.

Table 2. Bhutan: Data Standards Initiatives

Bhutan participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since June 2017.

Table 3. Bhutan: Table of Common Indicators Required for Surveillance

As of November 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Bhutan	Expected Timeliness[6,7]	Bhutan
Exchange Rates	Oct-25	Nov-25	M	M	D	D	NA	1D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Sep-25	Nov-25	M	M	M	M	1M	1M
Reserve/Base Money	Sep-25	Nov-25	M	M	M	M	2M	1Q
Broad Money	Sep-25	Nov-25	M	M	M	M	1Q	1Q
Central Bank Balance Sheet	Sep-25	Nov-25	M	M	M	M	2M	1Q
Consolidated Balance Sheet of the Banking System	Sep-25	Nov-25	M	M	M	M	1Q	1Q
Interest Rates[2]	Sep-25	Nov-25	M	M	M	D	NA	1D
Consumer Price Index	Sep-25	Nov-25	M	M	M	M	2M	1M
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Jun-25	Sep-25	Q	Q	A	Q	3Q	1M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Jun-25	Sep-25	Q	Q	Q	Q	1Q	1M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Jun-25	Sep-25	Q	Q	Q	Q	2Q	1M
External Current Account Balance	Jun-25	Oct-25	Q	Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	Jun-25	Oct-25	Q	Q	M	Q	12W	1Q
GDP/GNP	Jun-25	Sep-25	Q	Q	Q	Q	1Q	1Q
Gross External Debt	Jun-25	Oct-25	Q	Q	Q	Q	2Q	1Q
International Investment Position	Jun-25	Oct-25	Q	Q	Q	Q	3Q	1Q

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("I") irregular; and ("NA") not available.
[7] Recommended frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected.

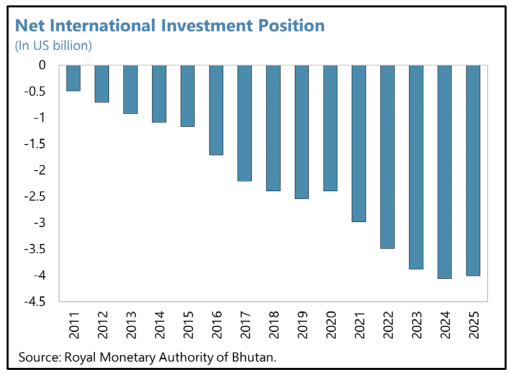
Appendix II. External Sector Assessment

Overall Assessment: *Bhutan's external position in FY2024/25 was substantially weaker than the level implied by fundamentals and desired policies. While improving markedly from the trough of 35 percent of GDP in FY2022/23 to 19 percent of GDP in FY2024/25, the current account balance remains in severe structural deficit, financed largely by loans and grants. The pattern is likely to continue over the medium term as gradual fiscal consolidation, and a potential increase in electricity, crypto and tourism exports are projected to be balanced by continuing grants and loans to finance large scale infrastructure projects and the next five-year plan.*

Potential Policy Responses: *Grants and concessional financing remain an important pillar of support for the Bhutan's development efforts, and will be the major financing sources for the large current account deficit. At the same time, gradual fiscal consolidation and policies to further promote and diversify exports will also be critical in mitigating balance of payment pressures.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Bhutan's net international investment position (NIIP) remained elevated in FY2024/25, reflecting continued financial account deficits. By end-June 2025, the NIIP stood at US$-4 billion (approximately 135 percent of GDP), an improvement of about US$0.1 billion over the previous year. External assets increased to US$1.1 billion, with reserve assets accounting for a large share (US$800 million), while other components such as currency and deposits, and trade credits, made up the remainder. External liabilities rose to US$5.1 billion and remain dominated by long-term loans (US$4.7 billion) primarily linked to hydropower development.



The structure of Bhutan's external liabilities remains largely unchanged, with the majority of debt held by non-financial public corporations. A significant share of the hydropower-related debt continued to be financed under intergovernmental arrangements with India, which include long-term power purchase agreements at cost-plus-margin pricing. This arrangement helped mitigate refinancing and market risks associated with the high external debt burden.

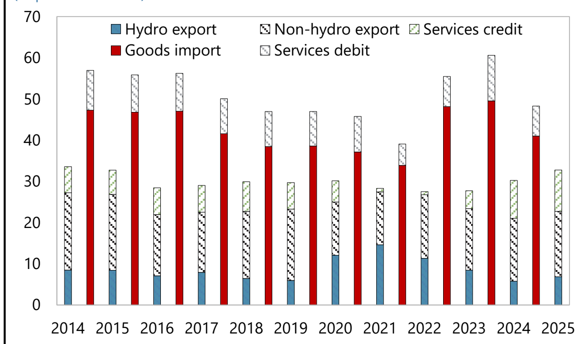
Assessment. Bhutan's negative NIIP reflects the country's forward looking development strategy which relies on sustained external financing to expand its hydropower capacity. While this results in a structurally large negative NIIP, the associated risks have been tempered by the concessional and bilateral nature of the debt. The reserve position, although lower than pre-covid levels, remains on an upward trajectory.

Looking ahead, the external position is expected to gradually improve as tourism continues to recover, hydropower exports increase with new projects coming online, and reserves increase on account of loan repayments to by SOEs to RMA. Continued close monitoring of external liabilities and reserve adequacy remains essential to safeguard external sustainability.

Current Account

Background. The current account balance continued to recover, closing FY2024/25 at a deficit of 19.2 percent of GDP, relative to 37 percent of GDP in FY2022/23. Much of the improvement was on account of a pickup in remittances and tourism revenues, as well as hydro exports. Going forward, the current account is expected to stabilize around current levels over the medium term, with pressure from high imports, primarily in the hydropower sector, balanced by fiscal consolidation and continued increase in tourism and electricity exports.

Exports and Imports
(In percent of GDP)



Sources: Royal Monetary Authority of Bhutan; and IMF staff calculations.

EBA-lite Model Results, 2025

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-19.2**	
Cyclical contributions (from model) (-)	0.4	
Additional temporary/statistical factors (-) 2/		
Natural disasters and conflicts (-)	-0.3	
Adjusted CA	**-19.3**	
CA Norm (from model) 3/	**-8.8**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-8.8**	
CA Gap	**-10.5**	**0.7**
o/w Relative policy gap	6.7	
Elasticity	-0.3	
REER Gap (in percent)	**40.8**	**-2.6**

1/ Based on the EBA-lite 3.0 methodology.
2/ Additional adjustment to account for temporary impact of shocks.
3/ Cyclically adjusted, including multilateral consistency adjustments.

Assessment. The EBA-lite current account (CA) approach suggests that Bhutan's external position is substantially weaker than the level implied by fundamentals and desirable policies. The FY2024/25 current account balance was 19.2 percent of GDP. The CA norm benchmarked on the regression method is estimated at a deficit of 8.8 percent of GDP, implying that the actual CA deficit was around 10.5 percentage points too large. The relative policy gap explains around two-thirds of this gap (6.7 percentage points of GDP), reflecting the influence of capital controls and an expansionary fiscal stance.

Real Exchange Rate

Background. The ngultrum, which remains pegged at par to the Indian rupee, continued to provide nominal stability through FY2024/25. The real effective exchange rate (REER), calculated using consumer prices and trade-weighted partner currencies, has remained broadly stable since the pandemic, with only modest fluctuations.

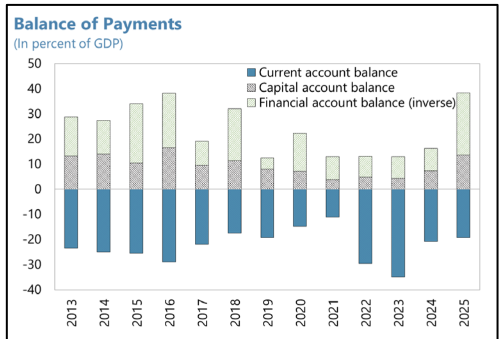
The peg remains a suitable nominal anchor for Bhutan, reflecting the country's deep economic and financial ties with India—its primary trade and development partner. However, the fixed exchange rate arrangement limits the use of the exchange rate as a tool for external adjustment. Sustaining the peg requires prudent macroeconomic management, including maintaining sufficient foreign exchange reserves and ensuring that fiscal and monetary policies are aligned to avoid persistent REER misalignments.

Assessment. The REER was evaluated using both the (preferred) EBA-lite Current Account (CA) and REER methodologies. The CA-based approach suggests that the REER remains significantly overvalued (by about 41 percent) relative to levels consistent with medium-term fundamentals and desirable policies. While the estimated REER gap under the CA model remains substantial, its implications are tempered by Bhutan's structural characteristics. The country's main exports—particularly electricity—are invoiced in Indian rupees, and imports are heavily influenced by large-scale infrastructure projects. These features reduce the responsiveness of the current account to exchange rate changes, implying a lower elasticity than in more diversified economies.

The REER-based model on the other hand continues to indicate a small negative gap of 2.6 percent, though its reliability for Bhutan relative to the CA model is limited due to the economy's unique structure, since the REER-based model focusses on the main trading partners, which in Bhutan's case is dominated by India, against which the currency also happens to be pegged.

Capital and Financial Accounts: Flows and Policy Measures

Background. Bhutan's capital account recorded inflows of US$465 million (13.6 percent of GDP) in FY2024/25, a sharp increase from 7.3 percent of GDP in the previous financial year. The capital account mainly comprised budgetary grants and bitcoin export revenues.



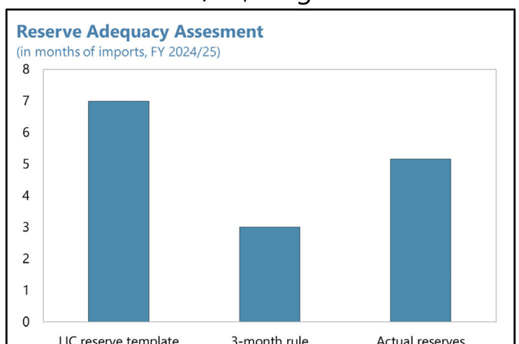
Source: Royal Monetary Authority; and IMF staff calculations.

Net financial account inflows rose to US$841 million (25 percent of GDP) in FY2024/25. The financial account balance included net direct investment of US$111million and net other investment inflows of close to US$500 million, primarily consisting of long-term rupee-denominated loans and sovereign borrowing for infrastructure development.

Assessment. The capital account is expected to remain robust, supported by grant inflows from India that will help fund the 13th Five Year Plan as well as other development partners. Over the medium term, financial account inflows are also projected to rise, driven by disbursements for hydropower and other major development initiatives. Given the concessional terms of this financing and the long-term, FDI-like structure of the associated liabilities, the likelihood of external financing pressures stemming from capital flows remains low in both the near and medium term.

FX Intervention and Reserves Level

Background. Reserves recovered to US$806 million by the end of FY2024/25, a significant increase from US$624 million at the end of the previous financial year. At these levels, reserves amounted to 5.2 months of total imports. The level of reserves is well below the peak of US$1.3 billion in FY2019/20, before reserves were loaned to SOEs to kickstart crypto investments. Reserves are projected to recover to these levels as the balance of payments outlook improves and loans are repaid over the next couple of years, but significant risks remain around this baseline, most notably linked to fluctuations in bitcoin prices.



Sources: Bhutanese Authorities; and IMF Staff Calculations

Assessment. At 5.2 months of imports, reserves remain below adequacy metric for credit constrained economies, assessed to be in the region of 7 months of imports for Bhutan. Additional buffers would be desirable, especially given the uncertainty in financing the structural BOP deficit for the medium term and reliance on swap arrangements and other borrowing facilities to boost the stock of reserves.

Appendix III. Risk Assessment Matrix

Source of Threat	Likelihood	Direction	Impact	Policies to Minimize impact
Domestic risks				
Hydropower project delays	Medium	↓	Delays in the completion of hydropower projects could lower exports and hinder output and the external and fiscal balances.	Implement measures to broaden the tax base, improve tax administration, and further diversify the economy.
Large scale initiatives such as GMC initiative	Medium	↓	Large-scale initiatives such as the GMC pose potential fiscal, financial and environmental risks.	Conduct rigorous cost-benefit and environmental assessments before implementation.
Crypto-mining expansion	Medium	↓	Expansion of crypto-mining operations carries macro-financial implications, especially under state-led models involving public investment and crypto asset holdings.	Enhance governance and transparency frameworks; assess balance-of-payments risks and fiscal exposure.
External risks				
Escalating trade measures and prolonged uncertainty	High	↓	While the direct impact of higher U.S. tariffs on Bhutan is expected to be limited, further escalation in tariff rates faced by India could have significant indirect effects on Bhutan's economy.	Strengthen diversification—both in energy sources (including investment in solar) and trade partners and maintain adequate reserves. In parallel, develop contingency plans to support affected sectors and households should indirect spillovers materialize.
Commodity price volatility	High	↓	Bhutan imports fuel for transportation and electricity during the dry season, higher fuel prices would hinder the external balance.	Strengthen energy diversification and maintain adequate reserves. Avoid delays on hydro projects and revisit up domestic electricity prices.

Appendix IV. Uptake of Previous IMF Advice

1. **Significant progress has been made on the fiscal agenda, with tax reform bills now passed**. The new GST bill, with a flat rate of 5 percent, and extending the GST to electricity, has been passed in parliament. Exemptions are appropriately limited to fewer items—essential food (rice, oils, salt), sanitary towels, and carriages for disabled persons. That said, Bhutan's 5 percent GST rate is among the lowest in the Asian and Pacific region—higher only than Myanmar's and Timor-Leste's rates.[1] A higher GST rate—closer to 7 percent as included in earlier drafts—would have better supported the medium-term revenue mobilization needed to meet Bhutan's development needs. Separately, the repealing of the Excise Equalization Tax from GST bill, and the introduction of a standalone Excise Bill, will increase efficiency. Furthermore, the green tax has been appropriately merged into the new Excise Tax. The revised Income Tax Act establishes detailed regulations for insurance companies, as recommended by the 2023 FAD mission. Effective implementation of the new tax legislation will require ensuring that tax offices are adequately staffed and that tax officers are properly trained, including regarding administrative and compliance processes.

2. **Progress in tightening monetary policy has been modest so far, but the authorities are taking steps towards strengthening the monetary policy framework**. Staff recommended moving the policy stance to neutral and raising the CRR to its pre-pandemic level of 10 percent; however, the monetary stance has stayed accommodative with the CRR at 8 percent. While a formal interest rate corridor is not yet in place, RMA has begun actions related to market-based operations, such as creating a Domestic Liquidity Management Framework (DLMF), supported by Fund CD. Liquidity operations through OMOs are planned for March 2026. The recommendation to publish a regular government securities issuance calendar remains outstanding. Moreover, with monetary easing in India and Bhutan's currency peg, the overall policy stance has effectively become looser, further underscoring the limited progress on tightening.

