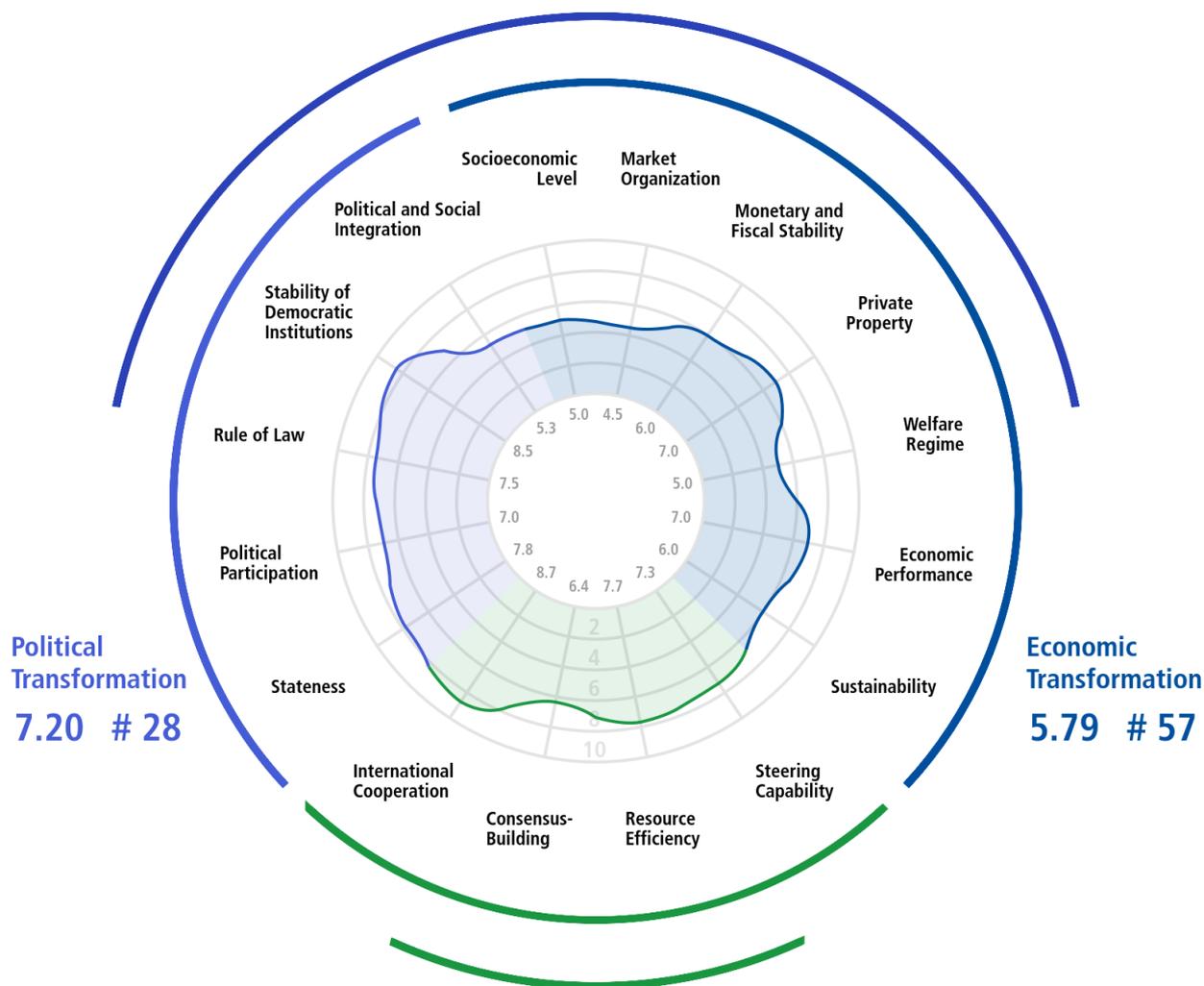


Bhutan

Status Index

6.49 # 32

on 1-10 scale out of 137



Political Transformation
7.20 # 28

Economic Transformation
5.79 # 57

Governance Index

6.69 # 13

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2026**. It covers the period from February 1, 2023 to January 31, 2025. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	0.8	HDI	0.698	GDP p.c., PPP \$	-
Pop. growth ¹	% p.a.	0.7	HDI rank of 193	125	Gini Index	28.5
Life expectancy	years	73.0	UN Education Index	0.560	Poverty ³	% 0.5
Urban population	%	45.0	Gender inequality ²	0.278	Aid per capita \$	199.4

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

Throughout the period under review, Bhutan continued to make incremental gains in politics, development and foreign relations. The country successfully held its fourth national elections in 2023 and 2024. In the National Assembly primaries in November 2023, the People’s Democratic Party and the Bhutan Tendrel Party were the top two finishers among five competing parties and advanced to the general election. Leaders of the outgoing Druk Nyamrup Tshogpa attributed their defeat either to public frustration over COVID-19 restrictions or to backlash against their efforts to overhaul the bureaucracy. The People’s Democratic Party (PDP) ultimately won 30 of the 47 seats in the National Assembly, while the BTP secured 17, forming the opposition. Both parties pledged to work together to improve governance.

Since Bhutan’s second election in 2013, every ruling party has been voted out of office. The pattern underscores both the major parties’ difficulty in building durable grassroots organizations and the persistence of anti-incumbency sentiment among voters. Clear ideological or programmatic differences between parties remain limited; their platforms tend to revolve around the same themes – expanding and improving basic services such as health care, education and transportation.

Bhutan has gradually broadened its international engagement. It now maintains diplomatic ties with 56 countries and is deepening cooperation with the European Union. During another round of border negotiations with China in Beijing in October 2024, both sides expressed optimism about reaching a breakthrough that could eventually pave the way for diplomatic relations.

After graduating from least developed country status in 2023, Bhutan faces a mix of new opportunities and challenges. The king’s announcement of the Gelephu Mindfulness City initiative at the end of 2023 highlights the push to accelerate economic growth by drawing in foreign investment and talent. Bhutan’s 13th five-year plan (2024 – 2029) sets an ambitious goal: to reach high-income status by 2034. Continued Indian development assistance and a growing domestic supply of hydropower position the country to move forward with its economic agenda.

Even so, obstacles remain. Bhutan's heavy reliance on hydropower has contributed to a large external debt burden, most of it owed to India. Limited access to capital and lingering post-pandemic effects continue to constrain the private sector, narrowing job prospects for young people who are increasingly looking abroad for work. Agriculture also faces long-standing challenges: it employs about 43% of the labor force but contributes only 15% of GDP. Senior-level attrition in the civil service and declining remittances add further strain to the country's development trajectory.

History and Characteristics of Transformation

Since Bhutan initiated its transition to democracy in 2008, the country's political process has proved remarkably resilient, as shown by the successful conduct of four general elections for the national parliament and local government bodies. In each of these elections, the ruling party lost and peacefully transferred power to the opposition, a remarkable achievement for Bhutan's democracy.

In the first general election in 2008, the People's Democratic Party (PDP) received 33% of the vote but won only two of 47 seats. The Bhutan Peace and Prosperity Party (Druk Phuensum Tshogpa, DPT) claimed the remaining 45 seats. The second general elections for both the National Council and National Assembly in 2013 saw lower voter turnout than in 2008. Among four political parties competing in the primary election – two led by women – only the DPT and PDP advanced to the general election after the new parties had been eliminated. The incumbent DPT conceded to the PDP, taking 17 seats, while the PDP emerged as the new governing party with 30 seats. Five years later, the National Council elections of April 2018 saw a significant voter turnout of more than 54%, compared to 45% recorded in 2013. The unexpected victor in the primary round on September 15, 2018, was the Bhutan United Party (Druk Nyamrup Tshogpa, DNT), a left-leaning party established in 2013 and led by the urology surgeon Lotay Tshering. In the subsequent general round on October 18, 2018, the DNT secured about 60% of the vote, translating to 30 of 47 seats in parliament, which later rose to 33 after additional victories in by-elections. Notably, voter turnout rose to about 71%, surpassing the 66% turnout in the 2013 National Assembly elections. In the most recent parliamentary elections, held in January 2024, the ruling Druk Nyamrup Tshogpa failed to advance to the final round after being eliminated in the November primary. The newly formed Bhutan Tendrel Party and the People's Democratic Party moved on to the general election, where the PDP won a clear victory, securing 30 of the National Assembly's 47 seats ahead of the BTP.

Women's representation, which had shown promise in 2018 when seven of 10 female candidates won seats, fell sharply in the latest election, with only two women elected. On January 28, 2024, Tshering Tobgay was sworn in for his second term as prime minister.

Bhutan has undergone rapid economic and social change, most evident in its capital, Thimphu. The city's population grew from 30,000 in 1993 to about 138,736 in 2017, accounting for 19.1% of the nation's population. Despite this urbanization, 61% of the population remains in rural areas, primarily engaged in agriculture. This share contrasts with the striking 91% of the population that was rural-based in 1960.

