

2.7% in 2019 to estimated 5% (2022). The youth unemployment rate also increased to 22.6% from 11.9% in 2019, mainly because tourism and allied industries, manufacturing, trade, and construction sectors have been heavily affected. Due to inflationary pressures and the growth decline, poverty rate is projected to increase from 11.2% in 2020 to 12.5% in 2021. The poverty headcount rate based on USD 1.9/day is expected to result in over 12,000 additional poor people (1.6% of the population). Different fiscal-monetary measures rolled out during 2020-21 as a countercyclical measure were imperative to cushion the impact of the pandemic as well as stimulate the economy and enhance the recovery process. The government projected that the GDP growth in 2021 is expected to rebound to 4.2% and moderate to 3.9% in 2022.

External risks continue to stem from weaker growth and higher inflation in **India**, Bhutan's main trading and development partner, and increases in global oil prices. The inflation rate is expected to increase in future with an increase in food prices in India and higher fuel prices. Average inflation increased from 3% in 2019-20 to an estimated 8.1% in 2020-21 (and 7.9% in 2022), driven by an increase in domestic and imported food prices as the pandemic disrupted the supply chain from India, although some of the change was offset by lower non-food inflation following lower demand for consumer durables. While non-food inflation remained modest, averaging 1.7% in the first half of 2020/21, food inflation rose to an average of 15.3%. The composite food price index, which carries a 46% weight in the CPI basket, soared to 16.4% in October 2020. According to the World Bank, since India is the main trading partner, inflation rates between the two countries are strongly correlated. This has helped keep the real effective exchange rate (REER) stable.

The government of Bhutan's **domestic revenues**, as a share of the economy, have remained largely unchanged during the past decade at around 20%-22% of GDP. In fact, the tax-to-GDP ratio was lower in 2018-19 than in 2011-12. There have been limited effort in improving revenue mobilisation. The introduction of a Goods and Services Tax (GST), a single indirect tax to replace other existing indirect taxes like sales tax and excise duty, will be levied on sales at a single standard rate of 7% with some deviations. There has been a setback on the start date of GST implementation that has been postponed further by two years. The Goods and Services Tax (Amendment) Bill of Bhutan 2022 was tabled in the National Assembly to defer the implementation date from 1st July 2022 to 1st July 2024, on account of the unfavorable economic situation of the country and the operational readiness of IT system (Bhutan Integrated Taxation System). The fiscal deficit is projected to widen to 9.7% of GDP, mainly due to a shortfall in domestic revenues. Over-reliance on hydropower revenue (which accounted for 37% of domestic revenue in 2019-20), increases fiscal volatility, creates pro-cyclicality risks and complicates budgetary management, as temporary one-off profit transfers and large temporary revenue spikes tend to trigger permanent increases in current spending (as evidenced by the recent salary increase in 2019-20).

Bhutan is a member country of the **International Monetary Fund** (IMF) since September 1981. The IMF supports Bhutan through the Article IV consultation process on a 24-month cycle. The last report was published in October 2018¹⁹. However, due to COVID-19 related travel restriction, no Article IV consultation took place in 2020 (or 2021) because of the pandemic. The latest Article IV Consultation for Bhutan was held in February 2022. The IMF Executive Board was scheduled to meet on May 13th to conclude the consultation. The IMF welcomed the improvement in Bhutan's economic performance and commended the significant economic progress in recent years. The World Bank publishes its annual Bhutan Development update with the latest published in April 2022.

To ensure sustained growth, management of macro-economic pressures, **diversification of the economy** and inclusive **job creation** will continue to be priorities. Urgent steps are required to reduce unemployment among youth with focus on improving linkages of technical and vocational education and

¹⁹ <https://www.imf.org/en/Publications/CR/Issues/2018/10/30/Bhutan-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-46319>