3. **Despite progress in addressing imbalances, external vulnerabilities remain, including risks related to crypto-related operations and reliance on hydropower**. Staff stressed the need to tighten fiscal and monetary policies to mitigate imbalances and rebuild buffers. Fiscal tightening has been stronger than envisaged in the last Article IV, but monetary tightening has lagged. Upcoming hydropower projects are expected to support external balances over the medium term. The recent ban by RMA on the on-ramping of crypto assets mitigates some risks. However, GIDC repayments to the RMA are still subject to crypto assets valuation risks.

4. **There is progress in the implementation of prudential norms in the financial sector**. RMA implemented the Prudential Regulations 2024, effective July 1, 2024, introducing stricter norms on credit concentration, including a 150 percent risk weight for exposures exceeding 30 percent of a bank's loan portfolio to any single sector. In April 2025, Bhutan engaged with the EU AML/CFT Global Facility for technical assistance focused on preventive measures, intelligence-to-evidence tools, and risk-based supervision.

[1] See https://taxsummaries.pwc.com/.

5. Recent efforts to improve timeliness and quality of statistics are notable. Supported by the fund's capacity development, the national accounts are now available quarterly, with GDP estimates by production approach published at both current and constant prices. This builds on a slew of previous statistical advances – such as enhancing the frequency of labor statistics from annual to quarterly, rebasing the national accounts, CPI and PPI.

6. Fund CD has played a pivotal role in supporting Bhutan's reform agenda. On the fiscal front, technical assistance missions have guided the design and implementation of the GST and excise reforms, as well as the revision of the Income Tax Act. Additionally, the development of the Domestic Liquidity Management Framework (DLMF) has benefited from the targeted Fund CD, helping lay the groundwork for market-based monetary operations, and recent CD is seeking to enhance budget credibility by supporting the authorities' efforts towards developing a medium-term budget framework. In addition, the Fund provided CD to strengthen the AML/CFT framework, including for the recently published national risk assessment.

INTERNATIONAL MONETARY FUND

BHUTAN

December 22, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | Asia and Pacific Department

CONTENTS

FUND RELATIONS

(As of November 30, 2025)

Membership Status: Joined: September 28, 1981; Article XIV.

General Resources Account

	SDR Million	Percent of Quota
Quota	20.40	100.00
Fund Holdings of Currency (Exchange Rate)	15.85	77.72
Reserve Tranche Position	4.55	22.29
Lending to the Fund		

SDR Department:

	SDR Million	Percent of Allocation
Net Cumulative Allocation	25.54	100.00
Holdings	26.22	102.66

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to Fund [1] (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2025	2026	2027	2028	2029
Principal					
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	0.00

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Exchange Rate Arrangements

Since its introduction in 1974, the ngultrum has been pegged to the Indian rupee at par and the de jure and de facto exchange rate arrangements are classified as a conventional peg. Bhutan continues to avail itself of transitional arrangements under Article XIV, Section 2, pursuant to which it maintains exchange restrictions in connection with: (i) foreign exchange balancing requirement on remittances of income in convertible currencies or other foreign currencies from FDI; and (ii) on the availability of FX for importers who have not provided evidence that goods for which payments have been made were actually imported, monitored by the Bhutan Trade Fin-Net System (BTFN).

Bhutan also maintains exchange restrictions subject to Fund approval under Article VIII, Section 2(a) in connection with: (i) the foreign exchange balancing requirements for imports of capital goods (for projects involving FDI) and primary raw materials (for certain industrial projects); (ii) requiring FDI companies to pay for their operational expenses (including insurance payments) from their own foreign exchange resources; and (iii) requiring Bhutanese companies to pay the interest on and amortization of external loans from their own foreign currency resources

Bhutan has continued to liberalize the exchange system, including through the new Foreign Exchange Rules and Regulations (FERR) 2022 and the External Commercial Borrowing (ECB) Guidelines 2023. Under the FERR, residents and non-residents can open foreign currency accounts with authorized banks in Bhutan. Non-residents can also open domestic currency accounts with authorized banks in Bhutan. Under the new ECB guidelines borrowers do not need to earn foreign currency to be eligible for external borrowing, if the loan is from a multilateral credit institution and the repayment liability is fixed in Ngultrum. At the same time, the INR travel allowance for Bhutanese was tightened from INR 30,000 during pilgrimage season and 10,000 per month at other times, to INR 25,000 semi-annually.

Article IV Consultation

Bhutan is on a 12-month consultation cycle. The 2024 Article IV consultation was concluded by the Executive Board on September 9, 2024.

Technical Assistance

In recent years Bhutan has received technical assistance in the areas of tax policy, macro-fiscal capacity building, budget planning, treasury and cash management, national accounts statistics, balance of payments statistics, e-GDDS, government debt markets, producer price index, and the consumer price index. Bhutan has also received technical assistance and training from the South Asia Regional Training and Technical Assistance Center (SARTTAC) covering most recently reserve management, liquidity management and forecasting, implementation of the goods and services tax, tax administration, national accounts and BOP statistics.

A Resident Tax Administration Advisor was installed at the Ministry of Finance since 2023.

Resident Representative

Mr. Ranil Salgado has been the Senior Resident Representative since February 2024. He is based in New Delhi.

RELATIONS WITH OTHER IFIS

Information on the activities of other IFIs in Bhutan can be found at:

- World Bank: http://www.worldbank.org/en/country/bhutan/overview
- Asian Development Bank: https://www.adb.org/countries/bhutan/main

INTERNATIONAL MONETARY FUND

BHUTAN

December 22, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Corinne Deléchat and Tokhir Mirzoev (IMF), and Manuela Francisco and Sebastian Eckardt (IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)[1]

Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*Moderate*
Overall risk of debt distress	*Moderate*
Granularity in the risk rating	*Limited space to absorb shocks*
Application of judgment	*Yes. Risk of debt distress is assessed as moderate due to the FDI nature of hydro-related loans and mitigating factors for new hydro projects*

Bhutan's risk of overall and external debt distress is assessed as moderate, unchanged from the 2024 DSA.[2] While the mechanical results point to a high risk of overall and external debt distress, with breaches in the thresholds for some indicators under the baseline scenario, judgement was applied given the unique mitigating factors. Most of the outstanding public and publicly-guaranteed debt is linked to hydropower project loans from the Government of India. These are implemented under an intergovernmental agreement in which the Government of India covers both financial and construction risks and commits to buy all surplus electricity at a price reflecting cost plus a margin. New hydro projects are envisaged as joint ventures with the private sector and are expected to also include mechanisms to mitigate risks. Within the moderate rating, Bhutan is assessed to have limited space to absorb additional shocks, particularly export shocks. Going forward, a robust fiscal consolidation underpinned by revenue mobilization, a stable peg with the Indian rupee, reforms to improve productivity and competitiveness of the non-hydropower sector, and enhanced debt management would help to reduce the risk of debt distress.

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[1] Prepared in accordance with the Guidance Note of the Joint Bank-Fund Debt Sustainability Framework for Low Income Countries, February 2018.

[2] As in the past DSA, Bhutan's debt-carrying capacity is assessed as strong. Its composite Index is estimated at 3.08 and is based on IMF's October 2025 WEO and World Bank's 2024 Country Policy and Institutional Assessment (CPIA).

PUBLIC DEBT COVERAGE

1. The coverage of public debt in this debt sustainability analysis (DSA) includes public and publicly-guaranteed (PPG) debt. PPG debt covers the non-financial public sector and the central bank. It includes debt contracted by the central government, central bank (that is, the Royal Monetary Authority or RMA) debt (such as the standby credit facilities extended by the Government of India and bilateral swap lines, BSL, guaranteed by the government, which were not included in the 2024 DSA)[1], and non-financial state-owned enterprises (SOE) debt, both external and domestic.[2] His Majesty's Secretariat liability to the Royal Monetary Authority (RMA) arising from the Central Bank of Kuwait deposit has been included as domestic debt.[3] As in the 2024 DSA, SOE debt includes non-guaranteed domestic SOE debt in line with the authorities' commitment under the World Bank's First Green and Resilient Growth Development Policy Credit (DPC) operation.[4] The DSA, however, excludes the special purpose vehicles (SPVs) which are SOEs formed as part of the financing of new hydro projects (Khorlochhu and Dorjilung) as, given information up to the writing of this DSA, they are consistent with the exclusion conditions listed in Annex 3 of the LIC-DSA Guidance Note[5], and include mitigating factors (see Annexes 1 and 2). Bhutan's local governments, social security fund, and extra budgetary funds do not have any outstanding debt. The external debt definition is based on residency. The calibration of the contingent liability shock includes the outstanding amount of the National Credit Guarantee Scheme as of end-June 2023 (0.2 percent of GDP). It also preserves the default value for the financial market risk (5 percent of GDP) and includes an additional 2 percent of GDP for public private partnerships (PPPs), estimated as 35 percent of their capital stock from the World Bank's database. Finally, given the exclusion of SPVs, a shock of 25 percent of GDP is included. This accounts for the value of the commercial debt taken by the Khorlochhu and Dorjilung SPVs that is proportional to Druk Green Power Corporation (DGPC)'s equity stake in the SPVs.

[1] There is currently no commitment that the BSL will be renewed once the agreement ends in June 2027. Thus, the baseline assumption is that the BSL will be repaid by this time, as per the Guidance for Staff on the Recording of Central Bank FX Liquidity Lines in IMF Staff Reports, September 2025. This is a conservative assumption since the BSL has been rolled over in past years.

[2] According to the Public Finance Act of Bhutan 2007, SOEs are required to obtain approval from the Minister of Finance and Cabinet to contract any debt, actual or contingent.

[3] In terms of the external debt obligation, the deposit is considered central bank debt with the purpose of monetary policy or reserve management and is thus not included as external debt.

[4] As part of the Sustainable Development Policy Financing (SDPF) of the IDA, Bhutan has been implementing Performance and Policy Actions (PPAs) to improve debt management and transparency, as well as to manage fiscal risks. For instance, during FY2020/21 to 2022/23, the authorities published quarterly public debt reports, the Medium-Term Debt Management Strategy, mandated the annual publication of the national DSA to strengthen the institutional capacity for risk assessment and monitoring of public debt, and the Public Financing Policy 2022. In addition, the authorities have improved the reporting of SOEs to strengthen the fiscal oversight of SOEs and related fiscal risks. During FY2023/24 to 2024/25, the PPAs focused on i) the establishment of the legal entity for the running of crypto assets mining operations, annual reporting of financial statements as per the legal requirement of the legal entity, and measures to mitigate macroeconomic and fiscal risks from crypto assets mining operations and ii) improvements of service delivery and compliance management of large taxpayers in the Thimphu and Phuntsholing Regional Revenue and Customs Offices.

[5] https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/02/14/pp122617guidance-note-on-lic-dsf.

Text Table 1. Bhutan: Debt Coverage

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	X
3	Other elements in the general government	X
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	X
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	X

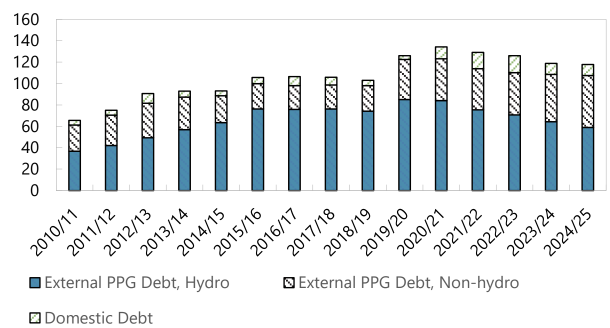
1	The country's coverage of public debt	The entire public sector, including SOEs		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.2	Outstanding amount of the National Credit Guarantee Scheme as of Jun 2023.
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	25	To account for non-guaranteed SPV debt.
4	PPP	35 percent of PPP stock	2.04	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		32.3	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND

2. **After increasing markedly in the aftermath of the COVID-19 pandemic, the public debt-to-GDP ratio has declined since FY2020/21.** Public debt in Bhutan increased from 74.8 percent of GDP in FY2011/12 to 134.3 percent of GDP in FY2020/21.[6] This was due in part to the marked decline in GDP during the pandemic, a guaranteed bilateral swap line with the Reserve Bank of India, and to new hydropower projects, primarily in the context of bilateral agreements with India.[7] Since FY2020/21, the public debt-to-GDP ratio has steadily declined, driven by strong fiscal outturns and GDP growth in recent years. External non-hydro debt as a share of GDP has increased since FY2018/19 and has helped finance infrastructure projects focusing on urban development, rural electrification, and the agriculture sector. Domestic debt rose from only 4.5 percent of GDP in FY2011/12 to over 10.3 percent of GDP in FY2024/25, reflecting the authorities' development of the domestic debt market and the need to finance larger deficits in the context of the COVID-19 pandemic, amid falling tax revenues and mounting spending pressures.

Public and Publicly Guaranteed Debt
(in percent of GDP)



Source: Bhutanese authorities.

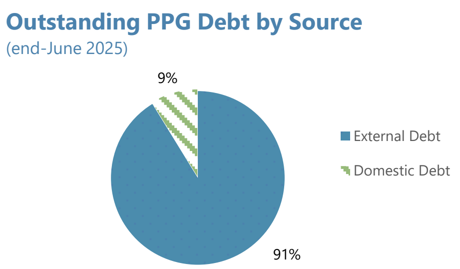
3. **Public and publicly guaranteed debt stood at 118 percent of GDP at the end of FY2024/25.** External debt accounted for 91 percent of total debt. Hydropower debt was the largest part of external debt, comprising 55 percent of the external debt stock at the end of FY2024/25. Most of the hydropower projects were financed by the Government of India (GoI), with 69 percent of PPG external debt denominated in Indian rupees. Some of the recent hydropower projects with the GoI are financed through a commercially priced loan (with a repayment period of 15 years after the

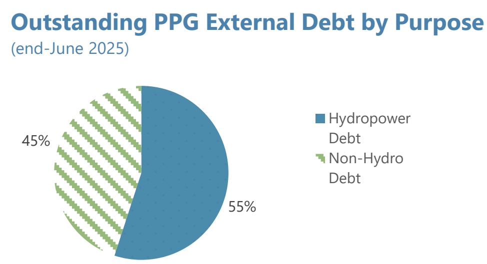
[6] Bhutan's fiscal year runs from July 1 to June 30. For tables and charts in this DSA, we adopt the convention 2024=FY2023/24.

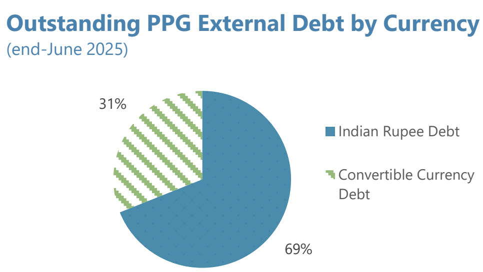
[7] Public debt increased by slightly more than 8 percentage points of GDP between FY2019/20 and FY2020/2021.