Traditionally, the Royal Civil Service has absorbed school and college graduates into its workforce. Since 2000, however, the number of graduates has outpaced available positions, highlighting the need for the private sector to expand employment opportunities. This realization was further underscored by slower economic growth in 2013 and 2014. Even the stronger growth observed in 2017/18 did not reduce unemployment, and the effects of the COVID-19 pandemic in 2021/22 posed another setback. Consequently, outmigration to countries such as Australia has a significant socioeconomic impact on the country.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The state maintains a monopoly on the use of force throughout the country. Responsibility for patrolling border areas and forests rests with the Royal Bhutan Army, the Royal Bodyguard of Bhutan and the Royal Bhutan Police, which has posts nationwide. An estimated 1% of GDP goes to military spending. No rebel groups or criminal organizations are known to operate in Bhutan.

Relations with neighboring India remain close and cooperative, including military cooperation. The Indian Army maintains a presence in Bhutan, and under a bilateral security treaty, it is obligated to defend Bhutan's territorial integrity.

Bhutan has no formal diplomatic ties with China, and a long-standing border dispute continues despite repeated rounds of negotiations. In 2017, Bhutan was drawn into a 75-day standoff between India and China in Doklam, a territory claimed by both China and Bhutan. The confrontation began when China attempted to extend an existing road in North Doklam into South Doklam, which Bhutan claims. The standoff ended after China halted construction and Indian troops withdrew. In June 2020, new Chinese claims over Bhutan's Sakteng Wildlife Sanctuary added another layer to the dispute. The New York Times previously reported that China was building a village on what it described as Bhutanese territory in the Doklam region, a claim Bhutan denied. In October 2022, Bhutan and China signed a memorandum of understanding aimed at speeding up boundary talks. After the 25th round of negotiations, held in Beijing in October 2023, Bhutan said the two sides had made substantial progress, and both governments expressed hope that resolving the border issue could pave the way for formal diplomatic relations.

Question
Score

Monopoly on the
use of force

9



1

Bhutan's standing as a nation-state is widely accepted. Before and since the expulsion or flight of thousands of ethnic-Nepali Lhotshampas in the late 1980s and early 1990s, the government has vigorously promoted the concept of the Bhutanese nation-state. Bhutan's policy vis-à-vis the thousands of remaining Lhotshampas remains discriminatory. The 2017 census included no questions about language, ethnicity and religion, making it difficult to establish the exact number of Lhotshampas remaining in Bhutan. Access to citizenship is determined by the rigid provisions of the 1985 Citizenship Act, under which individuals whose parents are both Bhutanese and those domiciled before December 31, 1958, qualify for citizenship. Otherwise, applicants for citizenship should be able to prove residence in Bhutan of at least 15 years as public servants or 20 years for all others, as well as proficiency in the national language. Some external organizations have commented on the "very strict criteria" facing "ethnic-Nepali Bhutanese" in the context of the acquisition of citizenship and security clearances. Failure to secure such clearances can limit access to employment, business ownership, education and international travel.

In September 2024, Bhutan launched training for the first cohort of Gyalsung, the national service program introduced by the king in 2019. The initiative provides three months of basic military training for 18-year-olds, combined with skills development and character-building courses. The king has described Gyalsung as "a common rite of passage" for young people across all regions and income levels. The program is expected to strengthen a shared sense of nationhood among youth from diverse geographic and socioeconomic backgrounds.

Some 75% of Bhutan's population follows Mahayana Buddhism. The state is officially secular, and no political activity by the Buddhist establishment is apparent. Employees of religious institutions are prohibited from voting or running for office. According to the constitution, preserving the country's Buddhist religious heritage is important, and society is "rooted in Buddhism." The religion is closely tied to elites, and there is a strong bias against Hindus. Opposition to other religions manifests in various ways. Since the 1980s, for example, Bhutan's One Nation, One People policy has sought to promote a uniform religious and cultural identity. The national flag and emblem also draw from Buddhist symbolism.

The state continues to provide financial support for monasteries and religious activities. Government approval is required to construct religious buildings, although there have been reports that the government favors the construction of Buddhist religious buildings over Hindu ones. Nevertheless, a Hindu temple was rebuilt in the southern region in 2015 on the order of the king as a gift in commemoration of the royal wedding, and in 2019, a large new Hindu temple was established in the capital, Thimphu. A small, discreetly connected community of between 2,000 and 25,000 practicing Christians exists, but it is not formally recognized by the government and does not own religious buildings. Legal sanctions have also been imposed, as in the case of two Christian pastors who were fined and sentenced to prison for evangelism in 2016.

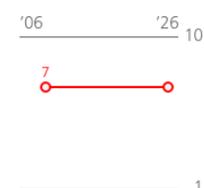
State identity

7



No interference of religious dogmas

7



Bhutan generally has a well-functioning public administration, which includes central ministries in the capital and decentralized offices in districts called dzongkhags. Yet corruption and poor performance remain major challenges for administrative services. In February 2021, the Royal Civil Service Commission's Public Service Delivery Division, together with UNDP Bhutan, began a joint initiative to improve public service delivery by involving citizens in the implementation and assessment of these services.

In 2022, the government introduced performance tests for senior officials in an effort to weed out underperforming bureaucrats. The move has contributed to high attrition at the upper levels of the civil service and has dampened young people's interest in government careers. Reports also indicate low morale and weak management across the civil service. In November 2022, Bhutan enacted the Civil Service Reform Act, which reorganized several departments and agencies to improve efficiency. In November 2024, opposition leader Dasho Pema Chewang warned that shortages of skilled personnel at the local level and a lack of well-trained civil servants could impede progress toward the ambitious targets set in the 13th five-year plan (2024 – 2029). In a significant policy shift, the Royal Civil Service Commission in 2024 granted local governments autonomy over hiring to address ongoing staffing shortfalls.

As of 2024, an estimated 99.8% of the population has access to an improved water source, and 84% has access to improved sanitation. Bhutan provides near-universal electricity access, yet water shortages persist in some parts of the country. During 2019 and 2020, for example, Thimphu and nearby areas faced severe shortages, forcing many households and businesses to rely on private water vendors. Climate change is worsening pressures on freshwater supplies. Waste management also remains a major challenge, particularly in Thimphu, where only two waste collection trucks are in service – far short of what is needed to meet current or future demand.

2 | Political Participation

Bhutan's constitution grants citizens universal suffrage and the secret ballot. In 2023 and 2024, Bhutan held its fourth parliamentary elections. Specifically, elections for the upper house, the National Council (NC), which has 20 seats, were held on April 20, 2023. NC elections are held on a nonpartisan basis: one member is elected from each district (dzongkhag), regardless of population.

Elections to the National Assembly (NA) were held on January 9, 2024. Former Prime Minister Tshering Tobgay's People's Democratic Party (PDP) won 30 of 47 NA seats, with the Bhutan Tendrel Party (BTP) declared the opposition party with 17 seats. The ruling Druk Nyamrup Tshogpa (DNT) did not advance to the general election, having finished fourth among the five participating parties in the primary round on November 30, 2023. In contrast, in 2018 it formed the government after

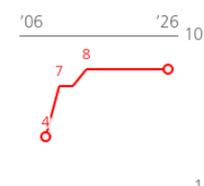
Basic administration

8



Free and fair elections

8



winning 30 constituencies. Its leader, Lotay Tshering, blamed the setback on bold but unpopular policies, such as transformations in the civil service, property tax or strict anti-COVID-19 measures. The overall voter turnout for the primary round dropped from 66.36% in 2018 to 63%, while in the general election voter turnout decreased to 65.6% from 71.46% in the 2018 election. The drop coincides with the withdrawal of postal ballot facilities for Bhutanese citizens overseas in 2023 and other cost-cutting measures, such as fewer polling stations and officials, amid post-pandemic economic considerations.

Bhutan's Election Commission has administered elections strictly and impartially. Elections in Bhutan have been free and fair, with no serious complaints of irregularities. Political party campaigns are restricted to nondivisive issues. According to 2022 election rules, candidates for both the NC and the NA must have five years of experience in the public or private sector. Candidates must also demonstrate to Bhutan's Election Commission their integrity, reputation and good character. In November 2022, the NA recommended greater scrutiny of national- and local-level elections by the Anti-Corruption Commission and the Election Commission of Bhutan. Political party manifestos are approved by Bhutan's Election Commission.

Bhutan's political elite is small and has consistently demonstrated loyalty to the state and the king. The military has never challenged the state, and the clergy refrain from political involvement. As of now, there is neither a labor movement nor a powerful business lobby. Thus, no active domestic veto players exist.

However, two potential sources of power have considerable influence on democratically elected leaders: the Bhutanese king on the one hand and India on the other hand. Bhutan's king is a constituent part of parliament and has the authority to reject bills passed by parliament and recommend amendments. Still, he must abide by parliament's final decision if both houses support it. The king and the institution of the monarchy are held in very high esteem in Bhutan, and the two houses of parliament are highly unlikely to oppose the king. So far, the king has never taken any unilateral action against acts of parliament that could be viewed as veto behavior.

Among international partners, India provides the most financial aid to Bhutan and accounts for more than 80% of Bhutanese foreign trade. It buys most of Bhutan's hydroelectricity – the main source of state revenue – and is also the main source of investment in the country's hydroelectric projects. India is also responsible for Bhutan's defense, which helps explain why the Bhutanese government is careful to avoid actions that might provoke India. For example, a conversation between the prime ministers of Bhutan and China on the sidelines of an international meeting in the run-up to the 2013 election sparked speculation about the establishment of diplomatic relations. Soon thereafter, the Indian government removed subsidies on kerosene and cooking gas exported to Bhutan, leading to a twofold price increase for these goods. Some commentators saw India's action as a warning to Bhutan about

Effective power to govern

7

'06 '26 10



the adverse consequences of establishing relations with China. In light of these precedents, India's reaction will be noteworthy if Bhutan and China resolve their border disputes and move toward establishing diplomatic relations. The relationship between PDP leader Tshering Tobgay and the Indian leadership is close. After the election, India committed to supporting Bhutan through an Economic Stimulus Plan, which was part of the PDP's manifesto.