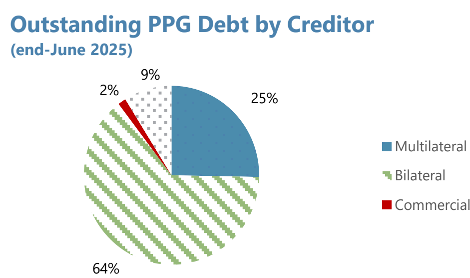
project has been commissioned) and capital grants from the GoI. Non-hydropower external debt is predominantly owed to multilateral and bilateral creditors, with a small amount of guaranteed SOE debt. Overall, 64 percent of total debt is owed to bilateral creditors and 25 percent is owed to multilaterals. Domestic debt was mostly in the form of treasury bills and bonds, held primarily by domestic banks, insurance companies, and the public pension fund. Public sector debt is consolidated to remove intra-public sector lending. This includes pension fund (that is, NPPF)'s holdings of treasury bills and bonds (Nu. 2.8 billion) and loans to SOEs (Nu. 2 billion), RMA's holdings of bonds issued by Green Digital Limited (SOE-like company) for US$539 million, and a loan from the central government to Drukair (the public airline company) for Nu. 2.7 billion.

Composition of Oustanding PPG Debt









Source: Bhutanese authorities.

4. **The hydropower-related debt from the Government of India is akin to foreign direct investment (FDI).**[8] As emphasized in previous DSAs, India provides financing for hydropower projects under an intergovernmental agreement, which guarantees returns from electricity exports and mitigates risks.[9] The Government of India bears the construction and financial risks and commits to buy all surplus electricity at a purchase price set at cost (including costs of the project, financing costs, and operation and maintenance charges) plus a margin. The price of electricity is set at the time of project commissioning, when actual costs are known, and is set to allow revenue to service debt and a financial return, with the rate revisited every three years to incorporate changes in costs. Project delays are not a concern for risk assessment because debt service begins only after the project is commissioned

[8] At present, there are three completed or ongoing hydropower projects in this category: Punatsangchhu I, Punatsangchhu II, and Mangdechhu. Debt from previously-completed hydropower projects has already been repaid in full.

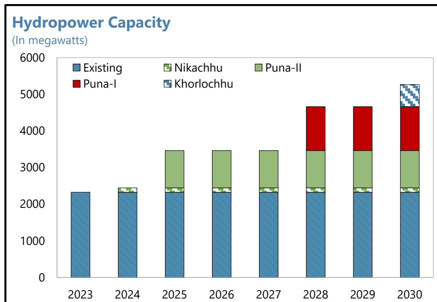
[9] For more details, please see Box 1 of the 2014 Bhutan Article IV DSA.

and the price of electricity is set based on the actual project costs.[10] Hydropower projects are insured (and re-insured) against the risk of natural disasters. The financing arrangements mitigate exchange rate risks because both the electricity export receipts and the hydropower debt services are denominated in Indian Rupees, to which the Ngultrum is pegged[11]. Debt default concerns are also mitigated given that the creditor is also the project's main client. In other words, risks associated with hydropower-related debt are largely mitigated.

Box 1. Bhutan's Hydropower Projects

Hydropower development remains a key pillar of Bhutan's growth strategy, with several major projects in varying stages of implementation. These projects are expected to substantially increase electricity generation capacity, support export earnings, and contribute to fiscal revenues over the medium term.

- **Punatsangchhu-I**: Construction on the 1,200 MW continues after prolonged delays due to geotechnical challenges. Revised timelines point to completion by FY2028/29, though risks remain elevated. Once operational, the project will represent a major addition to Bhutan's generation capacity.
- **Punatsangchhu-II:** The 1,020 MW project began operations in December 2024 under a bilateral agreement with India. All six turbines were commissioned during FY2024/25, and fully commissioned Puna-II project is projected to add nearly 3 percentage points to GDP growth while significantly boosting electricity exports.
- **Nikachhu**: The 118 MW Nikachhu project achieved full commissioning in April 2024 and began power exports to India. With its relatively short gestation period and timely completion, the project has demonstrated the potential of smaller-scale hydropower investments to contribute to fiscal and external sector performance.
- **Sunkosh**: The 2,585 MW Sunkosh project remains in the preparatory phase, with financing and design negotiations ongoing. The construction and operation are expected to begin in December 2028 and December 2034, respectively. If implemented, it would be Bhutan's largest hydropower project to date and a transformative source of revenue and exports. It is not included in the DSA given the preliminary nature of the project. Future DSAs should include it, once there is more clarity around its construction timeline, cost, and financing structure.



Sources: Bhutanese authorities.

- **Dorjilung**: The 1,125 MW Dorjilung project is in the preparatory phase, with financing discussions ongoing. The project is envisioned as a key component of Bhutan's long-term energy strategy and is expected to play a central role in future power exports to India and regional energy cooperation.
- **Khorlochhu:** The 600 MW Khorlochhu project began construction in January 2025 under a joint-venture structure between Druk Green Power Corporation and Tata Power. Development is progressing toward planned full commissioning in 2030. Once operational, the project is expected to help meet winter electricity demand and support exports to India, further strengthening Bhutan's medium-term hydropower generation capacity.

[10] Interest during construction is capitalized upon the commissioning of the hydropower plants and does not accrue further interest afterwards.

[11] While domestic demand has been rising sharply due to crypto assets mining operations and new ferroalloy plants limiting the scope for exports, the output produced by those industries is still exported and generates foreign currency to pay back debt service.

Box 1. Bhutan's Hydropower Projects (concluded)

These projects are being pursued under the government's public investment program and are expected to support medium-term growth and resilience. Some of the projects—notably Punatsangchhu-I and Punatsangchhu-II—are financed through an intergovernmental (IG) agreement with the Government of India, which mitigates financial and construction risks.

Close coordination with India, Bhutan's primary development partner in the hydropower sector, will be essential to ensure smooth execution of these projects.

New projects, notably Khorlochhu and Dorjilung, are being conducted under a new modality of joint ventures with strategic private investors. In both cases, DGPC (Druk Green Power Corporation, the Bhutanese SOE managing the hydropower projects) partnered with TATA power for a 60:40 ownership structure. Part of the cost of these projects will be financed through non-recourse commercial debt. More details on these partnerships are found in Annexes 1 and 2.

Hydropower Project Pipeline

	Start of Construction	Commissioning	Installed Capacity (MW)
Not yet comissioned			
Punatsangcchu I	2009	2028	1,200
Khorlochhu	2025	2030	600
Dorjilung	2025	2032	1,125
Sunkosh	2028	2034	2,585
Recently comissioned			
Punatsangcchu II	2011	2025	1,020
Nikacchu	2016	2023	118

Sources: Bhutanese authorities; and IMF staff calculations.

ASSUMPTIONS AND MACRO PROJECTIONS

5. **The near-term growth outlook reflects the full commissioning of hydropower projects and higher capital spending, with hydropower exports and tourism supporting medium-term growth and a gradual decline in the current account deficit.** After falling sharply during the COVID-19 pandemic, GDP growth has been strong since 2022. Near-term growth is expected to accelerate as new hydropower projects are commissioned, and capital expenditure increases as envisaged under the 13th Five Year Plan. Over the medium term, GDP growth is expected to remain strong, and the current account and fiscal positions are expected to improve, with hydropower-related imports declining, electricity exports picking up, and tourism recovering, in line with the assumptions in the 2024 DSA. International reserves, which are assumed to be used to repay the BSL, are expected to continue increasing in the short to medium term. This assumes the repayment of FX bonds associated with crypto mining operations from Green Digital Limited (GDL) to the RMA as scheduled. Because of this, crypto price volatility might pose risks to the accumulation of international reserves. The extent of these risks is uncertain given limited information around crypto mining operations and holdings.

6. **The main baseline macroeconomic assumptions underpinning the 2025 DSA are as follows (Text Table 1):**

- **Real GDP growth and inflation.** Growth in FY2024/25 is expected to accelerate to 6.8 percent, compared to 4.2 percent in FY2023/24.[12] Over the medium term, growth will be driven by the construction of new hydropower plants and their coming on stream, implementation of the

[12] The historical GDP data and projections are underestimated because they do not reflect the full impact of the crypto assets mining operations due to lack of available data.

13th Five Year Plan (FYP)[13], a recovery of the tourism sector, and a recovery in services and manufacturing.[14] The medium-term growth is projected at 6.2 percent, broadly in line with the 2024 DSA. Long-term growth is projected to be around 5 percent, and remains underpinned by structural reforms that will support economic diversification (including the liberalization of foreign direct investment rules, the relaxation of external commercial borrowing guidelines, and the commercialization of the agricultural sector), digitalization, and private sector-led growth. Inflation is expected to continue its steady decline towards 4 percent in the medium term, having already declined from 8.2 percent in FY2020/21. The GDP deflator is assumed to move in tandem with inflation, after adjusting for exchange rate depreciation.

- **Fiscal balance:** The general government fiscal deficit is projected to reach around 3 percent of GDP in FY2025/26, from the 2.6 percent of GDP achieved in FY2024/25.[15] The strong fiscal outturn in FY2024/25 was driven by both one-off improvements in non-tax revenue and a decline in capital expenditure due to low execution. However, investment spending is expected to recover and widen the deficit over the medium term. Revenues net of grants would increase in the coming years because (i) hydropower revenues are expected to increase in FY2025/26 with the commissioning of Punatshangchhu II, and (ii) a further pick-up in tourism would increase revenues from the Sustainable Development Fee (SDF). The full implementation of the Goods and Service Tax (GST), slated for January 2026, is expected to improve the system's efficiency but would have a small negative impact on tax revenue. External grants are projected to increase in the coming years as the 13th FYP goes underway, driven by India's commitment for grants amounting to Nu. 100 billion and access to IDA financing on small economy terms (50 percent grant and 50 percent credit).[16] Revenue is expected to decline temporarily over the medium-term, as external grants from India fall towards the end of the 13th FYP (with capital expenditure associated with these grants following a similar dynamic), recovering once hydroelectric power plants come online. Foreign grants are expected to decline in the long run as Bhutan's GDP per capita rises. As in the 2024 DSA, a primary balance of around 0.2 percent of GDP is expected for the long run.

- **External balance:** The non-interest current account deficit (CAD) narrowed to 17.1 percent of GDP in FY2024/25, after having reached 33.4 percent of GDP in FY2022/23. The spike in the CAD was mostly due to the lumpy imports of crypto assets mining equipment, higher imports for the construction of new hydropower plants, a slow post-COVID-19 recovery of tourism, and a jump in services imports due to

[13] The ambitious 13th FYP will run from 2024/25 to 2028/29 and will center on Prosperity, People, and Progress aiming to achieve the longer-term goal for Bhutan to become a high-income nation by 2035. It outlines key strategies for enhancing productivity, diversifying markets, and boosting contributions from strategic sectors to GDP.

[14] The volatility in the growth projections is due to: (i) the hydro/electricity sector and the commissioning of new hydropower projects. In the past, GDP growth has been driven by an expansion of investment during the construction phase of new hydropower plants and by generating discrete jumps in electricity exports to India when new plants are commissioned. On the supply side, this is reflected in discrete jumps in output in the electricity sector; (ii) the Five-Year Plan (FYP) planning cycle, which typically results in lower public investments in the first one to two years of the FYP.

[15] There is a difference between the fiscal balance at the general government level and that of the combined public sector as covered in this DSA due to off-budget debt service. This includes, for example, commercial debt taken by DGPC, and amounts to 1 percent of GDP, on average, over the FY2025/26-FY2029-30 period.

[16] External grants are low in 2023/24 because formulation of the 13th FYP was ongoing. With the 13th FYP adopted in July 2024, external grants financing projects under the plan are expected to pick up.

high levels of emigration. Despite one-off factors subsiding, imports are expected to remain elevated over the medium term as investment projects are executed, and the CAD is expected to average around 14 percent of GDP over the medium term. In the long term, the CAD is expected to average 6.5 percent of GDP thanks to the pickup in electricity exports, diversification of the export base and a decline in imports following the completion of the hydropower projects. Changes in the CAD relative to the previous DSA, reflect in part differences in the way crypto exports are recorded in the BoP.

- **Financing mix:** The gross financing needs in the projection period are expected to be covered by both external and domestic debt. The financing mix envisages that external loans (including from IDA, ADB, EIB, IBRD, IFC, the Government of India for hydro projects, and commercial creditors) would finance around 64 percent of annual gross financing needs on average over the medium term, with the remainder financed by domestic borrowing. Recent domestic auctions for T-bills have yielded a rate of around 4 percent and the most recent T-bond auction resulted in a rate of 6 percent for a 2-year bond issued in November 2023. In the long term, the share of domestic financing is expected to increase and average 59 percent of annual gross financing needs, with a gradual shift from short-term treasury bills to medium- and long-term bonds. The share of concessional external debt is expected to decline over the long term as Bhutan develops. The cost of domestic debt is assumed to be 7.5 percent for longer-dated bonds.

Text Table 2. Bhutan: Key Macroeconomic Assumptions

	Current DSA				2024 DSA			
	2025	2026	MT (2027-2031)	LT (2032-2046)	2023	2024	MT (2025-2029)	LT (2030-2044)
Real GDP growth (in percent)	6.8	7.4	6.2	5.1	5.0	5.2	6.3	5.2
GDP deflator in US dollar terms (in percent)	3.1	3.1	3.4	3.5	-3.5	3.0	3.9	3.4
Non-interest current account balance (in percent of GDP)	-17.1	-15.6	-14.2	-6.5	-33.1	-16.3	-16.5	-4.4
Growth of exports of G&S (US dollar term, in percent)	19.2	3.0	10.1	7.0	3.0	28.5	15.7	8.0
Growth of imports of G&S (US dollar term, in percent)	24.9	-0.3	7.2	7.6	10.7	-10.5	12.5	7.5
Primary fiscal balance (in percent of GDP)	-0.7	-1.0	-0.3	0.2	-3.1	-3.0	-0.5	0.2

Source: Bhutanese authorities and staff estimates.
Note: 2023 refers to FY 2022/23.

7. The realism tools suggest that macroeconomic and fiscal assumptions are broadly reasonable (Figures 3 and 4). The 3-year adjustment in the primary balance is lower than the top quartile of the sample of the 3-year fiscal adjustments for low-income countries (LICs) that were under an IMF-supported program since 1990. Growth would be slightly lower compared to what would be implied by alternative assumptions on fiscal multipliers. The contribution of government capital to GDP growth is assumed to be low, in line with the previous DSA and the historical average.[17] The debt dynamics are similar to those in previous DSA. Finally, historically, the PPG external debt has been driven by a large CAD, reflecting large hydro-related imports,

[17] In addition, the relative contribution of government capital to GDP growth (4 percent) is significantly lower than in the historical period (19 percent).

similar to the medium-term projection.[18] The increase in public debt over the next five years will be driven by other debt creating flows, which reflect outlays associated with hydropower projects.