The constitution guarantees freedom of assembly and association, but, in practice, restrictions on these principles prevail. Citizens can join political parties approved by the Election Commission. Demonstrations also require prior government approval. Generally, all civil society organizations (CSOs) must register with the government. Freedom of association is limited to groups that are "not harmful to the peace and unity of the country." As a result, CSOs working on refugee, human rights or other sensitive policy areas are not allowed to operate legally in the country. In 2022, parliament amended the 2007 Civil Society Organization Act to provide greater regulation of these organizations as well as improved funding. In May 2023, the parliament and CSOs launched a collaboration strategy aimed at enhancing democratic governance and facilitating more effective engagement between CSOs and the legislative body. Due to the predominantly rural subsistence nature of life in Bhutan and the lack of government support, trade unions are absent.

Bhutan's constitution guarantees freedom of expression, yet the fulfillment of this principle remains constrained in practice. In the 2024 World Press Freedom Index, Bhutan fell another 57 places to 147th of 180 countries. In the 2022 World Press Freedom Index, Bhutan ranked 33rd of 180 countries, a significant improvement over 65th in 2021 and 94th in 2018. Editors of both print and online media have complained that the government restricts their outlets' access to official information by imposing gag orders on government officials. In April 2024, 64% of Bhutanese journalists reported that their requests for information were often refused by authorities. In addition, 36% of journalists believed that the government was unlikely to uphold legal protection for their professional rights. Ultimately, in October 2024, government ministers and senior officials were barred from directly communicating with the media, and all information requests had to be submitted to the Policy and Planning Division (PPD) as the ministries' media focal point.

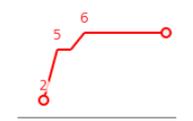
Bhutan also has a Defamation Act that authorities can use to harass journalists. In 2018, an editor was suspended after a complaint by the Office of Media Arbitrator over profile stories on National Council candidates. The Journalists' Association of Bhutan expressed concern that these practices may hinder journalists from carrying out their duties without fear or bias. That year, Bhutan established a Media Council with significant regulatory powers to set the code of conduct for journalists and outline accreditation and certification requirements for journalism practitioners.

In December 2024, the social and cultural affairs committee of the National Council reported that Bhutan Broadcasting Service (BBS), which was designed as a public service broadcaster, was in limbo due to underfunding and the absence of legislation

Association /
assembly rights

6

'06 '26 10



Freedom of
expression

7

'06 '26 10



that would formalize its independent status. More than 120 staff members allegedly left BBS between 2022 and 2024, citing an overall unsupportive working environment. Other media outlets have complained about the suspension of the government’s financial support.

3 | Rule of Law

The separation of powers among the executive, legislative and judicial branches is outlined in Bhutan’s constitution and has been evolving within the country’s new democratic framework. In Bhutan’s parliamentary system, the government depends on majority support in the National Assembly. Crucially, in all four recent elections, the winning party achieved an absolute majority. The judicial branch operates independently of the executive and legislature, with judges appointed by the king on the recommendation of the Royal Judicial Service Council. The Anti-Corruption Commission of Bhutan and the Royal Audit Authority have autonomous jurisdictions to ensure accountability.

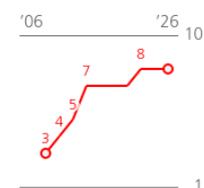
In 2024, the Bhutanese judiciary adopted a Strategic Plan (2024 – 2029), emphasizing the importance of maintaining independence from the executive and legislative branches in decision-making to ensure impartial and fair rulings. Furthermore, in September 2023, the attorney general was removed from office by the prime minister after a commission found that he had interfered with a High Court decision in a drug case, underscoring the government’s commitment to judicial independence.

Bhutan’s constitution strongly emphasizes the rule of law, treating the judiciary as the constitution’s guardian and the final authority on its interpretation. The Supreme Court stands at the top of the court hierarchy. As political and legal conflicts increase in a democratic system, demands on the judiciary are rising, particularly in cases involving corruption and abuse of power. In 2022, employees of Bhutan’s Judicial Service were separated from the Bhutan Civil Service Commission, further strengthening the separation of powers.

At all levels of the judicial system, courts have demonstrated independence by adjudicating cases against government officials and agencies, including members of the cabinet and the military. The judiciary’s 2020 annual report concluded that insufficient financial resources for infrastructure expansion and for hiring and training personnel restricted the judiciary’s ability to keep up with the increasing demand for judicial services. In 2019, 9,541 cases were registered – including 2,692 pending from 2018 – and the courts decided 9,216. Bhutan’s judiciary has been criticized both for slow delivery and for a lack of transparency. The 2023 annual judicial report recorded 1,621 pending cases. With technical support from UNDP and UNICEF, the country is currently implementing Justice Sector Strategic Plan II (2024 – 2029), which aims to make justice more accessible, inclusive, transparent and efficient through legal reforms, capacity-building and digital transformation.

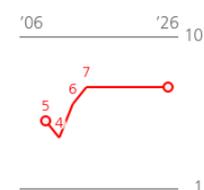
Separation of powers

8



Independent judiciary

7



There is significant official and public concern about corruption and the misuse of authority in Bhutan. According to the Anti-Corruption Annual Report (2022 – 2023), released in October 2023, delays in resolving corruption cases by the Office of Attorney General (OAG) and the judiciary undermined the rule of law and the integrity of the criminal justice system. OAG had 32 cases under review, and 32 were on trial in various courts.

Furthermore, the country’s Anti-Corruption Commission (ACC) has experienced a decline in its budget from 0.18% in FY 2018/19 to a meager 0.06% in FY 2022/23 and a further reduction to 0.05% in FY 2023/24. The ACC has also experienced 15% staff attrition. This alarming trend threatens the ACC’s capacity to effectively fulfill its crucial mandate to combat corruption.

Article 7 of the constitution outlines fundamental civil rights, including freedom of speech, opinion, expression, movement and religion as well as the right to vote, equal access to the law and general access to public services. However, Article 33 stipulates that these rights may be suspended upon the proclamation of an emergency. Furthermore, Article 7 grants the state the authority to impose “reasonable restrictions by law” when the interests of Bhutan’s sovereignty, security, unity and integrity, as well as peace, stability and national well-being are perceived to be threatened.

Bhutan’s policies toward the remaining Lhotshampas – ethnic Nepalis who stayed in the country after the mass expulsions of the late 1980s and early 1990s – continue to be discriminatory. The 2017 census did not include questions on language, ethnicity or religion, making it difficult to determine how many Lhotshampas still live in Bhutan. Some members of the community lack full citizenship, which limits their rights, and an unspecified number remain in Bhutanese prisons.

Police have at times faced accusations of human rights abuses, particularly from ethnic-Nepali organizations. According to the U.S. State Department, Bhutan does not impose capital punishment, and no cases of disappearances, arbitrary killings or torture were reported in 2023 or 2024. Prisons are generally viewed as meeting international standards, and safeguards against arbitrary arrest and detention are monitored.

Although the constitution guarantees freedom of religion, missionaries are banned, and government permission is required to construct religious buildings.

The Crime and Operations Department of the Royal Bhutan Police (RBP) recorded 2,912 criminal cases in 2023 and 3,117 in 2024. Domestic and sexual violence are the two most-reported crimes involving women and children. Both types saw a sharp drop in 2024. Bhutan’s constitution prohibits discrimination on the basis of gender or sexual orientation but does not offer specific protection to the LGBTQ+ community.

Prosecution of office abuse

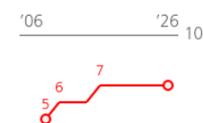
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1

Civil rights

7



1

4 | Stability of Democratic Institutions

Institutions function well. The parliament consists of the National Assembly and the National Council, both of which have equal legislative powers, though the National Council is elected on a nonpartisan basis. Local governments in Bhutan operate in 20 districts, each with its own district council, whose members are elected to five-year terms.

The constitution grants Bhutan's judiciary independent jurisdiction. At the national level, all four elections since the transformation resulted in transfers of power from the ruling party to its successor. Political parties, though generally respectful in their interactions, face growing opposition from rivals. Parties have become more attentive to the electorate's concerns, including income inequality and access to health care and drinking water. The opposition PDP, which returned to power in the 2024 national elections, had questioned the ruling DNT over budgetary allocations for 2021/22, corruption and poor delivery of services to the people. Observers of Bhutanese politics see the opposition's role as too mild.

Bhutan's constitution grants equal roles to both houses of parliament in matters of legislation – except for money bills dealing with taxes and government spending, which can be introduced only in the National Assembly. In cases of discord between the two houses, a joint session is required to reach a resolution. However, this has proved difficult for certain bills, as in December 2022, when parliament concluded its session without debating the Mines and Minerals Bill 2021 because of a stalemate between the two houses. Likewise, from 2019 to 2020, the two houses openly clashed. The National Assembly has tended to disregard or overlook certain legislative initiatives from the National Council.

The election of two women to the National Council in 2018 and of seven women to the National Assembly also marked progress toward greater gender equality. In the 2021 local government elections, the participation of women as candidates was significantly higher than in the two previous elections. In the 2024 general elections, however, only two women were elected to the 47-seat National Assembly, the lowest number among the four national elections.

Performance of democratic institutions

8



Bhutan's democratic institutions have steadily consolidated since the initial national democratic elections in 2007 and 2008. All political parties support the democratic system, and the ruling parties have seamlessly transferred power to the new majority parties following the three national elections in 2013, 2018 and 2024. Similarly, no associations, interest groups or civic organizations openly challenge democracy in the country. This implicit commitment by all relevant actors to the country's democratic institutions reflects steadfast dedication.

Voter turnout in the 2024 elections for both houses of parliament was lower than in previous years. This has been explained by the government's abolition of mail-in ballots and by a reduction in the number of polling locations. However, it could also indicate voter apathy. The 2024 national elections strengthened the opposition, with 17 seats going to the newly formed Bhutan Tendrel Party (BTP). The DPT, which formed Bhutan's first democratic government after the 2008 elections, won 17 seats (36%) in the new parliament. Increasing use of electronic voting machines and mail-in ballots has helped streamline the voting process.

5 | Political and Social Integration

Bhutan's party system is young, lacks strong links to and deep roots in society and shows low ideological and programmatic polarization. Parties have not been successful in recruiting members. According to Kuensel Online, the number of registered members of the ruling party PDP dropped to 265 from an initial peak of more than 6,000. Membership in the opposition BTP stood at 497, while Druk Nyamrup Tshogpa (DNT) had 1,225 members.

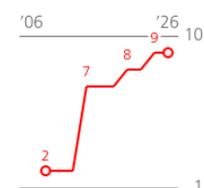
As the general round of National Assembly elections is held only between the top two parties, the runner-up is recognized as the sole opposition party in parliament, rendering other parties that participated in the primary round largely irrelevant in the legislative process.

In 2022, the new Druk Thuendrel Tshogpa (DTT) party applied for registration, and its leader, Kinga Tshering, a former North Thimphu member of parliament for Druk Phuensum Tshogpa (DPT), announced his intention to run as a candidate in the 2023 national elections. The Bhutan Tendrel Party (BTP) was also established in 2022.

Party policy platforms have differed only marginally. The Election Commission ensures that parties adhere to the principle that "national interest prevails over all other interests" and that they demonstrate a commitment to promoting national unity. Three members of the Election Commission, including the chief election commissioner, are appointed by the king from a list recommended by leaders of the legislative power and the chief justice of Bhutan. Parties must also be perceived as pursuing the national development philosophy of Gross National Happiness; party platforms have differed only in the strategies highlighted to serve this end in the two

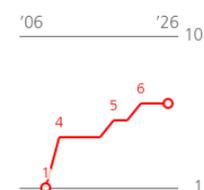
Commitment to democratic institutions

9



Party system

6



most recent elections. However, with the center-left DNT taking power, political parties have started emphasizing popular agendas, and voters expect these appeals to increase.

Political parties receive financial resources through two main channels: limited per-candidate funding from the Election Commission (\$2,167 in 2013) and member contributions. The latter was capped at \$8,333 in the 2013 and 2018 elections. Political parties are required to return unspent campaign funds to the Election Commission. Nonpartisan elections at the local level and for the National Council require that candidates not be registered members of a political party.

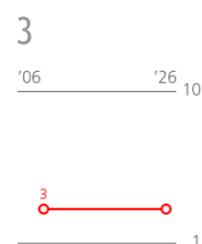
Only a small number of interest groups operate in Bhutan, and those that do tend to wield limited influence. There are 64 registered civil society organizations (CSOs), of which 42 are public benefit organizations and 12 are mutual benefit organizations. Some influence comes from business organizations, such as the Bhutan Chamber of Commerce and Industry and especially the Association of Bhutanese Tour Operators. However, the private sector has yet to emerge as an influential player. NGOs have improved in quality but remain few in number, largely focusing on the environment and on women's and children's affairs. Some NGOs, such as the National Women's Association of Bhutan and the Royal Society for the Protection of Nature, receive royal patronage. No trade unions are active in the country. In November 2021, Bhutan's CSOs formed the Bhutan Civil Society Network (BCSN) to coordinate their activities and interests.

The Civil Society Act of 2007 outlines the governance of CSOs in Bhutan. CSO leaders have called for amendments to this act for greater clarity and to remove overly restrictive provisions, such as the annual renewal of registration and case-by-case tax exemptions. The National Council passed a CSO Amendment Bill in June 2021. In February 2023, Bhutan enacted the Civil Society Organizations (Amendment) Act to foster and regulate CSOs.

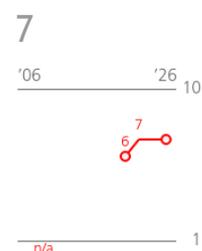
Opinion poll data from Bhutan is extremely limited. According to the 2010 Gross National Happiness survey conducted by the Center for Bhutan and GNH Studies, 92% of respondents expressed their intention to vote in the upcoming election, which the survey's authors interpreted as a commitment to democracy. A national human development report titled "Ten Years of Democracy in Bhutan," released in March 2019 by Prime Minister Lotay Tshering and the U.N. undersecretary-general, reported the findings of a survey. The report revealed that over 80% of Bhutanese surveyed were able to exercise their right to freely express their opinions and 75% reported that they were able to enjoy their constitutional rights.

Voter turnout has fluctuated across the four elections since 2008. Compared with 2013, turnout in 2018 was higher in both the National Council and National Assembly elections. In the National Council elections that year, 54.3% of registered voters cast ballots, an increase of nine percentage points. In the April 2023 National Council election, turnout edged up slightly to 54.6%.

Interest groups



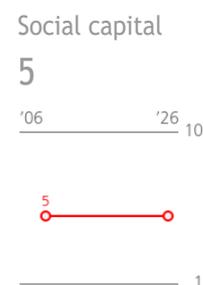
Approval of democracy



The rise of distinct political parties and competitive elections has increased personal contact between political leaders and the public. With over 90% of Bhutanese citizens active on social media, lively discussion of politics and policy takes place online.

Traditional rural Bhutanese society has long included a range of civil society organizations. Rooted in local communities and often centered on Buddhist monasteries, they typically focused on mutual aid, water management and religious festivals. Some of these groups still exist today, but urbanization and modernization have weakened others or made their work far more difficult. Despite their continued relevance – including in urban areas – traditional rural forms of community solidarity have not been replaced by new, autonomous civic organizations. A handful of NGOs and sports clubs operate in the country, but modern voluntary associations remain uncommon.

The 2015 Gross National Happiness survey recorded a small but statistically significant rise in overall happiness compared with 2010. However, scores related to community relationships and psychological well-being were “significantly worse.” In 2015, only 26% of respondents said they trusted most of their neighbors, down from 46% in 2010. The 2022 GNH survey found a modest improvement, with trust rising to 29%.



II. Economic Transformation

6 | Level of Socioeconomic Development

In the 2024 Human Development Index, Bhutan ranked 125th, up from 127th the previous year. Its 2022 HDI value of 0.681 represents a significant improvement from 0.510 in 2005. However, when adjusted for inequality, the score falls to 0.465 – a 31.7% loss, higher than the South Asian average. Bhutan’s gains reflect longer life expectancy, higher school retention rates and rising per capita income. Yet youth unemployment, a weak private sector and heavy reliance on hydropower revenue remain major barriers to broader economic participation.

In 2023, Bhutan graduated from the U.N. list of least developed countries to developing-country status after meeting the United Nations Committee for Development Policy’s criteria in 2018. The income threshold for graduation is a three-year average of \$1,242 per capita. Bhutan also improved its Human Asset Index – another LDC-related indicator – from 45 in 2000 to 73 in 2018, driven mostly by higher secondary school enrollment. The country’s graduation was delayed until



2023 at the government's request to allow more time to prepare for the transition. Since graduating, Bhutan has sought to attract foreign investment by highlighting its 80% literacy rate and widespread school digitalization.

According to the World Bank, Bhutan achieved significant reductions in poverty and inequality over the past decade. The poverty rate, measured at \$6.85 per day, dropped from 8.4% in 2022 to 7.8% in 2023. Still, 12.4% of the population lives in poverty – defined as 6,204 Bhutanese ngultrum per person per month – and 87% of those affected (83,000 of the 95,000 people) live in rural areas.

Economic indicators		2021	2022	2023	2024
GDP	\$ M	2768.8	2898.2	3019.3	-
GDP growth	%	4.4	5.2	4.9	-
Inflation (CPI)	%	7.3	5.6	4.2	2.8
Unemployment	%	4.8	5.9	3.1	2.9
Foreign direct investment	% of GDP	0.2	0.3	0.4	-
Export growth	%	1.0	-9.1	30.7	-
Import growth	%	9.0	17.0	-0.6	-
Current account balance	\$ M	-319.3	-805.7	-963.1	-669.8
Public debt	% of GDP	124.5	119.9	117.1	110.4
External debt	\$ M	3268.9	3160.2	3269.1	-
Total debt service	\$ M	131.9	132.1	138.7	-
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	22.7	21.0	20.3	-
Public education spending	% of GDP	6.6	7.5	5.8	-
Public health spending	% of GDP	2.1	2.1	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources (as of December 2025): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

In Bhutan, the state plays a major economic role through state-owned enterprises (SOEs), which generate 50% of the country's total tax revenue. Hydropower accounts for 85% of this revenue, indicating heavy dependence on this source of income. SOEs, including Druk Holding, employ about 12,600 people; about 3,600 work in SOEs owned by the Finance Ministry. In its 2024 outlook, the Asian Development Bank (ADB) describes Bhutan's economy as stagnant, citing a lack of private sector development. There are few large private companies and a small, unregulated commercial informal sector.