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TEST SCENARIOS

8. **Bhutan's debt carrying capacity (DCC) is assessed to be strong.** The Composite Indicator (CI) is based on a weighted average of several factors such as the country's real GDP growth, remittances, international reserves, world growth, and the World Bank CPIA score. The CI for this DSA is calculated based on the April 2025 World Economic Outlook (WEO) and the 2024 World Bank Country Policy and Institutional Assessment (CPIA) data and indicates a strong debt carrying capacity.

9. **The DSA thresholds applicable for Bhutan are correspondingly high.** For external debt, the thresholds are 240 percent for the present value (PV) of external debt to exports ratio and 55 percent for the PV of external debt to GDP ratio. For external debt servicing, the thresholds are 21 percent for the debt service to exports ratio and 23 percent for the debt services to revenue ratio. Finally, the public debt benchmark is 70 percent for the PV of total public debt in percent of GDP.

Text Table 3. Bhutan: Debt Carrying Capacity and Threshold

Country	Bhutan
Country Code	**514**

Debt Carrying Capacity	**Strong**

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Strong	Strong 3.08	Strong 3.07	Strong 3.05

Note: Until the April 2019 WEO vintage is released, the two previous vintages ago classification and corresponding score are based solely on the CPIA per the previous framework.

[18] Past significant residuals on external debt drivers partly reflect weaknesses in balance of payments and international investment position data.

Text Table 4. Bhutan: Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.803	1.46	47%
Real growth rate (in percent)	2.719	4.073	0.11	4%
Import coverage of reserves (in percent)	4.052	52.703	2.14	69%
Import coverage of reserves^2 (in percent)	-3.990	27.776	-1.11	-36%
Remittances (in percent)	2.022	3.535	0.07	2%
World economic growth (in percent)	13.520	3.035	0.41	13%
CI Score			3.08	100%
CI rating			Strong	

Text Table 5. Bhutan: Applicable Thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	240
GDP	55
Debt service in % of	
Exports	21
Revenue	23

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	70

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

10. Under the baseline scenario, Bhutan's PPG external debt indicators exceed the thresholds for several years, before falling below the thresholds in later years. The present value (PV) of debt to GDP ratio would exceed the threshold until FY2039/40, with the PV of debt to exports falling sustainably below the threshold in FY2035/36, reflecting a projected pick-up in hydro-related exports. Regarding liquidity indicators, the debt service to exports ratio would breach the thresholds in the initial years of the projection horizon, and then from FY2028/29 to FY2044/45 and the debt service to revenue ratio would fall below its respective threshold only from FY2045/46, suggesting liquidity pressures despite significant increases in government revenues and grants (Figure 1). The initial increase in debt service is due to the expected repayment of RMA's bilateral swap line with the Reserve Bank of India, part of which was already done at the time of this DSA. The external debt-to-GDP ratio is expected to increase from around 111 percent in FY2024/25 to about 150 percent in the medium term (by FY2028/29), and to decrease to 97 percent by 2035/36 and further to about 40 percent in the long term (by FY2045/46, Table 1). Similarly, the external PPG debt-to-GDP ratio will rise from 107 percent in FY2024/25 to about 123 percent in the medium term, and to decline to about 35 percent in the long term (Table 1).

11. **Stress tests suggest that Bhutan's external debt trajectory could be vulnerable to export shocks.** A depreciation in the ngultrum could increase the value of Bhutan's external liabilities, which are largely denominated in foreign currency.[19] However, because most external debt is denominated in rupees, to which the ngultrum is pegged, this risk does not appear significant. In any case, an exchange rate shock could imply a higher debt stock, with the PV of debt-to-GDP ratio falling below the thresholds only a couple of years after doing so in the baseline. It would also put pressure on repayment capacity. An exchange rate shock would imply the debt service to exports ratio staying above the threshold until FY2043/44 and the debt service to revenue ratio above the threshold over the projection horizon. A shock to exports would imply a deterioration in Bhutan's repayment capacity, with the PV of debt to exports ratio and debt service to exports ratio above the thresholds until FY2041/42 and over the entire projection horizon, respectively. Export shocks could stem from delays in the commissioning or construction of hydropower projects. In addition, Bhutan is vulnerable to climate change risks and climate shocks, including glacial lake outburst flood. Hydrological risk is partly mitigated by insurance mechanisms included in the IG projects. In the case of new projects, preliminary information suggests that hydrological risk mitigants will be included, albeit this should be further assessed in future DSAs. The historical scenario, while alarming, is not relevant because it does not reflect an adequate forecast for macroeconomic variables.[20]

12. **Bhutan's non-FDI-like external debt is mostly below the thresholds in the baseline and most stress scenarios.[21]** Excluding Bhutan's hydro debt linked to intergovernmental projects with India (IG), which is closer to FDI than to debt in nature and risks, the PV of external debt to GDP remains broadly stable below 50 percent, below the threshold of 55 percent of GDP. The thresholds are marginally breached under some stress tests (Figure 6). A similar picture emerges in the case of the PV of external debt to exports. The debt service-to-exports ratio and debt service-to-revenue ratio breach the thresholds under the baseline in the short-term, due to interest and amortization payments of the bilateral swap line with the Reserve Bank of India in FY2025/26 and FY2026/27. These payments are expected to be made by the RMA, with reserves expected to remain above 60 percent of the

[19] The exercise assumes a 30 percent nominal depreciation of the domestic currency in the first year of the projection period, or the size needed to close the estimated real exchange rate overvaluation gap, whichever is larger. The overvaluation gap is estimated at over 40 percent; however, the exercise assumes conservative value of 50 percent.

[20] The historical scenario is based on the 10-year historical average of key macroeconomic variables, instead of the baseline projection. The historical scenario differs from the baseline scenario due to several factors, including a contraction in growth due to the COVID shock, higher government spending and weaker current account position in recent years. These factors resulted in an increase in higher future gross financing needs and total PPG debt levels under the historical scenario. In contrast, the baseline scenario envisages a recovery in GDP growth following the pandemic shock and more favorable current account dynamics, reflecting the increase in electricity exports and a gradual decline in hydropower-related imports. Thus, the historical scenario does not constitute an adequate forecast.

[21] This exercise excludes debt service from IG hydro projects and removes from hydro exports the amount needed to pay the debt service of those projects, so that the exports factored in the stress tests are what is available for Bhutan to pay non-IG debt.

standard adequacy ratios after these payments are made.[22] Under the baseline both indicators fall below the thresholds over the forecast horizon after the BSL is repaid in mid-2027. Repayment capacity indicators experience marginal temporary breaches under some stress tests.

B. Public Debt Sustainability Analysis

13. Bhutan's public debt follows closely the dynamics of external debt and does not pose an additional risk to the debt profile. Under the baseline scenario, the PV of debt to GDP would exceed the threshold until FY2040/41. Under different stress scenarios, the thresholds for the PV of debt to GDP would be exceeded until at least FY2040/41 (primary balance, exports, other flows, and combination of shocks). The PV of debt to GDP would exceed the threshold even by FY2045/46 in the case of real GDP growth and depreciation shocks. The PV of debt to revenue ratio would increase over the medium term, before setting on a downward trajectory after hydropower projects are commissioned (Figure 2). Similarly, the debt service-to-revenue ratio shows an inverted-U dynamic because it is expected to increase over the medium term as new hydro power plants are commissioned and repayment of their debt begins.

14. Domestic debt is expected to fluctuate over the medium term, remaining close to the median level across LICs. Domestic public debt-to-GDP is projected to fluctuate around 19 percent of GDP over the horizon period, peaking at 20 percent of GDP in 2032 (Figure 7). This implies that Bhutan's domestic debt over GDP will stand close to the median value for LICs (17.2 percent). These levels are consistent with efforts to increase capital expenditure, as envisioned in the 13th FYP, as with the goal of gradually developing the domestic capital market and captures His Majesty's Secretariat liability to the Royal Monetary Authority (RMA) arising from the Kuwait deposit.[23] It is important to note that domestic debt is subject to risks as evidenced by the undersubscription of recent bond auctions, underscoring the need to enhance domestic debt management.

RISK RATING AND VULNERABILITIES

15. This DSA assesses Bhutan at moderate risk of external and overall debt distress, similarly to the 2024 DSA. While the mechanical results point to a high risk of overall and external debt distress, with breaches in the thresholds under the baseline scenario, judgment was applied given unique mitigating factors supporting the sustainability of Bhutan's debt stock. Fifty-five percent of Bhutan's PPG external debt is linked to hydropower project loans from the Government of India, which covers both financial and construction risks of the projects and commits to buy all surplus electricity at a price reflecting cost plus profits. New hydro projects are expected to be less reliant on inter-governmental financing. The debt risks associated with the move away

[22] Half of the June 2025 swap balance has already been repaid by the RMA. With the remaining balance the FY2025/26 breach in the debt service as a share of revenue and as a share of exports would be marginal (about 1 percent). For 2026/27, the breach is only in the debt service to revenue indicator and is also marginal (about 1 percent) and due to the repayments under the swap line. Further, if after FY2025/27 the swap line is renewed at current levels, there are no further breaches under the baseline.

[23] Domestic debt to GDP falls below the LIC median value when this debt is excluded.

from IG debt could be mitigated by more favorable energy export prices and by a financing structure that properly ring-fences the debt obligations acquired by DGPC and its partners. In the specific case of Dorjilung, the project features a partnership with TATA power under a 60:40 ownership that includes the creation of special purpose vehicle (SPV), DHPL, which will take non-recourse commercial debt. This debt is excluded from the DSA's debt perimeter given information on the policies characterizing this SPV provided by the authorities during the 2025 Article IV mission. These policies are assessed to satisfy the requirements for the exclusion of state-owned enterprises listed in Annex 3 of the LIC-DSA Guidance Note (see Annexes 1 and 2 of this DSA). Moreover, IDA financing for the project will be effective upon implementation of many of these policies. Note that given the recent establishment of the DHPL, which means the SOE has no track record, and the fact that many of the policies listed in Annex 1 are expected to be implemented in coming years, the exclusion of the non-guaranteed debt taken by DHPL from the DSA's debt perimeter should be reassessed in future DSA exercises (as more information becomes available or/and DHPL's historical track record is established). A similar logic applies to the non-recourse commercial debt taken by Khorlochhu Hydro Power Limited (KHPL), another SPV formed by DGPC and TATA power, as KHPL is expected to follow similar policies as DHPL (Annex 2). Short-term debt service pressures stem from the bilateral swap line with the Reserve Bank of India. Repayments are expected to be made by the RMA, with reserves expected to remain above 60 percent of the standard adequacy metrics.

16. **Within the moderate rating, Bhutan is assessed to have limited space to absorb additional shocks (Figure 5).** The baseline debt trajectory is subject to important risks, including uncertainties related to geopolitical tensions, further delays in the completion of hydropower plants, failure to address external imbalances, and the materialization of financial sector contingent liabilities. Going forward, robust fiscal consolidation and revenue mobilization efforts, including timely implementation of the GST, a stable peg with the Indian rupee, reforms to improve productivity and competitiveness of the non-hydropower sector, and enhanced debt management could help support debt sustainability.

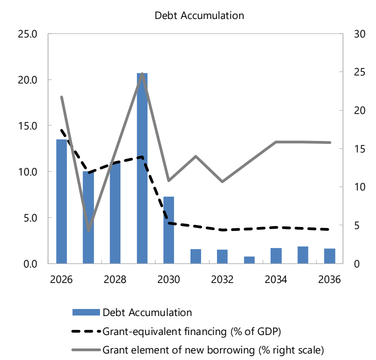
17. **The authorities broadly agreed with staff's assessment of debt sustainability and the need for a gradual revenue-based fiscal consolidation over the medium term.** The authorities noted that although public debt ratio has increased to relatively high levels, the risk of debt distress remained moderate due to the unique mitigating factors supporting the sustainability of Bhutan's debt stock. Furthermore, the authorities are seeking new financing models for hydro projects featuring SPVs and nonrecourse debt that would continue to properly insulate the GoB. The authorities envisage a moderation in the debt-to-GDP ratio over the medium-term. This would be driven both by a gradual fiscal consolidation supported by the recent tax reforms and by a significant increase in electricity exports and the coming on stream of new hydropower plants. Finally, the authorities reiterated the importance of further developing the domestic bond market as an alternative source of funding and to strengthen fiscal-monetary coordination.

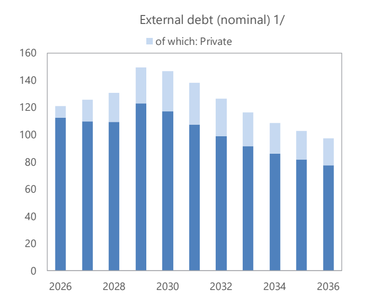
Table 1. Bhutan: External Debt Sustainability Framework, Baseline Scenario, 2025–2046

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2025	2026	2027	2028	2029	2030	2031	2036	2046	Historical	Projections
External debt (nominal) 1/	**111.3**	**120.8**	**125.5**	**130.7**	**149.2**	**146.7**	**138.1**	**97.0**	**38.5**	**111.8**	**123.8**
of which: public and publicly guaranteed (PPG)	**107.4**	**112.4**	**109.7**	**109.3**	**122.9**	**117.1**	**107.5**	**77.3**	**33.1**	**108.0**	**101.3**
Change in external debt	-1.3	9.5	4.6	5.2	18.6	-2.6	-8.6	-5.6	-8.8		
Identified net debt-creating flows	**5.6**	**6.1**	**10.4**	**11.2**	**8.5**	**6.6**	**6.7**	**4.0**	**10.8**	**16.6**	**4.9**
Non-interest current account deficit	**17.1**	**15.6**	**16.6**	**16.2**	**14.3**	**12.5**	**11.5**	**3.7**	**11.7**	**20.3**	**8.7**
Deficit in balance of goods and services	22.0	18.8	20.1	19.4	17.1	14.3	12.7	6.7	12.7	**21.0**	**11.6**
Exports	32.8	30.5	31.3	31.3	30.1	31.2	30.9	31.0	24.1		
Imports	54.8	49.3	51.4	50.8	47.2	45.5	43.6	37.7	36.7		
Net current transfers (negative = inflow)	-7.7	-5.5	-5.3	-5.0	-4.0	-3.6	-3.3	-2.3	-1.1	**-5.7**	**-3.6**
of which: official	-13.6	-16.3	-17.1	-9.5	-4.0	-2.0	-1.1	-2.4	-1.6		
Other current account flows (negative = net inflow)	2.8	2.3	1.8	1.7	1.2	1.7	2.1	-0.7	0.1	**4.9**	**0.8**
Net FDI (negative = inflow)	**-3.3**	**-4.2**	**-2.0**	**-1.2**	**-1.3**	**-1.2**	**-1.1**	**-0.5**	**-0.6**	**-0.3**	**-1.2**
Endogenous debt dynamics 2/	**-8.2**	**-5.3**	**-4.2**	**-3.8**	**-4.4**	**-4.7**	**-3.7**	**0.8**	**-0.3**		
Contribution from nominal interest rate	2.1	2.1	2.4	2.9	3.6	4.1	4.1	5.5	1.9		
Contribution from real GDP growth	-7.0	-7.4	-6.6	-6.6	-8.1	-8.8	-7.8	-4.7	-2.2		
Contribution from price and exchange rate changes	-3.3	...	...	...	...	...	...	...	...		
Residual 3/	**-6.9**	**3.5**	**-5.7**	**-6.0**	**10.1**	**-9.2**	**-15.2**	**-9.5**	**-19.6**	**-14.8**	**-6.2**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	**102.0**	**104.4**	**104.5**	**105.6**	**114.4**	**110.4**	**102.3**	**72.3**	**26.1**		
PV of PPG external debt-to-exports ratio	**311.3**	**342.4**	**334.0**	**337.1**	**380.2**	**354.4**	**331.0**	**232.9**	**108.6**		
PPG debt service-to-exports ratio	**13.2**	**42.7**	**24.9**	**20.1**	**29.1**	**30.2**	**34.8**	**26.2**	**17.1**		
PPG debt service-to-revenue ratio	**19.3**	**55.8**	**36.5**	**29.5**	**39.9**	**39.0**	**45.1**	**34.9**	**22.3**		
Gross external financing need (Million of U.S. dollars)	627.7	930.3	936.8	973.6	1097.0	1152.2	1284.8	1246.2	3458.6		
Key macroeconomic assumptions											
Real GDP growth (in percent)	6.8	7.4	6.0	5.8	6.8	6.5	5.8	5.0	5.0	**3.7**	**5.9**
GDP deflator in US dollar terms (change in percent)	3.1	3.1	3.3	3.4	3.4	3.4	3.5	3.5	3.5	**1.1**	**3.4**
Effective interest rate (percent) 4/	2.1	2.1	2.2	2.5	3.1	3.0	3.1	5.8	4.3	**1.4**	**3.8**
Growth of exports of G&S (US dollar terms, in percent)	19.2	3.0	12.3	9.5	6.0	14.1	8.6	7.4	8.6	**5.1**	**9.0**
Growth of imports of G&S (US dollar terms, in percent)	24.9	-0.3	14.1	8.0	2.7	6.1	4.9	11.2	8.6	**6.1**	**6.0**
Grant element of new public sector borrowing (in percent)	...	21.7	4.3	14.5	24.8	10.8	14.0	15.8	21.5	**...**	**14.7**
Government revenues (excluding grants, in percent of GDP)	22.4	23.3	21.4	21.4	22.0	24.1	23.9	23.3	18.5	**20.1**	**22.8**
Aid flows (in Million of US dollars) 5/	203.9	366.0	434.1	535.3	315.2	263.1	260.2	458.4	777.6		
Grant-equivalent financing (in percent of GDP) 6/	...	14.5	9.9	10.9	11.6	4.4	4.0	3.7	2.9	**...**	**6.7**
Grant-equivalent financing (in percent of external financing) 6/	...	41.3	45.3	48.9	34.0	29.6	37.5	40.6	55.9	**...**	**39.3**
Nominal GDP (Million of US dollars)	3,411	3,775	4,133	4,519	4,992	5,500	6,022	9,281	21,274		
Nominal dollar GDP growth	10.1	10.7	9.5	9.4	10.5	10.2	9.5	8.6	8.6	**4.8**	**9.5**
Memorandum items:											
PV of external debt 7/	105.9	112.8	120.3	126.9	140.8	139.9	132.9	92.0	31.6		
In percent of exports	323.2	370.1	384.5	405.1	467.9	449.2	430.1	296.7	131.0		
Total external debt service-to-exports ratio	14.0	43.6	25.8	20.9	29.9	30.9	35.5	32.9	21.2		
PV of PPG external debt (in Million of US dollars)	3479.6	3940.2	4318.4	4774.2	5710.3	6072.6	6158.7	6705.3	5562.8		
(PVt-PVt-1)/GDPt-1 (in percent)		13.5	10.0	11.0	20.7	7.3	1.6	1.6	-0.3		
Non-interest current account deficit that stabilizes debt ratio	18.3	6.1	12.0	11.0	-4.3	15.1	20.1	9.3	20.5		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

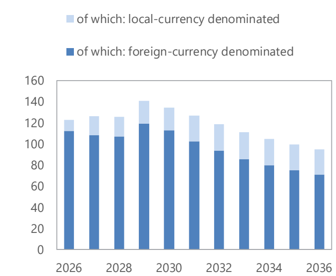
Table 2. Bhutan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2025–2046

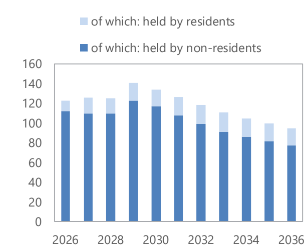
(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2025	2026	2027	2028	2029	2030	2031	2036	2046	Historical	Projections
Public sector debt 1/	**117.7**	**122.8**	**126.0**	**125.4**	**140.6**	**134.1**	**126.6**	**94.9**	**54.9**	**117.3**	**118.5**
of which: external debt	**107.4**	**112.4**	**109.7**	**109.3**	**122.9**	**117.1**	**107.5**	**77.3**	**33.1**	**108.0**	**101.3**
Change in public sector debt	-1.0	5.1	3.2	-0.6	15.2	-6.5	-7.5	-4.7	-3.4		
Identified debt-creating flows	**-9.0**	**13.4**	**5.1**	**0.9**	**16.7**	**-4.7**	**-5.7**	**-3.4**	**-2.7**	**-3.2**	**0.2**
Primary deficit	**0.7**	**1.0**	**1.5**	**0.3**	**1.0**	**-0.9**	**-0.2**	**-0.2**	**-0.2**	**1.9**	**0.2**
Revenue and grants	28.4	32.1	30.7	30.4	26.2	27.2	26.8	26.0	20.8	**27.2**	**27.5**
of which: grants	6.0	8.8	9.3	9.0	4.2	3.1	2.9	2.7	2.3		
Primary (noninterest) expenditure	29.1	33.1	32.2	30.6	27.2	26.4	26.6	25.8	20.6	**29.0**	**27.6**
Automatic debt dynamics	**-8.5**	**-9.4**	**-6.6**	**-5.5**	**-5.7**	**-5.9**	**-4.5**	**-1.2**	**-0.8**		
Contribution from interest rate/growth differential	-12.3	-9.4	-6.6	-5.5	-5.7	-5.9	-4.5	-1.2	-0.8		
of which: contribution from average real interest rate	-4.8	-1.3	0.4	1.4	2.3	2.6	2.9	3.5	2.0		
of which: contribution from real GDP growth	-7.6	-8.1	-7.0	-6.9	-8.0	-8.6	-7.4	-4.7	-2.8		
Contribution from real exchange rate depreciation	3.9	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**-1.2**	**21.8**	**10.2**	**6.2**	**21.4**	**2.2**	**-1.0**	**-2.0**	**-1.8**	**-1.1**	**4.5**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	-1.2	21.8	10.2	6.2	21.4	2.2	-1.0	-2.0	-1.8		
Residual	**8.0**	**-8.3**	**-2.0**	**-1.5**	**-1.5**	**-1.8**	**-1.8**	**-1.4**	**-0.7**	**5.6**	**-2.2**
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	**112.6**	**115.0**	**121.0**	**121.9**	**132.4**	**127.6**	**121.6**	**90.1**	**48.0**		
PV of public debt-to-revenue and grants ratio	**396.8**	**358.5**	**394.3**	**401.5**	**505.9**	**468.5**	**453.1**	**346.4**	**231.2**		
Debt service-to-revenue and grants ratio 3/	**23.0**	**54.1**	**40.7**	**41.6**	**51.4**	**53.5**	**55.5**	**56.1**	**54.4**		
Gross financing need 4/	6.0	40.2	24.2	19.1	35.9	15.8	13.7	12.4	9.3		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	6.8	7.4	6.0	5.8	6.8	6.5	5.8	5.0	5.0	**3.7**	**5.9**
Average nominal interest rate on external debt (in percent)	2.1	2.1	2.2	2.8	3.6	3.6	3.8	5.2	3.9	**1.5**	**3.8**
Average real interest rate on domestic debt (in percent)	1.2	1.2	2.2	2.8	3.7	4.0	4.6	5.4	5.4	**-1.6**	**4.0**
Real exchange rate depreciation (in percent, + indicates depreciation)	3.9	...	...	...	...	...	...	...	...	**1.2**	**...**
Inflation rate (GDP deflator, in percent)	3.6	3.5	3.7	3.8	3.9	4.0	4.0	4.0	3.5	**4.2**	**3.9**
Growth of real primary spending (deflated by GDP deflator, in percent)	23.4	22.2	3.2	0.6	-5.2	3.3	7.0	6.1	5.0	**5.8**	**5.0**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	1.7	-4.1	-1.6	0.9	-14.2	5.6	7.3	4.5	3.2	**4.4**	**2.2**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The entire public sector, including SOEs . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

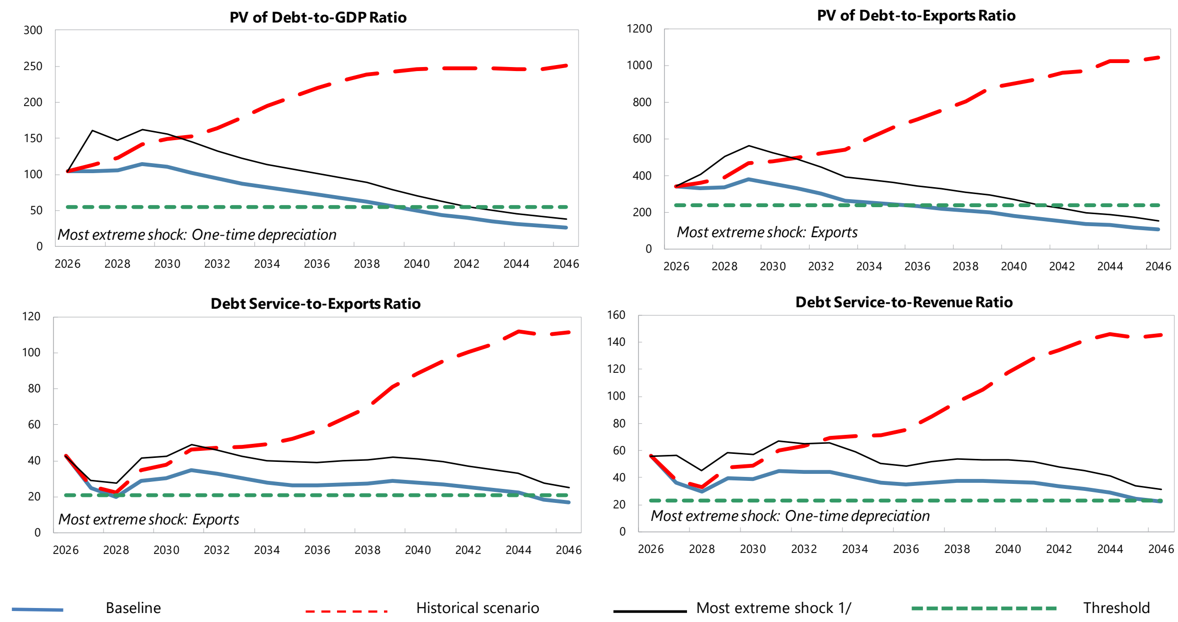
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Bhutan: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2026–2046 1/ 2/



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price	No	No
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions on Additional Financing Needs Resulting from the Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.9%	4.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	18	18
Avg. grace period	6	6

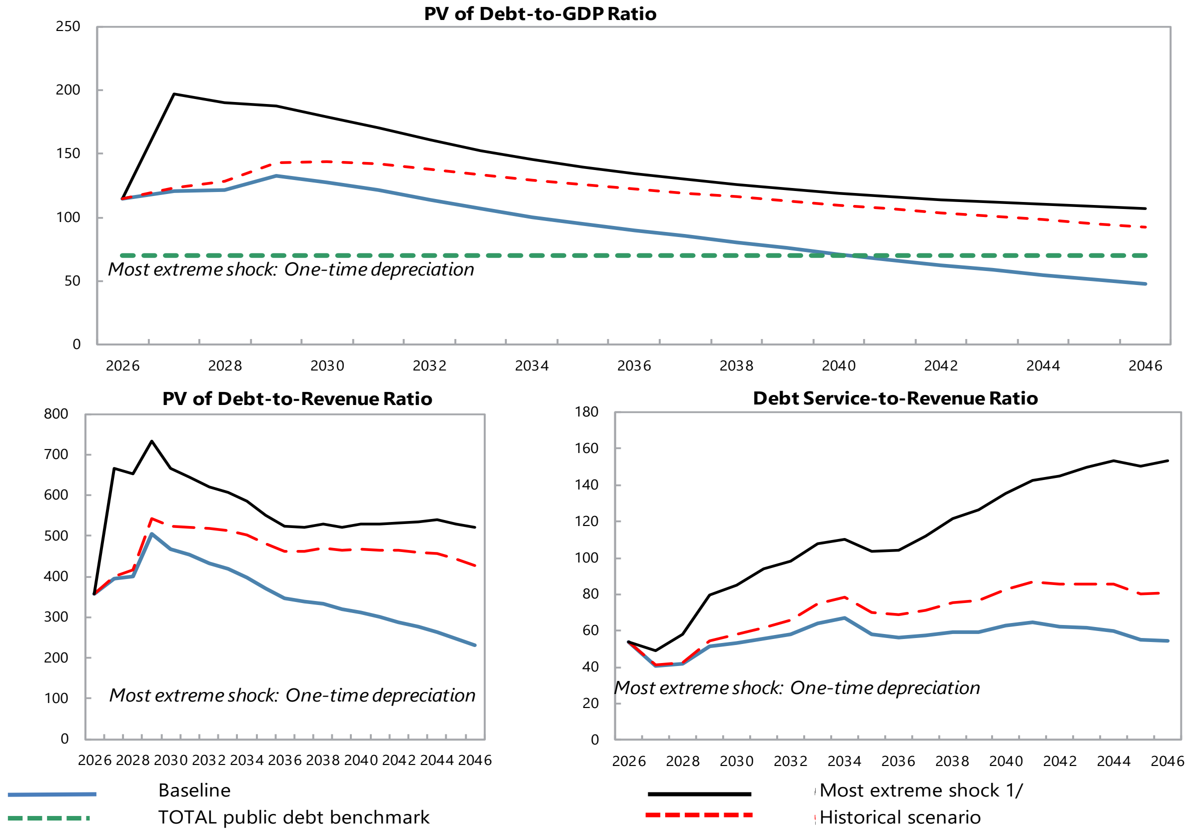
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2036. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Bhutan: Indicators of Public Debt Under Alternative Scenarios, 2026–2046 1/