Bhutan enjoys unfettered access to the Indian market under one of the world's most liberal trade agreements. Yet market-based competition remains rudimentary. As of 2022, Bhutan's informal sector continues to play a significant role in its economy, with approximately 65.4% of employed individuals in informal employment. This marks a decrease from earlier estimates, such as the 80% reported by the World Bank in 2016. Employment in the agricultural sector has gradually declined. The World Bank reports that in 2022, 43.96% of Bhutan's workforce was employed in agriculture, down from 49.86% in 2021. This trend reflects ongoing shifts in the country's employment landscape. Despite this decrease, agriculture remains a primary source of employment. However, its contribution to Bhutan's GDP has diminished over the years. According to the Labour Market Information Bulletin 2023, agriculture's share of GDP decreased by 13% between 2000 and 2021. This indicates a mismatch between the sector's employment figures and its economic output, highlighting potential areas for policy intervention to enhance productivity and economic diversification.

Bhutan's king, in a royal address in December 2024, announced a "Diamond Strategy" to develop Gelephu as a Mindfulness City (GMC), an innovative urban development project that integrates economic growth with mindfulness, holistic living and sustainability. It focuses on strengthening democratic institutions, modernizing bureaucratic processes, improving legal frameworks and transforming the education system, and it hopes to build on the GMC's success for the country as a whole. The government is promoting the GMC as a hub for regional connectivity and economic exchange, and it is calling for the involvement of foreign capital and entrepreneurs. The Diamond Strategy seeks to turn Gelephu into a special economic zone with lower barriers to participation by high-net-worth individuals and firms.

Market
organization

5



The private sector in Bhutan does not have a level playing field. In 2015, instead of passing competition legislation, the government adopted the National Competition Policy (NPC). The decision was made after a careful evaluation of enforcement capacity, with the active assistance of UNCTAD. Crucially, the NPC was drafted to create fair competition, prevent business monopolies and encourage small and medium-sized enterprises, mainly by requiring the government to conduct impact assessments of new competition-related legislation and existing laws. Infrastructural facilities and public services are explicitly excluded from the rules of the NPC. The proposed Mines and Minerals Act of 2020 would have granted a monopoly to a government-owned authority for the exploration and marketing of mines and minerals. However, a legislative impasse led to the bill being deferred indefinitely in June 2021.

The World Economic Forum's Global Competitiveness Report, which last issued rankings in 2019, ranked Bhutan 82nd out of 140 countries. Since then, the forum has paused its competitiveness rankings. Given the absence of recent data, Bhutan's current position in global competitiveness rankings remains unclear.

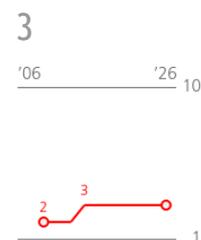
In September 2024, the Royal Monetary Authority (RMA) projected a 22.6% increase in credit to the private sector to reach BTN 204 billion in fiscal year 2023/24. According to the RMA's recent monetary policy statement, this is up from BTN 166.4 billion in the previous year and significantly higher than the 10.6% growth recorded during the pandemic in fiscal year 2021/22. Key sectors such as hospitality and tourism, trade and commerce, agriculture, and manufacturing are expected to benefit from the increased credit supply. Credit to the private sector in fiscal year 2023/24 accounted for 76.8% of the total money supply of BTN 244.5 billion.

The Gelephu Mindfulness City (GMC) initiative involved the passage of new laws integrating Singapore's common law and Abu Dhabi Global Market (ADGM) regulations to govern company incorporation, employment, taxation and financial services in GMC.

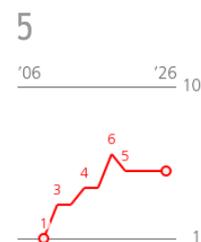
Bhutan took a significant step toward trade liberalization with its April 2023 decision to join the WTO. This decision came before Bhutan graduated from LDC status in December 2023. Membership grants Bhutan up to five years to meet WTO standards and provides it with access to technical assistance to comply with those standards.

Bhutan's earlier hesitation to join the World Trade Organization stemmed mainly from concerns that membership might undermine its Gross National Happiness framework and from doubts about whether the country was prepared to benefit from WTO rules. Officials also feared that joining the organization could spur higher imports and widen trade deficits. Bhutan is already a founding member of the South Asian Preferential Trade Area and the South Asia Free Trade Association, and it participates in the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation. However, it has not yet joined the Bangladesh-Bhutan-India-

Competition policy



Liberalization of foreign trade



Nepal Motor Vehicle Agreement. Bilaterally, Bhutan maintains a free-trade agreement with India, a preferential trade agreement with Bangladesh and a trade and cooperation agreement with Thailand.

In July 2021, Bhutan revised its customs act, setting a uniform 10% duty on imports from all countries except India and on all goods except automobiles, tobacco and alcohol. This was a significant reduction from the previous rate of 50%. Bhutan's effective tariffs have historically been low: The average rate was 2.82% in 2015, rising to 4.13% in 2019. According to the WTO, Bhutan's average applied most-favored-nation tariff in 2023 was 9.3%. The country performs well on the World Bank's "trading across borders" indicator, ranking 26th out of 190 economies. But it fares poorly on the Logistics Performance Index, placing 135th out of 160 countries in 2016 – a reflection of challenges common to landlocked states such as Nepal and Mongolia. Compounding these difficulties, Bhutan has no direct trade route with its northern neighbor, China. Most of Bhutan's trade is with countries with which it enjoys free or preferential agreements, especially India, which accounts for more than 80% of its total trade.

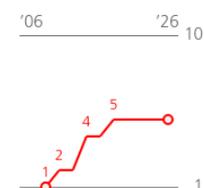
Until 2010, state banks held a monopoly in Bhutan. Today, five banks operate in Bhutan: four commercial banks and the Bhutan Development Bank, which finances rural development. Financial market development has advanced significantly in recent years. According to the World Economic Forum (WEF), Bhutan moved from rank 111 out of 144 economies (2014–2015) to rank 79 (2016–2017), and according to the ADB, the banking sector has been advancing steadily. Geographically, this growth has been concentrated in the capital, Thimphu.

High credit growth and rising non-performing loans have been persistent concerns in recent years, especially after the government-imposed restrictions on Indian rupee credit in 2012. The share of banks' non-performing loans rose from 3.9% of total gross loans in 2011 to 6.6% in 2015. According to the World Bank's Bhutan Development Update of April 2024, the overall financial sector non-performing loan (NPL) ratio declined from 8.8% in November 2022 to 7.7% in November 2023, indicating an improvement in asset quality. The NPL ratio of nonbank financial institutions (NBFIs) remained elevated at 17.4%.

Access to finance remains the single biggest obstacle for small and medium-sized enterprises, according to surveys by the World Bank and the World Economic Forum. Lending is primarily collateral-based, often requiring collateral worth up to 2.5 times the value of the loan – among the highest requirements in both South Asia and the world. Loan rates were reduced in 2016 following recommendations in the World Bank's Financial Development Action Plan. As the loan deferral period drew to a close on June 30, 2024, the private sector, through the Bhutan Chamber of Commerce & Industry, requested an extension, citing ongoing financial strain and limited liquidity over the previous three years. The Royal Monetary Authority declined to grant a blanket extension.

Banking system

5



The Capital Adequacy Ratio (CAR), a critical measure of a bank's financial health, has improved. According to the Royal Monetary Authority (RMA), the CAR increased from 14.22% in 2019 to 16.87% in 2023, surpassing the minimum regulatory requirement of 12.5%.

In October 2024, Bhutan announced the establishment of ORO Bank as one of the first projects of the Gelephu Mindfulness City (GMC) initiative. The government said ORO Bank will be Asia's first full-reserve digital bank, serving GMC as well as entrepreneurs and individuals worldwide interested in financing startups, supporting disruptive industries and accessing stable banking services.

8 | Monetary and fiscal stability

The ngultrum depreciated against the U.S. dollar, reaching BTN 84.85 in December 2024. This represented a 2% depreciation over the past year. In 2022, the BTN had depreciated by over 7% against the U.S. dollar, contributing to an increase in the prices of imported goods. The ngultrum is pegged to the Indian rupee (INR), with one BTN equal to one INR, rendering Bhutan vulnerable to shifts in the Indian economy, particularly the inflation rate. The exchange rate of the ngultrum to the U.S. dollar was approximately 76:1 in 2022.