Borrowing Assumptions on Additional Financing Needs Resulting from the Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	61%	61%
Domestic medium and long-term	26%	26%
Domestic short-term	13%	13%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	4.9%	4.9%
Avg. maturity (incl. grace period)	18	18
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.6%	3.6%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	5	5
Domestic short-term debt		
Avg. real interest rate	0.1%	0.1%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2036. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Bhutan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2026–2046

(In percent)

	Projections 1/																				
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046
PV of debt-to GDP ratio																					
Baseline	**104**	**104**	**106**	**114**	**110**	**102**	**94**	**87**	**82**	**77**	**72**	**67**	**63**	**56**	50	44	39	35	32	29	26
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2026-2036 2/	**104**	**114**	**124**	**143**	**152**	**157**	**170**	**189**	**208**	**225**	**239**	**252**	**264**	**271**	**275**	**278**	**280**	**281**	**280**	**278**	**281**
B. Bound Tests																					
B1. Real GDP growth	**104**	**115**	**127**	**137**	**133**	**123**	**113**	**105**	**98**	**92**	**87**	**81**	**75**	**67**	**60**	53	47	42	38	35	31
B2. Primary balance	**104**	**106**	**110**	**119**	**114**	**106**	**98**	**91**	**86**	**81**	**76**	**71**	**66**	**59**	53	47	42	38	34	32	29
B3. Exports	**104**	**110**	**120**	**128**	**124**	**115**	**107**	**99**	**93**	**87**	**81**	**76**	**70**	**62**	**55**	49	44	39	35	31	28
B4. Other flows 3/	**104**	**109**	**114**	**123**	**118**	**110**	**102**	**94**	**88**	**83**	**78**	**72**	**67**	**60**	53	47	42	37	33	30	27
B5. Depreciation	**104**	**161**	**148**	**162**	**156**	**144**	**133**	**122**	**114**	**108**	**102**	**95**	**89**	**79**	**70**	**62**	**56**	50	45	42	38
B6. Combination of B1-B5	**104**	**129**	**135**	**145**	**140**	**130**	**120**	**111**	**104**	**98**	**91**	**85**	**79**	**71**	**63**	**55**	49	44	40	36	33
C. Tailored Tests																					
C1. Combined contingent liabilities	**104**	**124**	**127**	**135**	**130**	**121**	**113**	**108**	**102**	**97**	**92**	**86**	**81**	**74**	**67**	**61**	**56**	51	47	44	41
C2. Natural disaster	**104**	**112**	**114**	**123**	**119**	**111**	**103**	**96**	**91**	**86**	**81**	**77**	**72**	**65**	**59**	53	48	44	40	37	35
C3. Commodity price	**104**	**104**	**106**	**114**	**110**	**102**	**94**	**87**	**82**	**77**	**72**	**67**	**63**	**56**	50	44	39	35	32	29	26
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio																					
Baseline	**342**	**334**	**337**	**380**	**354**	**331**	**301**	**263**	**254**	**245**	233	222	211	203	183	165	152	138	131	119	109
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2026-2036 2/	**342**	**364**	**395**	**475**	**488**	**509**	**541**	**569**	**646**	**715**	**771**	**831**	**890**	**980**	**1015**	**1043**	**1085**	**1099**	**1162**	**1156**	**1169**
B. Bound Tests																					
B1. Real GDP growth	**342**	**334**	**337**	**380**	**354**	**331**	**301**	**263**	**254**	**245**	233	222	211	203	183	165	152	138	131	119	109
B2. Primary balance	**342**	**339**	**350**	**394**	**367**	**344**	**313**	**274**	**267**	**258**	**245**	234	223	215	196	177	164	150	143	131	120
B3. Exports	**342**	**409**	**505**	**562**	**523**	**490**	**447**	**392**	**379**	**365**	**345**	**328**	**311**	**298**	**269**	**242**	223	201	190	172	155
B4. Other flows 3/	**342**	**349**	**365**	**408**	**380**	**355**	**324**	**283**	**274**	**264**	**250**	238	225	216	195	176	162	146	138	125	114
B5. Depreciation	**342**	**334**	**306**	**350**	**326**	**304**	**275**	239	231	224	213	204	195	187	169	152	141	128	122	112	103
B6. Combination of B1-B5	**342**	**399**	**350**	**480**	**447**	**418**	**381**	**333**	**321**	**309**	**294**	**279**	**265**	**254**	230	207	191	172	164	148	135
C. Tailored Tests																					
C1. Combined contingent liabilities	**342**	**397**	**405**	**449**	**418**	**393**	**360**	**325**	**318**	**309**	**296**	**284**	**273**	**268**	**249**	229	217	201	196	183	170
C2. Natural disaster	**342**	**365**	**371**	**416**	**389**	**364**	**333**	**295**	**287**	**279**	**267**	**256**	**246**	240	220	202	190	175	170	158	147
C3. Commodity price	**342**	**334**	**337**	**380**	**354**	**331**	**301**	**263**	**254**	**245**	233	222	211	203	183	165	152	138	131	119	109
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	240	240	240	240	240	240	240	240	240	240	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio																					
Baseline	**43**	**25**	20	**29**	**30**	**35**	**33**	**30**	**28**	**26**	**26**	**27**	**27**	**29**	**28**	**27**	**25**	**24**	**22**	19	17
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2026-2036 2/	**43**	**26**	**23**	**35**	**38**	**47**	**48**	**48**	**51**	**55**	**59**	**67**	**74**	**86**	**95**	**104**	**110**	**116**	**124**	**123**	**125**
B. Bound Tests																					
B1. Real GDP growth	**43**	**25**	20	**29**	**30**	**35**	**33**	**30**	**28**	**26**	**26**	**27**	**27**	**29**	**28**	**27**	**25**	**24**	**22**	19	17
B2. Primary balance	**43**	**25**	20	**30**	**31**	**35**	**33**	**31**	**29**	**28**	**27**	**28**	**29**	**30**	**29**	**28**	**27**	**25**	**24**	20	18
B3. Exports	**43**	**29**	**28**	**42**	**43**	**49**	**46**	**43**	**40**	**40**	**39**	**40**	**40**	**42**	**41**	**40**	**37**	**35**	**33**	**28**	**25**
B4. Other flows 3/	**43**	**25**	21	**30**	**31**	**36**	**34**	**31**	**29**	**29**	**28**	**29**	**29**	**31**	**30**	**29**	**27**	**25**	**24**	20	18
B5. Depreciation	**43**	**25**	20	**28**	**29**	**34**	**32**	**29**	**27**	**24**	**24**	**25**	**25**	**27**	**26**	**25**	**23**	**22**	21	17	16
B6. Combination of B1-B5	**43**	**28**	**26**	**36**	**38**	**43**	**41**	**38**	**36**	**33**	**33**	**34**	**35**	**36**	**35**	**34**	**32**	**30**	**28**	**24**	**21**
C. Tailored Tests																					
C1. Combined contingent liabilities	**43**	**25**	**23**	**32**	**33**	**38**	**36**	**33**	**31**	**29**	**29**	**30**	**30**	**32**	**31**	**30**	**28**	**27**	**25**	**22**	19
C2. Natural disaster	**43**	**26**	**22**	**31**	**32**	**37**	**35**	**32**	**30**	**28**	**28**	**29**	**30**	**31**	**30**	**29**	**28**	**26**	**25**	21	19
C3. Commodity price	**43**	**25**	20	**29**	**30**	**35**	**33**	**30**	**28**	**26**	**26**	**27**	**27**	**29**	**28**	**27**	**25**	**24**	**22**	19	17
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio																					
Baseline	**56**	**37**	**29**	**40**	**39**	**45**	**44**	**45**	**40**	**36**	**35**	**37**	**38**	**37**	**37**	**36**	**34**	**32**	**29**	**24**	22
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2026-2036 2/	**56**	**38**	**33**	**48**	**49**	**61**	**64**	**71**	**73**	**75**	**79**	**90**	**102**	**113**	**127**	**139**	**147**	**156**	**162**	**160**	**163**
B. Bound Tests																					
B1. Real GDP growth	**56**	**40**	**35**	**48**	**47**	**54**	**53**	**53**	**48**	**43**	**42**	**44**	**46**	**45**	**45**	**44**	**40**	**38**	**35**	**29**	**27**
B2. Primary balance	**56**	**37**	**30**	**41**	**40**	**46**	**45**	**45**	**41**	**38**	**36**	**38**	**40**	**39**	**39**	**38**	**35**	**34**	**31**	**26**	**24**
B3. Exports	**56**	**37**	**31**	**43**	**42**	**48**	**47**	**47**	**44**	**41**	**39**	**41**	**42**	**42**	**41**	**41**	**38**	**36**	**33**	**27**	**25**
B4. Other flows 3/	**56**	**37**	**30**	**42**	**41**	**47**	**45**	**46**	**42**	**39**	**38**	**39**	**40**	**40**	**40**	**39**	**36**	**34**	**31**	**26**	**24**
B5. Depreciation	**56**	**56**	**45**	**58**	**57**	**67**	**65**	**66**	**59**	**50**	**49**	**52**	**54**	**53**	**53**	**52**	**48**	**46**	**41**	**34**	**31**
B6. Combination of B1-B5	**56**	**42**	**38**	**50**	**49**	**56**	**55**	**55**	**52**	**46**	**44**	**46**	**48**	**47**	**47**	**46**	**43**	**40**	**37**	**31**	**27**
C. Tailored Tests																					
C1. Combined contingent liabilities	**56**	**37**	**34**	**44**	**43**	**49**	**48**	**48**	**44**	**40**	**39**	**41**	**42**	**41**	**41**	**41**	**38**	**36**	**33**	**28**	**24**
C2. Natural disaster	**56**	**37**	**31**	**41**	**40**	**46**	**45**	**46**	**42**	**38**	**36**	**38**	**40**	**39**	**39**	**38**	**36**	**34**	**31**	**26**	**24**
C3. Commodity price	**56**	**37**	**29**	**40**	**39**	**45**	**44**	**45**	**40**	**36**	**35**	**37**	**38**	**37**	**37**	**36**	**34**	**32**	**29**	**24**	22
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23

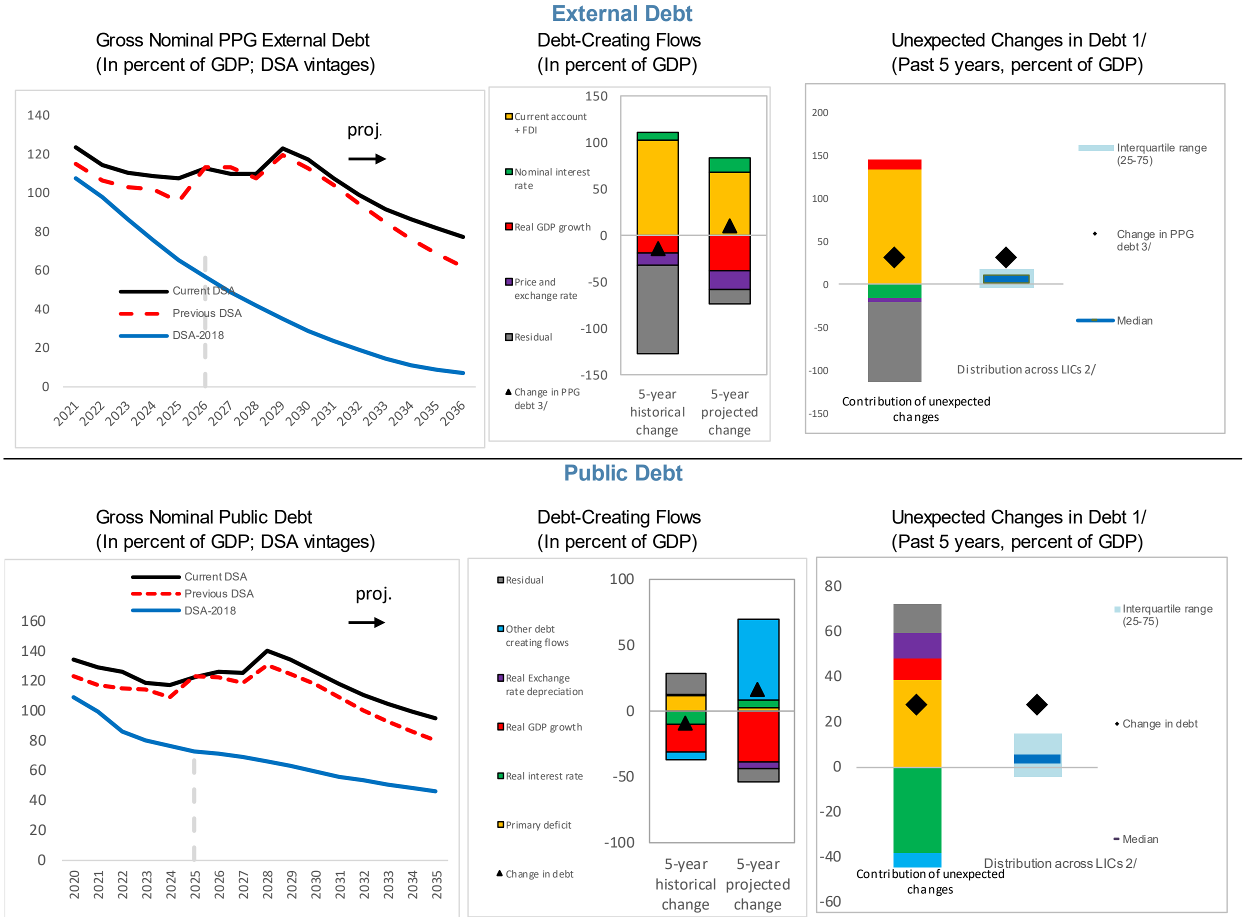
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Bhutan: Sensitivity Analysis for Key Indicators of Public Debt, 2026–2046

	Projections 1/																				
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046
	PV of Debt-to-GDP Ratio																				
Baseline	**115**	**121**	**122**	**132**	**128**	**122**	**114**	**107**	**100**	**95**	**90**	**85**	**80**	**76**	**71**	67	63	59	55	51	48
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2026-2036 2/	**115**	**123**	**128**	**143**	**144**	**142**	**138**	**134**	**129**	**126**	**123**	**119**	**116**	**113**	**110**	**107**	**104**	**101**	**98**	**95**	**92**
B. Bound Tests																					
B1. Real GDP growth	**115**	**135**	**153**	**169**	**168**	**165**	**160**	**154**	**150**	**147**	**145**	**142**	**139**	**136**	**134**	**131**	**128**	**125**	**122**	**120**	**118**
B2. Primary balance	**115**	**124**	**128**	**138**	**133**	**127**	**119**	**111**	**105**	**99**	**94**	**88**	**83**	**79**	**74**	69	65	61	57	53	49
B3. Exports	**115**	**126**	**134**	**144**	**139**	**132**	**124**	**117**	**110**	**104**	**98**	**92**	**86**	**81**	**76**	**71**	66	62	57	53	50
B4. Other flows 3/	**115**	**126**	**131**	**141**	**135**	**129**	**121**	**114**	**107**	**101**	**95**	**90**	**85**	**79**	**75**	70	65	61	57	53	49
B5. Depreciation	**115**	**197**	**190**	**188**	**179**	**171**	**161**	**153**	**145**	**140**	**135**	**130**	**126**	**122**	**119**	**116**	**114**	**112**	**110**	**108**	**107**
B6. Combination of B1-B5	**115**	**119**	**125**	**134**	**129**	**123**	**115**	**108**	**101**	**95**	**90**	**85**	**80**	**75**	**71**	66	62	58	54	50	47
C. Tailored Tests																					
C1. Combined contingent liabilities	**115**	**153**	**153**	**162**	**156**	**148**	**140**	**131**	**124**	**118**	**112**	**106**	**100**	**95**	**90**	**85**	**80**	**75**	**71**	67	63
C2. Natural disaster	**115**	**133**	**134**	**144**	**139**	**133**	**125**	**117**	**111**	**105**	**100**	**95**	**90**	**85**	**81**	**76**	**72**	68	64	60	56
C3. Commodity price	**115**	**124**	**131**	**147**	**147**	**145**	**142**	**138**	**136**	**134**	**133**	**132**	**130**	**129**	**127**	**125**	**123**	**122**	**120**	**118**	**117**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70
	PV of Debt-to-Revenue Ratio																				
Baseline	358	394	402	506	469	453	434	418	399	370	346	338	333	319	312	300	289	276	264	247	231
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2026-2036 2/	358	400	417	542	524	522	517	514	503	480	462	463	470	464	468	466	464	460	457	442	428
B. Bound Tests																					
B1. Real GDP growth	358	427	475	627	603	601	593	591	583	560	545	551	564	562	572	574	576	576	577	565	554
B2. Primary balance	358	403	422	529	489	473	452	436	415	385	360	351	345	331	323	311	299	286	273	255	238
B3. Exports	358	409	442	551	510	493	473	456	435	403	376	365	358	342	333	319	305	291	277	257	240
B4. Other flows 3/	358	410	430	537	497	481	461	445	424	393	367	356	350	335	326	313	300	286	273	254	237
B5. Depreciation	358	667	652	732	667	645	621	606	586	551	524	522	529	522	529	530	533	534	539	529	522
B6. Combination of B1-B5	358	391	412	512	474	457	437	421	400	370	346	336	331	316	308	296	284	271	258	241	224
C. Tailored Tests																					
C1. Combined contingent liabilities	358	499	503	618	571	553	531	514	492	458	430	421	416	400	393	380	368	354	341	320	301
C2. Natural disaster	358	432	439	550	510	494	475	459	439	409	384	376	372	358	352	341	330	317	305	287	271
C3. Commodity price	358	405	432	560	538	540	538	541	539	522	512	522	539	541	555	561	568	572	577	569	562
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Debt Service-to-Revenue Ratio																				
Baseline	54	41	42	51	53	55	58	64	67	58	56	57	59	59	63	65	62	61	60	55	54
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2026-2036 2/	54	41	43	54	58	62	66	75	79	70	69	72	76	77	83	87	86	86	85	80	81
B. Bound Tests																					
B1. Real GDP growth	54	43	48	63	67	71	74	84	90	82	81	84	89	90	97	102	102	103	103	98	99
B2. Primary balance	54	41	43	55	55	57	59	67	71	61	58	59	62	61	65	67	65	64	62	57	57
B3. Exports	54	41	42	53	55	57	60	66	69	62	60	61	63	62	66	68	65	64	62	57	56
B4. Other flows 3/	54	41	42	53	55	57	59	66	69	61	59	60	62	61	65	67	64	63	62	56	56
B5. Depreciation	54	49	58	80	85	94	98	108	110	104	104	112	121	126	135	143	145	150	153	150	154
B6. Combination of B1-B5	54	40	42	53	54	56	58	65	69	59	57	58	60	60	64	65	63	62	60	55	55
C. Tailored Tests																					
C1. Combined contingent liabilities	54	41	60	60	60	62	64	88	78	66	62	63	66	68	70	71	69	68	66	61	59
C2. Natural disaster	54	41	48	55	57	59	61	73	72	62	60	61	63	64	67	69	67	66	64	59	58
C3. Commodity price	54	41	43	56	59	62	66	75	81	75	74	78	82	84	91	95	96	97	98	95	96
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Figure 3. Bhutan: Drivers of Debt Dynamics—Baseline Scenario



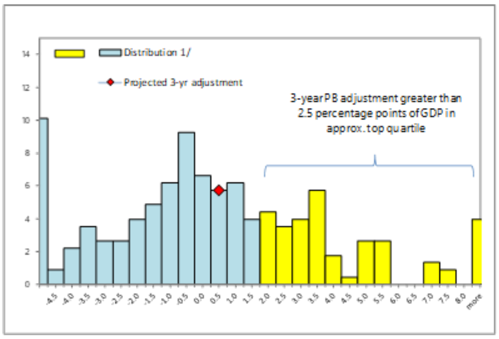
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

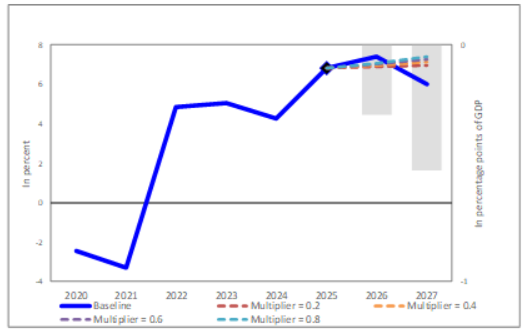
Figure 4. Bhutan: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(In percent of GDP)

Contribution to Real GDP growth
(In percent, 5-year average)

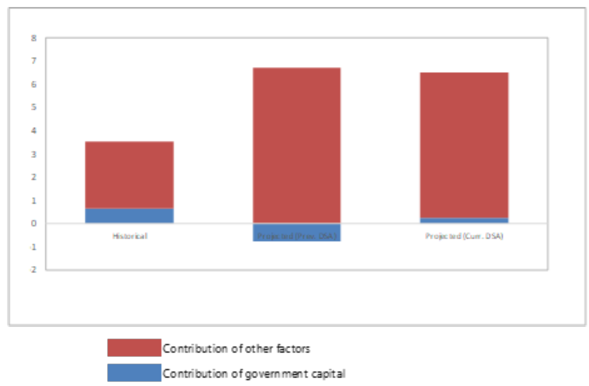
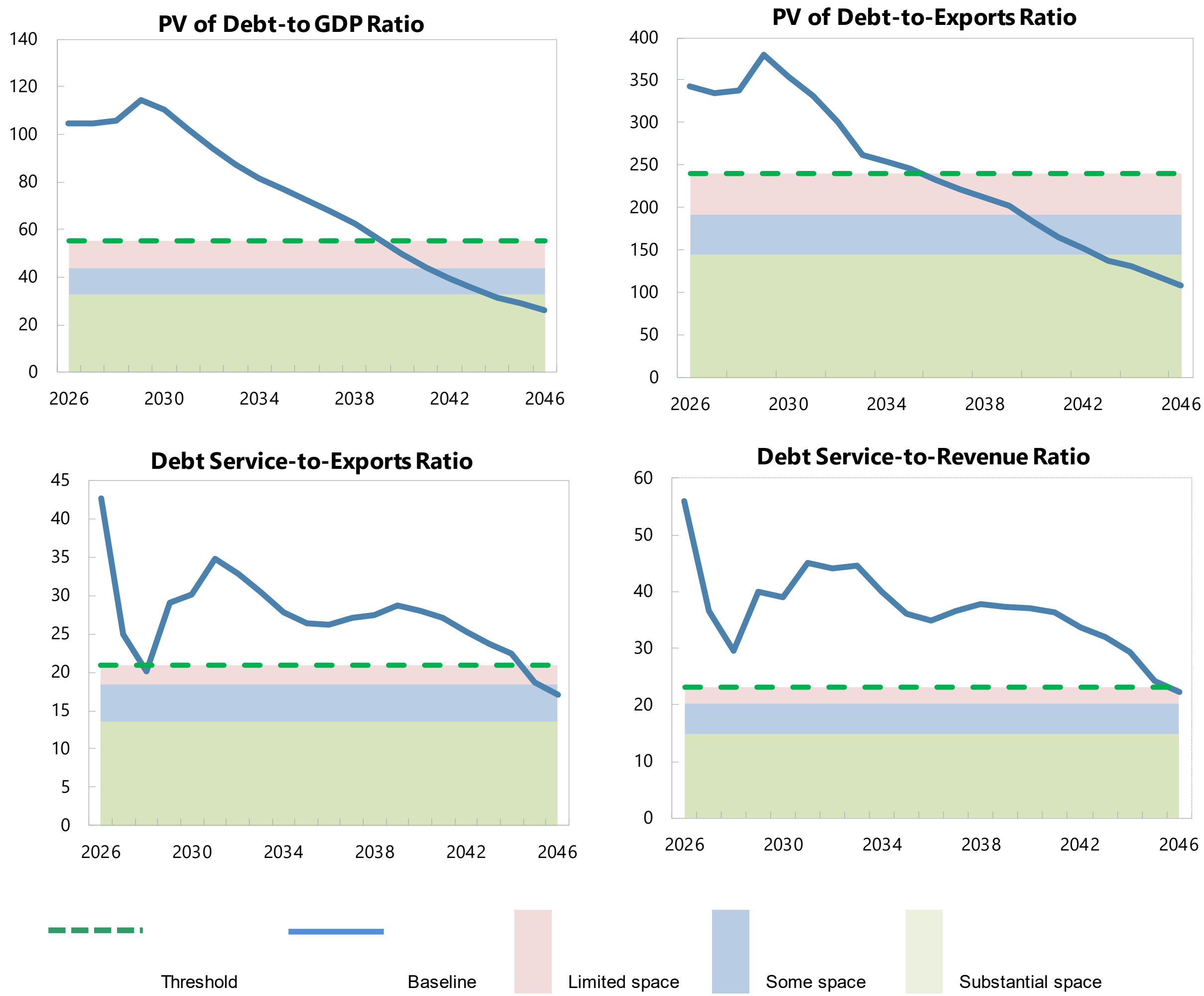


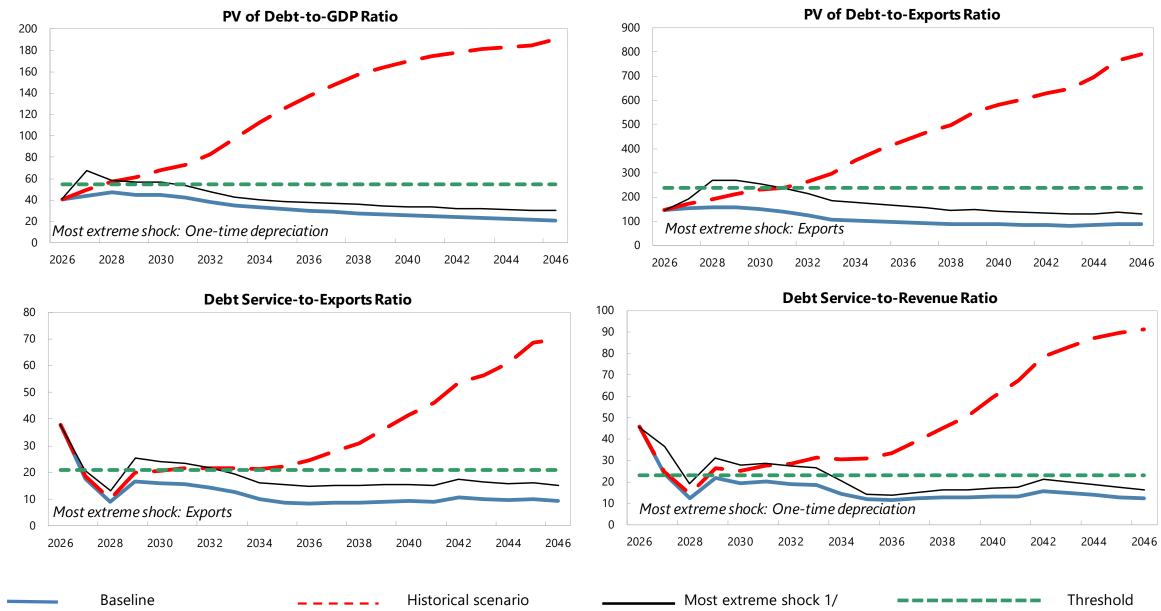
Figure 5. Bhutan: Qualification of the Moderate Category, 2026–2046 1/



Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Figure 6. Bhutan: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios (excluding IG hydro debt), 2026–2046 1/ 2/



Customization of Default Settings

	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price	No	No
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions on Additional Financing Needs Resulting from the Stress Tests*

	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	3.8%	3.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	6	6

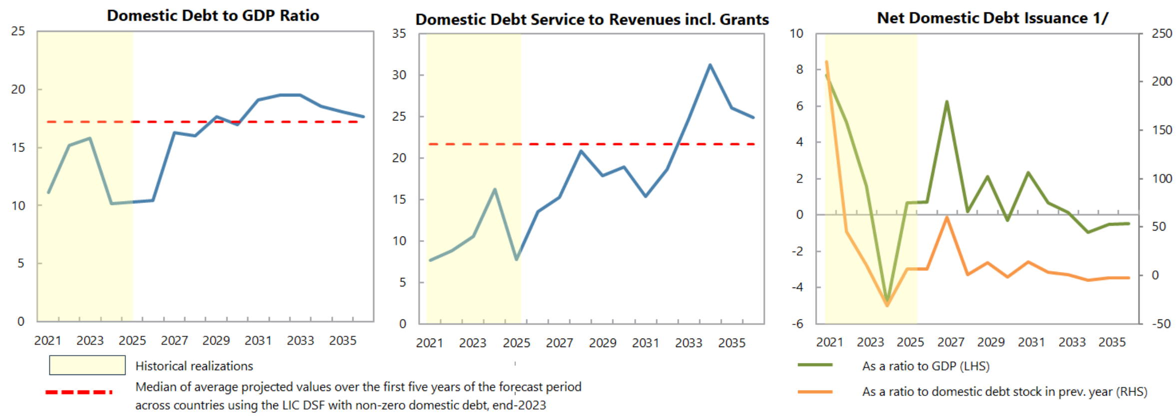
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2036. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 7. Bhutan: Indicators of Domestic Public Debt, 2021-2036



Borrowing Assumptions (Average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	66%
Short-term	34%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	3.6%
Avg. maturity (incl. grace period)	6
Avg. grace period	5
Domestic short-term debt	
Avg. real interest rate	0.1%

Sources: Country authorities; and staff estimates and projections.