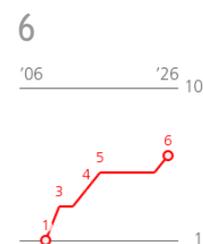
Throughout the first nine months of 2024, inflation averaged 3.01%, driven largely by increases in food and nonalcoholic beverage prices. Food items, for instance, saw price increases of up to 4.62% in October. Since 2012, inflation steadily declined, reaching 3.22% in 2016, the lowest level ever recorded. According to the ADB, inflation was 2.69% in 2018, 2.8% in 2019 and 3.0% in 2020. In the fiscal year 2020/21, inflation reached 8.2% but fell below 5% by November 2022.

In July 2020, Bhutan passed the Goods and Services Tax (GST) Act, which introduced a single rate of 7% and was intended to subsume the sales tax and modify the excise system. It is a consumption-based tax intended to eliminate the cascading taxation effect.

The introduction of a Goods and Services Tax (GST) in India has helped lower inflation by removing all levies on goods exported from India. In 2024, Bhutan's average annual inflation rate was 2.82%, down from 4.23% in 2023. This reduction was primarily due to slower increases in food and nonfood prices. Food inflation averaged 0.48% in 2024, down from 3.97% in 2023, while nonfood inflation also declined. In December 2024, the year-over-year inflation rate was 2.02%, up from 1.87% in November.

The Royal Monetary Authority (RMA) is Bhutan's central bank. It is independent of the government and legally empowered to regulate the money supply and international exchange; supervise and regulate financial institutions; promote monetary stability and credit and exchange conditions; and foster a financial structure conducive to balanced economic growth.

Monetary stability



According to the World Bank, Bhutan reduced its fiscal deficit to 0.8% of GDP in FY 2023/24, a substantial drop from 4.7% in 2022/23. The current account deficit remained at 22.7% in FY 2023/24. As Bhutan's cryptocurrency mining consumed more power, national hydropower exports declined, contributing to the fiscal deficit.

According to the IMF, Bhutan's public debt has increased substantially over the last decade because of investments in hydropower projects and the COVID-19 pandemic. Public debt in Bhutan increased from 72.8% of GDP in fiscal year FY 2011/12 to 116.1% of GDP at the end of FY 2022/23. Of this 43-percentage-point increase, 28 percentage points resulted from hydropower projects, with the debt owed primarily to India. Domestic debt rose from 1.1% of GDP in FY 2011/12 to 12.8% of GDP in FY 2022/23. In 2023, the total reserves in Bhutan decreased to \$650 million, the lowest total reserves during the observed period. Bhutan's foreign exchange reserves sank from \$1.46 billion in April 2021 to \$970 million by the end of 2021.

In the 2022/23 annual budget report, the finance minister reported a fiscal deficit of BTN 22.882 billion, accounting for 11.25% of GDP. This followed a deficit of more than BTN 17 billion in fiscal year 2021/22, exceeding Bhutan's 12th Five-Year Plan target of keeping the deficit below 3% of GDP. The fiscal deficit declined significantly from 7.8% of GDP in fiscal year 2021/22 to 4.7% of GDP in fiscal year 2022/23.

As of June 2022, Bhutan's total external debt was BTN 229.52 billion, up 3.3% (BTN 7.4 billion) from March. Similarly, over the same period, domestic debt totaled BTN 28.06 billion after a 9.7% increase from BTN 2.49 billion. In FY 2023/24, Bhutan's debt service as a percentage of revenue was reported at 25.4%. In FY 2022/23, external debt service for principal and interest was projected at BTN 9.3 billion. The World Bank assesses Bhutan's risk of external debt distress as "moderate" because most loans stemming from hydropower construction are owed to India, with the Indian government covering all financial and construction risks. As new hydropower projects come online, Bhutan's debt is projected to fall sharply, dropping to below 50% of GDP by 2026.

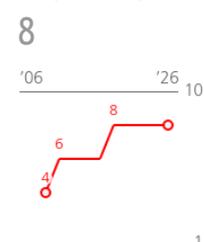
9 | Private Property

The constitution guarantees Bhutanese citizens the right to own property, and the country has historically maintained reliable records of landholdings. The Land Act of 2007, overseen by the National Land Commission, provides comprehensive regulation of land administration. Bhutan has only a few large landowners, and foreign ownership of land is prohibited. Surveys consistently describe property rights as secure, and businesses generally do not view property acquisition as an obstacle. The Anti-Corruption Commission, however, has raised concerns about possible corruption involving land transactions. Members of the Lhotshampa minority of Nepali origin typically do not enjoy the same property rights as other citizens.

Fiscal stability



Property rights



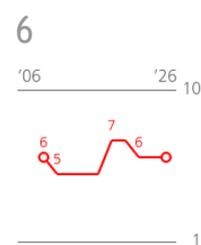
Bhutan also recognizes intellectual property rights and, according to the World Intellectual Property Organization, has 24 laws dedicated to protecting them. These include the Copyright Act, the Legal Deposit Act, the Seeds Act and the Industrial Property Act. Bhutan is a party to the international treaties identified by WIPO as governing intellectual property protections. The Property Tax Act, which took effect on January 1, 2023, standardized property taxes nationwide to improve transparency and efficiency. On January 15, 2024, the Ministry of Finance launched a new Property Tax System to streamline tax collection and enhance compliance and revenue generation. On May 2, 2024, Bhutan adopted WIPO's Madrid e-Filing service, enabling online applications for international trademark registration and becoming the first South Asian country to do so.

Bhutan offers competitive advantages for private sector growth, such as political stability, good governance, low corruption levels, accessible electricity, abundant natural resources and preferential access to the vast Indian market. Additionally, it has implemented the National Intellectual Property Policy of 2018, which introduced the geographical indication system to safeguard product designs. However, private companies in Bhutan remain at a great disadvantage, hindered by the dominance of state-owned enterprises (SOEs) in the economy and a severe lack of funds and support for private entrepreneurs. Among the 16 SOEs under the supervision of the Ministry of Finance, a few have undergone privatization or corporatization.

In recent years, the airline industry, banking and media in Bhutan have seen the entry of private sector competitors, yet these sectors continue to face significant constraints. Government efforts to spur private sector innovation have had limited success. Bhutan has about 28,000 registered businesses, 92% of which are microbusinesses and 76% of which employ fewer than five people. In the World Economic Forum's 2019 Global Competitiveness Index, Bhutan ranked 82nd out of 141 countries. Among South Asian nations, Bhutan ranked second, trailing only India at 68th. The World Economic Forum has not published updated Global Competitiveness Index rankings since 2019.

In 2019, the government formed a 10-member private sector development committee under the administration of the Ministry of Economic Affairs to help Bhutan's Chamber of Commerce and Industry expand private sector firms' involvement in the economy. Bhutan's tourism sector, employing about 50,000 people, was hardest hit by COVID-19. This sector may suffer even greater setbacks because of the Tourism Levy Act 2022, which raised the Sustainable Development Fee for foreign visitors from \$65 to \$200 per night, further reducing the number of foreign visitors. Given these implications, the fee was reduced to \$100 per night in 2023. Furthermore, the government announced a plan to allocate BTN 2 billion from its BTN 15 billion Economic Stimulus Program to the tourism industry.

Private enterprise



10 | Welfare Regime

The state offers free education and health care to all citizens, yet it does not provide other welfare benefits such as social security payments, conditional cash transfers, food subsidies or unemployment benefits. Public servants, military personnel, employees of state-owned enterprises and certain private sector employees have access to pension programs.

Bhutan spends less than 1% of its GDP on social welfare programs that support initiatives such as food vouchers or cash benefits. The Kidu program, granted by Bhutan's king, is the main social assistance program offering various forms of aid, including land, citizenship, educational scholarships and support for people living in destitution, the elderly and people with disabilities.

In 2024, Bhutan launched its ambitious 13th five-year plan. It seeks to promote a comprehensive social protection system by advancing inclusive, sustainable schemes for the disadvantaged and expanding the provident fund and noncontributory benefits.

By law, Bhutan does not discriminate on the basis of gender, ethnicity or socioeconomic status. In reality, however, women face unequal access to opportunities. According to the World Economic Forum's 2022 Global Gender Gap Report, Bhutan has made progress but still ranks 126th out of 146 countries. Leadership positions are still dominated by men, as exemplified by the 2024 general elections, after which only two of the 47 National Assembly members are women.

According to a March 2024 World Bank report, well-paid jobs are concentrated in the public sector and held by men. Women, low-skilled workers and rural workers toil in low-productivity agricultural jobs with limited options for upward mobility. According to recent World Bank data (2023), the female participation rate in the economy was 64.5%, while the rate for men was 73.9%. The share of women with a secondary education who participate in the labor force is considerably lower than that of their male counterparts. The education gap is particularly evident in secondary and higher education, as girls' enrollment in primary education is equal to that of boys. In Bhutan, only 6% of women have attained at least a secondary education, as opposed to 13.7% of men.

Social safety nets

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Equal opportunity

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11 | Economic Performance

Quantitative indicators show that Bhutan's economy has been rebounding from the contraction it experienced in 2020 – 2021 due to COVID-19 shutdowns. In 2024, for instance, Bhutan's GDP grew by 5.5%, and from 2012 – 2019, Bhutan consistently achieved an average annual GDP growth rate of more than 6%, often ranking among the fastest-growing economies. Bhutan is the wealthiest country in South Asia, with a per capita GDP of \$3,700 in 2022. However, the agricultural sector has seen little to no growth despite employing more than 50% of the population.

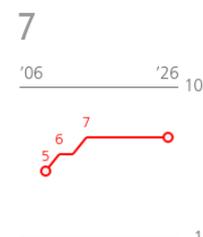
Bhutan's foreign direct investment (FDI) has fluctuated over the past decade. After peaking at \$75.3 million in 2010, FDI inflows fell to \$8.3 million in 2014, then rose to \$33.6 million (1.6% of GDP) in 2015. In recent years, net FDI inflows were \$8.4 million in 2022 and increased to \$11.9 million in 2023. Despite this growth, FDI as a percentage of GDP remains low, indicating potential to improve in attracting foreign investment.

According to a January 2025 report by Bhutan's National Statistics Bureau (NSB), the overall unemployment rate for Q4 2024 was 3.11%, slightly lower than 3.9% in Q3. Among youth, however, the unemployment rate was significantly higher at 17.7%, up from 16.5% in Q3. Overall inflation reached 1.87% in November 2024, up from 1.34% in October 2024. The national average inflation for January – November 2024 was reported at 2.91%, with most increases attributable to higher food prices.

In October 2024, Bhutan's year-over-year inflation rate was 1.34%, a significant decrease from 5.07% in October 2023. This decline was driven primarily by slower increases in food and nonfood prices. Food inflation rose to 4.62% year-over-year in October 2024, while nonfood inflation declined to -1.72% in the same period. The annual average inflation rate for 2024 eased to 2.82%, down from 4.23% in 2023.

Bhutan's economy grew by 5.5% in FY 2023/24, an improvement over 4.9% in FY 2021/22. Given that in 2020/21, GDP declined 10.8% because of the COVID-19 pandemic, this represents a substantial recovery. One key objective of the government's 13th five-year plan (2024 – 2029) is to transform Bhutan into a high-income country, aiming for a GDP of \$5 billion by the end of the plan through innovation and sustainability. As part of the plan, the government has allocated BTN 600 million to enhance public service delivery, including BTN 77 million for community service centers (CSCs).

Output strength



12 | Sustainability

The constitution declares that it is “a fundamental duty of every citizen to contribute to the protection of the natural environment, conservation of the rich biodiversity of Bhutan, and prevention of all forms of economic degradation.” Bhutan ratified the 1992 U.N. Framework Convention on Climate Change, the 1997 Kyoto Protocol and the 2015 Paris Agreement. The country achieved Millennium Development Goal 7, which aimed to ensure environmental sustainability by protecting natural resources, improving water and sanitation and reducing slum conditions. More than 70% of the country’s land area is covered by natural forests, and more than 50% of the country is protected as national parks, nature reserves or biological corridors.

Bhutan is already a carbon-neutral country, yet it has adopted a series of measures to mitigate climate change. For example, it has launched a Low Emission Development Strategy and an Electric Vehicle (EV) Road Map 2020 – 2025. Nevertheless, serious environmental problems exist, including solid waste disposal, the impact of road construction, the loss of prime agricultural land to urbanization, illegal logging, overexploitation of non-timber forest resources, livestock in excess of the land’s carrying capacity in some areas and a growing number of vehicles. More than 40% of economic activity relies on hydropower, a sector that is highly susceptible to climate change. Symptomatic of this, among Bhutan’s 573 glacial lakes, 17 are reported to be approaching dangerous conditions due to climate change. In 2021, reports indicated major corruption issues in waste management. By 2022, waste collection facilities in Thimphu were operating at full capacity. Efforts to improve waste management in Thimphu have included the establishment of numerous waste drop-off centers. Additionally, Bhutan’s Corruption Perceptions Index score improved from 68 in 2023 to 72 in 2024, indicating progress in addressing corruption.

According to the 2023 National Health Survey, 99.8% of the population now has access to basic drinking water. The regularity of the water supply, however, remains a problem. Only 11% of urban households had 24/7 access to running water in 2021, while 52% had access for less than eight hours a day.

In light of projected challenges, Bhutan is strengthening its readiness to address climate change. The national hydrological and meteorological services will receive BTN 1,704.6 million under the 13th Five-Year Plan (2024 – 2029), primarily to build weather centers and communication facilities to collect weather data and provide real-time information and updates. These measures are crucial, as Bhutan faces the risk that the Thorthomi moraine dam could collapse and flood populated areas. Early warning systems ensure that downstream populations are alerted in time and evacuated to avoid loss of life.

Environmental
policy

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Bhutan has achieved considerable success in access to education. Universal primary education is available, and secondary education has grown significantly in recent years, with the gross enrollment ratio reaching 89% in 2018. At all levels of secondary education, boys and girls are equally represented. Tertiary enrollments are also rising, although they currently account for only 9% of the age group.

Bhutan's educational landscape includes two universities: the Royal University of Bhutan and the Khesar Gyalpo University of Medical Sciences of Bhutan. Additionally, many Bhutanese students pursue higher education in India. As of 2022, Bhutan's youth literacy rate (ages 15 to 24) reached 98%, up from 97% in 2021. The adult literacy rate (ages 15 and above) also improved, rising to 72.1% in 2022, up from 66.5% in 2021. These figures represent significant progress compared with 2012, when the adult literacy rate was 55.3%. According to the World Bank, Bhutan spent 5.8% of its GDP on education in 2023.

In December 2024, Bhutan's cabinet approved the National Education Policy of 2024. The policy seeks to bring Bhutan's education on a par with Cambridge Standards to make it internationally competitive. It would also establish a National Education Council and Professional Standards for teachers.

Bhutan's education sector, however, faces challenges arising mainly from attrition due to low job satisfaction among teachers and from cumbersome rules and regulations governing teacher transfers. These challenges could impede the implementation of the new education policy.

The Royal University of Bhutan (RUB) supports academic research through its Annual University Research Grant (AURG) program, encouraging faculty and students to undertake research projects that contribute to national development.

Education policy /
R&D

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Governance

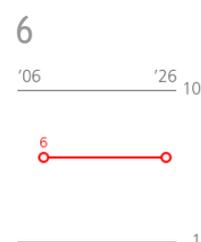
I. Level of Difficulty

Bhutan is a landlocked country with a small domestic market, spanning largely mountainous and therefore complex terrain. Road infrastructure is constantly being improved, and the drivable east-west axis across the country is used by buses, trucks and private cars. However, landslides are a hazard in the rainy season, while roads can be blocked by snow in winter. Climate change has significantly increased the risk of flash floods and landslides in recent years. Additionally, earthquakes have sometimes caused considerable damage to roads. Currently, Bhutan is working with India to construct a railway connection between the two countries.

Domestic air services, launched in 2012, are limited and unaffordable for most of the population. International air services have been introduced in response to increases in foreign tourism and in the number of Bhutanese traveling abroad. Until 2013, the government-owned airline Drukair was the only airline serving the country; the private airline Tashi Air began international operations that year. However, the expansion of air travel is hindered by the limited capacity of the main airport in Paro. The Indian military oversees air traffic control. Bhutan is adding flights to and from other destinations, especially from Gulf countries.

Approximately 30% of households in Bhutan are led by women. Crucially, their family and care responsibilities prevent them from accessing employment opportunities. The youth unemployment rate has been rising, from 10.7% in 2015 to roughly 17% in 2024. Although this rate is down from more than 20% in 2020, it remains a major problem. The decline could also partly result from a growing number of young people seeking foreign employment. The lack of job growth in the private sector limits opportunities for young people, who often lack the necessary skills for modern occupations in government. Further clarifying the grievances, among females the youth unemployment rate is even higher than among males. Consequently, Bhutan is experiencing a labor shortage in the medical and education sectors, particularly in nursing. Many professionals in these fields are either leaving the profession or emigrating from Bhutan.

Structural
constraints



The Registration Act of 2007 marked the beginning of modern civil society in Bhutan. Modern forms of civil society activity, such as NGOs and professional associations, are a recent development in Bhutan. They are governed by the Civil Society Organizations Authority (CSOA), which operates under the regulations of the Civil Society Organizations Act, revised in 2022.

In February 2024, a project funded by the European Union (EU) was launched in Thimphu to bolster CSOs in the country. The project's primary goal is to facilitate collaboration among existing actors, the country's lawmakers and other stakeholders to empower CSOs to act as independent agents contributing to good governance and inclusive development. The European Union has allocated €875,000 to the project, which began in January 2024 and is set to conclude by June 2027.

Following the expulsion and flight of up to 100,000 Lhotshampa residents, the ethnic tensions and conflicts of the early 1990s have subsided. Citizenship requirements have been clarified over time and appear widely accepted, although some Lhotshampas still have only resident status. Most Lhotshampa refugees in Nepal have been resettled to third countries, and, as a result, their political activities and organizations have little or no effect in Bhutan. However, the issue of minority-majority relations could lead to future tensions in Bhutan's society.

No religious conflicts have emerged in Bhutan. Buddhism is regarded as the country's religious foundation, and although the constitution guarantees religious freedom, missionary activity is prohibited and government permission is required to construct any religious buildings.

There is no political mobilization along social class lines. Decision-making is generally consensual, suggesting that overt conflict is avoided. Citizens accept and expect an institutionally strong state to provide guidance. In 2024, Bhutan began the Gyalsung (national service) program for youth to forge a greater sense of national identity among people from different regions and social or economic backgrounds.