1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

Annex I. Assessment of the Exclusion of Dorjilung Non-Guaranteed Debt from the Debt Perimeter

Bhutan's new hydropower projects are expected to pivot away from the intergovernmental modality to alternatives such as joint ventures with private investors. One prominent example of this change is the Dorjilung hydropower project. The project is expected to have an installed capacity of 1,125 MW. It is a joint venture between DGPC (Druk Green Power Corporation, the Bhutanese SOE managing the hydropower projects) and Tata Power. An initial shareholding agreement with Tata Power was signed for a 60:40 structure (DHPL:TATA). The partnership entails the creation of a Special Purpose Vehicle (SPV), Dorjilung Hydro Power Limited (DHPL), which was registered with the Corporate Regulatory Authority (CRA), Ministry of Industry, Commerce and Employment (MOICE) in Bhutan on December 8, 2025. A part of the project will be covered through IDA grants, and IBRD and IDA loans. The remainder, approximately US$1bn, will be financed through commercial debt. While DHPL is a new entity with no track record, initial evidence provides support for the exclusion of its non-guaranteed debt from the 2025 DSA according to Appendix III of the LIC DSF Guidance Note. [1]

- **Managerial independence:**
  - At present DHPL is managed by DGPC and the project is governed by the Project Steering Committee (PSC) Members.[2] However, DHPL plans to maintain legal and managerial autonomy from Royal Government of Bhutan (RGoB) and delink from the DGPC in terms of managerial independence and operations. DHPL is structured as a ring-fenced corporate entity, with its own balance sheet, and will have independent Board Members with a Chair appointed through open competition. [3]
  - DGPC initially established a dedicated multi-disciplinary Project Implementation Unit (PIU) to prepare DHPL. The DHPL PIU comprises experienced staff who have worked on other hydropower projects in Bhutan and collaborated with the Bank and other Development Finance Institutions (DFIs) such as the Asian Development Bank (ADB) and Japan International Cooperation Agency (JICA). The PIU worked on DHPL preparatory activities in close coordination with the WBG. Following the incorporation of DHPL, PIU staff are becoming SPV staff, complemented by personnel from Tata Power and additional hiring.
  - IDA financing will become effective upon fulfilment of certain conditions, which will include receipt by the Bank of evidence of conclusion of a satisfactory Subsidiary Agreement between RGoB, DGPC and the SPV. The WBG will make payments to the SPV's designated

[1] The treatment of the non-guaranteed debt of the SPVs will be reevaluated in future DSAs as more information becomes available and historical track record of SPVs is established.

[2] Comprising i) Secretary, Ministry of Energy and Natural Resources, ii) Managing Director, DGPC, iii) Dzongda (State Mayor), Mongar Dzongkhag, iv) President, Generation Cluster, Tata Power Company Limited (TPCL), v) Project Director, Dorjilung Implementation.

[3] This can be determined ex ante by referring to the Shareholders' Agreement between DGPC and Tata Power which is expected to outline the legal and managerial autonomy of the DHPL SPV.

account, upon submission of withdrawal applications and Interim Unaudited Financial Reports (IUFR). The IBRD loan for the Project will be directly paid to the DHPL's designated account.

- **Relation with the government:**
  - Under section 6.9 of the National Energy Policy, all medium, large, and mega hydropower projects (>100 MW such as Dorjilung), public or private, have to provide 13 percent of net electricity generated as Free Power to the RGoB at no cost, which in practice acts as a tax.[4] Further, DHPL will be subject to the same tax and regulatory system as all other hydro projects.
  - The presence of a private non-Bhutanese sponsor reduces fiscal risk. In case of default, the co-sponsor has alternative strategies, and the shareholding structure further limits fiscal recourse to the government.
  - DHPL was incorporated in accordance with the Companies Act of Bhutan and is regulated under the same Act. Accordingly, the SPV would be subject to the same regulatory, tax, and compliance requirements as other companies operating in Bhutan.
  - Under the signed concession agreement, RGoB will not be providing subsidies or fiscal support (through taxes, regulations etc.). Conversely, dividends to the RGoB will be transferred annually.
  - SPV will have its own independent board which will not have any direct reporting to RGoB or DGPC and will independently manage its own hiring decisions.
- **Periodic audits:** The SPV will be subject to independent audits by an external private audit firm appointed by the SPV from the panel of auditors maintained by the Royal Audit Authority (RAA). Audits will be conducted in accordance with the International Standards of Auditing (ISA), issued by International Auditing and Assurance Standards Board (IAASB).[5] DHPL will agree the selection of auditors with the lenders. Given the presence of an international (Indian) equity investor in the SPV, periodic verification of audits will be carried out by international auditors.

- **Publication of comprehensive annual reports and protection of shareholders' rights:** DHPL will prepare Annual Financial Statements following national and internationally accepted accounting principles (separately disclosing the sources of financing).

- **Financial conditions and sustainability:**
  - It could be argued that the DHPL has good financial strength given the amount of funding (US$1.7 billion), the estimated costs (US$1.3 billion), and the pricing arrangements being established (see below). [6]

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[4] The RGoB may decide to: (i) receive the power in-kind and allocate it to vulnerable households or (ii) receive the cash equivalent of revenue that would have resulted from exports of the agreed electricity portion allocated to the RGoB, calculated on a monthly basis.

[5] DHPP draft Project Appraisal Document (PAD).

[6] Using a USD-INR exchange rate of 90:1, the sponsors' base total project cost is US$1.5 billion comprising: a completed cost estimate of US$1.1 billion; contingencies of US$141 million; and interest during construction and financing charge

(continued)

- The project's leverage ratio (70 percent) is in line with industry standards (65-70 percent).
- While DHPL has no financial track record as a recently incorporated entity, past hydro power projects have been financially viable, with a ROE of about 10 percent. The estimated ROE for Dorjilung is 16.5 percent.
- The project is estimated to yield sufficient cashflow to cover operational and financial flows from the moment of commissioning.
- The design energy of DHPL has been calculated based on Bhutan's Guidelines for Development of Hydropower Projects (2018) using more than 30 years of inflow data. Based on DGPC's experience from plants under operation, hydrological risk is considered to be low as previous hydropower plants have generated energy beyond their design energy levels in most cases. Any upside or downside in hydrology would be to the account of the equity sponsors (the SPV). In case of long-term downside, if agreed equity return thresholds are not met during the initial concession period for any reason (including due to hydrological shortfalls), there is a provision for an extension of the concession term to help recover returns.
- Lenders are also assuming a longer construction period and lower hydrology than the sponsors to assess the Project's ability to repay debt in multiple scenarios. Lenders will develop a principal repayment profile and there will be at least one year of grace period (after construction) before principal repayment begins for commercial loans.

- **Additional mitigating factors:**
  - The limited recourse terms of the project finance structure limit the liability of DGPC and RGoB (beyond guaranteed debt).
  - The project is anchored by a concession agreement (CA) with the RGoB and take-or-pay power purchase agreements (PPAs)[7] with approximately three quarters of the electricity being sold to an off-taker in India under an export PPA. Additionally, DHPL will conclude a domestic PPA with Bhutan Power Corporation (BPC) – the Bhutanese state power transmission utility– for the energy generated during the winter months. The domestic PPA will also cover free power which will be transmitted by BPC under the direction of the RGoB. The export and domestic PPAs will have terms matching the Concession Agreement.
  - The signed concession agreement between RGoB and DHPL does not have any restrictions on DHPL's ability to export their contractually agreed amounts under the export PPA.
  - Tariffs have been set at a level to ensure cost recovery for DHPL lenders and equity sponsors. The tariffs are under long term PPAs and will generate a return on equity, as well as repayment of debt interest and principal through the cashflows from sale of power generated.

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estimates. The US$1.3 billion estimate relates to hard costs only (excluding interest during construction and financing charges) and is based on an earlier exchange rate assumption. The WBG has conservatively estimated the financial requirements to be US$1.7 billion for DHPL which will provide a further buffer to sponsors' estimates.

[7] This requires the offtaker to pay for the energy at agreed tariff even if they do not take the energy.

- Both debt service and export revenues will be denominated in INR, hence mitigating foreign exchange risk.
- Risk mitigation measures, including measures to ameliorate construction, hydrological, and operational risks.
- The sponsors are experienced with respect to insurance arrangements and will take out insurance policies to ensure the commercial sustainability of the Project. An international insurance advisor has already been hired to advise on optimal insurance risk coverage, considering the mitigation measures on account of glacial lake outburst floods (GLOF), earthquake risks and flooding risks mitigation planned through technical design. Lenders will also impose and monitor insurance requirements that will need to be met.

Annex II. Assessment of the Exclusion of Khorlochhu Non-Guaranteed Debt from the Debt Perimeter

The 600 MW Khorlochhu project began construction in 2025, and development is progressing toward planned commissioning in 2030. In October 2024, DGPC entered a joint venture with Tata Power Company Limited (TPCL) on a 60:40 equity shares for the Khorlochhu Hydro Power Limited (KHPL), SPV.

[1] From the total estimated cost of Nu 68.94 billion, 70 percent will be financed through debt and 30 percent equity. The entire debt will be financed through borrowing from Power Finance Corporation (PFC), India's leading Non-Banking Financial Company (NBFC) in the power sector. KHPL SPV signed Loan Facility Agreement (Nu 48.3 billion) with PFC on 28 September 2025. This loan from PFC to KHPL SPV is not guaranteed by the government, the project assets and cash flows serve as collateral, effectively ringfencing the risks. The loan amount is not included in the PPG debt in this DSA (taking the same approach as for DHPL SPV).

- **Managerial independence:**
  - KHPL was incorporated in 2015 as an independent company with its own legal identity, enabling it to enter contracts, own assets, and manage liabilities separately from any parent organization or government authority; in October 2024, DGPC (60%) entered a joint venture with Tata Power (40%) to operationalize KHPL.
  - KHPL is managed by its own management team, ensuring operational decisions like project execution, financial management, and staffing are made internally based on business needs rather than external directives.
  - KHPL has its own Board of Directors for governance and oversight, with the Chairperson appointed through open competition to promote transparency.
- **Relation with the government:**
  - Under section 6.9 of the National Energy Policy, all medium, large, and mega hydropower projects (>100 MW such as KHPL), public or private, have to provide 13 percent of net electricity generated as Free Power to the RGoB at no cost, which in practice acts as a tax. Further, KHPL will be subject to the same tax and regulatory system as all other hydro projects.
  - The presence of TPCL reduces fiscal risk. In case of default, the co-sponsor has alternative strategies, and the shareholding structure further limits fiscal recourse to the government.
  - KHPL was incorporated in accordance with the Companies Act of Bhutan 2016 and will be regulated under the same Act. Accordingly, KHPL would be subject to the same regulatory, tax, and compliance requirements as other companies operating in Bhutan.

[1] The 600 MW Khorlochhu HPP was incorporated as a joint venture between DGPC and Satluj Jal Vidyut Nigam Limited (SJVNL), an Indian SOE, on a 50:50 equity share in June 2015. However, the joint venture was halted in 2022 and DGPC acquired the Indian SOE's equity shares.

  - Under the signed concession agreement, RGoB will not be providing subsidies or fiscal support (through taxes, regulations etc.). Conversely, dividends to the RGoB will be transferred annually.
  - KHPL will have its own independent board which will not have any direct reporting to RGoB or DGPC or TPCL and will independently manage its own hiring decisions.

- **Periodic audits:**
  - KHPL will be subject to independent audits by an external private audit firm appointed by the Royal Audit Authority (RAA). Audits will be conducted in accordance with the International Standards of Auditing (ISA), issued by International Auditing and Assurance Standards Board (IAASB). The company will agree with the selection of auditors with the lenders. Given the presence of DGPC and TPCL equity investor in KHPL, annual internal audits will be carried out by DGPC and TPCL internal audit teams.
- **Publication of comprehensive annual reports and protection of shareholders' rights:**
  - KHPL will prepare Annual Financial Statements following national and internationally accepted accounting principles (separately disclosing the sources of financing).
- **Financial conditions and sustainability:**
  - KHPL has good financial strength given the amount of funding Nu 68.94 billion.
  - The project's leverage ratio (70 percent) is in line with industry standards (65-70 percent).
  - While KHPL has no financial track record, past hydro power projects have been financially viable, with a ROE of about 10 percent. The estimated ROE for KHPL is 16.5 percent.
  - The project is estimated to yield sufficient cashflows to cover operational and financial flows from the moment of commissioning.
  - The design energy of KHPL has been calculated based on Bhutan's Guidelines for Development of Hydropower Projects (2018) using more than 30 years of inflow data. Based on DGPC's experience from plants under operation, hydrological risk is considered to be low as previous hydropower plants have generated energy beyond their design energy levels in most cases. Any upside or downside in hydrology would be to the account of the equity sponsors (the SPV). In case of long-term downside, if agreed equity return thresholds are not met during the initial concession period for any reason (including due to hydrological shortfalls), there is a provision for a 5-year extension of the concession term to help recover returns.
  - Lenders are also assuming a longer construction period and lower hydrology than the sponsors to assess the Project's ability to repay debt in multiple scenarios.
- **Additional mitigating factors:**
  - The limited recourse terms of the project finance structure limit the liability of DGPC and RGoB (beyond guaranteed debt).

- The project is anchored by a concession agreement (CA) with the RGoB and take-or-pay power purchase agreements (PPAs) with 80 percent of the electricity being sold to an off-taker in India under an export PPA. Additionally, the Project Company will conclude a domestic PPA with Bhutan Power Corporation (BPC) – the Bhutanese state power transmission utility– for the remaining energy generated during the winter months. The domestic PPA will also cover the free power which will be transmitted by BPC under the direction of the RGoB. The export and domestic PPAs will have initial terms of 30 years, matching the term of the Concession Agreement. Tariffs under both PPAs are yet to be finalized.
- The Project's tariff under long-term PPAs will be set to generate a financial return on the entire investment. Thus, the return on equity and repayment of interest and principal on the debt is expected to be paid through the cashflows of the Project from sale of power generated.
- Both debt service and export revenues will be denominated in INR, hence mitigating the foreign exchange risk.
- The sponsors are experienced in managing insurance for large infrastructure projects and have insured the main Civil and Electro-Mechanical (E&M) packages as per lender requirements. All lender-imposed insurance conditions are incorporated into the policies, and compliance will be monitored by the Lenders' Insurance Advisor (LIA) to ensure commercial sustainability and protect financial interests.