Civil society traditions

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Conflict intensity

2



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II. Governance Performance

14 | Steering Capability

Gross National Happiness (GNH) is an idea that originated with the fourth Bhutanese king, Jigme Singye Wangchuck, and one to which all political parties and other domestic political actors adhere. It can be seen as an alternative to GDP-based measures of wealth and development. For a long time, five-year plans (FYPs) have been used to provide strategic direction for national development within the context of GNH. In 2024, Bhutan launched its 13th FYP, seeking to address economic vulnerability, youth unemployment, limited financial security and institutional barriers. The plan also outlines the ambitious goal of boosting the economy to high-income status. Bhutan’s political parties have debated the use of FYPs in general. For example, the outgoing DNT government favored replacing FYPs with a more flexible development model – a shift opposed by the opposition DPT.

Bhutan’s twelfth FYP, valid for 2018 to 2023, highlighted the need for the “three Cs” – coordination, consolidation and collaboration – to achieve the plan’s goals. Because of pandemic-related revenue losses and unforeseen expenditures, the government had to adjust some aspects of the plan. It has been noted for its success in reducing poverty and supporting GNH objectives. After Bhutan graduated from the least developed country list in 2023, the government is seeking more foreign partnerships to accelerate development.

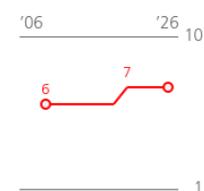
Bhutan’s ability to achieve its ambitious goals of attaining high-income status and delivering services more effectively to its people faces serious challenges due to attrition among highly skilled government workers such as doctors, nurses, teachers and seasoned bureaucrats. However, drastic reforms in the civil service in 2022 could undercut the effectiveness of any such initiatives. Moreover, the number of young people leaving the country for better employment opportunities abroad has spiked.

The increasing costs of funding the FYPs pose a challenge to government finances. The 13th FYP’s expenditure is estimated to reach BTN 456,345 million over the entire implementation period. The bulk of this amount stems from domestic revenue (BTN 327,346 million) and grants (BTN 125,000 million), most of which are provided by India. Bhutan’s national debt is estimated to grow by 61.87% by the end of the 13th FYP, reaching BTN 474.42 billion, up from BTN 293.09 billion in March 2024. This projected national debt level will be 94.8% of the estimated GDP during the 13th FYP.

Question
Score

Prioritization

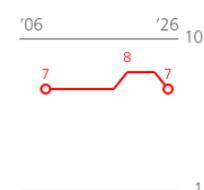
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Implementation

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In October 2022, the Gross National Happiness Commission (GNHC), which, under the 12th FYP, was tasked with overseeing progress toward achieving the “three Cs,” was dissolved. Commenting on this political decision, the Bhutanese minister for economic affairs declared that “the Gross National Happiness Index, which is highly regarded internationally, would have to allocate more space for economic growth.” The GNHC consisted of six divisions, which have now been integrated into either the Office of Cabinet Affairs or the Ministry of Finance.

According to the World Bank, Bhutan’s fiscal deficit narrowed from 4.7% of GDP in FY 2022/23 to 0.8% in FY 2023/24, which was accounted for by increased transfers from state-owned enterprises and a decline in total expenditure. While the government spent more on a major salary increase for civil servants to curb the high attrition rate, capital expenditure remained low in FY 2023/24.

Bhutan’s inability to expand the private sector, high youth unemployment and significant attrition from government jobs could hinder implementation of the 13th plan’s objectives. Corruption, especially in the construction sector, will likewise pose a challenge. The Annual Audit Report for FY 2023/24 by the Royal Audit Authority (RAA) points to pervasive concerns about the effectiveness of the National Construction Industry Policy 2020, which was designed to ensure higher standards. The report highlights systemic weaknesses, including inadequate planning, poorly executed feasibility studies, faulty designs, a lack of quality control and insufficient oversight. These issues primarily stem from non-compliance with laws, regulations and established procedures, according to the report. Furthermore, according to the Anti-Corruption Annual Report (2022 – 2023) released in October 2023, delays in resolving corruption cases by the Office of Attorney General (OAG) and the judiciary undermine the rule of law and the integrity of the criminal justice system.

Bhutan has shown a strong ability to learn from its own experience and from other countries’ experiences – not just from neighboring India. A key example is its smooth transition from authoritarian rule to a constitutional monarchy, adapting foreign institutions to fit the local context. However, some authoritarian traits persist, including limited government transparency and media restrictions.

Bhutan engages with a host of multilateral organizations, such as the United Nations Development Program (UNDP), the United Nations Children’s Fund (UNICEF), the World Bank and the Asian Development Bank (ADB). The European Union is also set to implement various programs. As a result, government officials have been able to consult with international experts who have provided policy advice, program design assistance and guidance on good practices. This enables government officials to travel overseas to enhance their knowledge and understanding of specific issues and practices. A significant number of students, relative to the country’s population, have been going abroad for training and education. They pursue a wide range of activities, including vocational skills training, many postgraduate coursework degrees and, more recently, higher research degrees. The University of Canberra in

Policy learning

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Australia, for example, has been offering master's-level programs in public administration and business administration in Thimphu in collaboration with the Royal Institute of Management.

The government consistently pursues innovative policies. For instance, the 10-year Bhutan Education Blueprint (2014 – 2024) aims to improve access, quality, equity and efficiency in the education system. The 12th FYP (2018 – 2023) aims to strengthen implementation based on the experience of previous FYPs. In response to the COVID-19 pandemic, Bhutan quickly adapted education and some government services to remote delivery. Bhutan's 13th FYP (2024 – 2029) aims to enhance implementation capability by leveraging digital technology to optimize resources and expertise.

15 | Resource Efficiency

Bhutan's public administration system has traditionally been bureaucratic, prioritizing hierarchy, seniority and process. In 2022, the Royal Civil Service Commission restructured civil service agencies into four clusters, each handling governance, economic, social and security issues, to boost efficiency and service delivery. As of February 2025, Bhutan reportedly employed 29,700 civil servants, amounting to one civil servant for every 26 citizens.

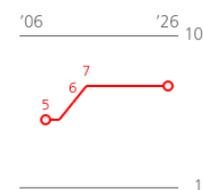
The civil service is regulated by the Civil Service Act of 2010, which specifies details of all human resource management activities, including recruitment, duties, remuneration, promotion and discipline. The act is administered through the more detailed Bhutan Civil Services Rules and Regulations, and it concentrates human resource management authority in the Royal Civil Service Commission (RCSC), which administers human resource tasks and runs entry exams for all civil service organizations. Entry is limited to university-level graduates selected through nationwide exams.

Calls to improve efficiency and transparency in the civil service have steadily grown. Underperformance, low motivation, alcoholism and corruption are major issues in the public sector. In March 2022, more than 40 senior executives were ordered to vacate their positions for failing a leadership assessment administered by the RCSC. In 2024, more than 3,000 newcomers joined the civil service to offset attrition.

Net official development assistance (ODA) to Bhutan was \$120.49 million in 2021, rising to \$194.44 million in 2022. This represented 7.077% of Bhutan's gross national income (GNI) in 2022, up from 4.875% in 2021. These sources of development funding will be harder to come by when Bhutan graduates to middle-income status in 2023. Bhutan continues to receive substantial development assistance from India, maintaining its position as the largest recipient of Indian foreign aid. However, compared with earlier years, this represents a significant decrease in Bhutan's share of India's total external aid outlay.

Efficient use of assets

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According to the IMF, Bhutan has maintained “comfortable” reserve levels in recent years that are adequate for debt repayments, yet the country may need to change some practices to meet future challenges. Lastly, Bhutan received foreign assistance from South Asia and other countries to meet its COVID-19-related needs.

In 2024, the Royal Civil Service Commission (RCSC) granted local governments autonomy to recruit staff, strengthening decentralized governance and improving service delivery. The 13th five-year plan emphasizes integrated planning across sectors and local bodies to ensure policy coherence. However, balancing goals such as economic growth and environmental protection remains a challenge, requiring the management of trade-offs and stakeholder engagement.

Bhutan’s government has a strong record of curbing corruption, which can be explained by six major factors. First, smaller governments, such as Bhutan’s, are easier to monitor and audit. Second, the government has made a concerted effort over several years to raise accounting and auditing practices to international standards. Third, the Accounting and Auditing Standards Board of Bhutan was established in 2010 to help raise Bhutanese standards in these areas. Fourth, the idea of service to the state and to the king is ingrained in the civil service and incentivizes the prevention of corruption. Fifth, the Anti-Corruption Commission (ACC), established in 2006, has been a notable force in promoting the anti-corruption message and investigating and prosecuting corrupt officials. Sixth, Bhutan’s political parties receive most of their election campaign funding from the government, and campaign expenditure is thoroughly regulated by the Election Commission of Bhutan.

Despite these favorable prerequisites, corruption remains a challenge. According to the ACC’s Anti-Corruption Annual Report 2022 – 2023, released in October 2023, delays in prosecuting corruption cases by the Office of the Attorney General (OAG) and the judiciary undermine the rule of law and the integrity of the criminal justice system. Moreover, the ACC has suffered 15% staff attrition and a reduced budget, hampering its ability to function effectively.

In December 2024, the Royal Monetary Authority (RMA) adopted a series of reforms to combat financial fraud and bolster cybersecurity in the country’s financial sector in response to a rise in embezzlement and digital security breaches in recent years. The Prudential Regulations and the Corporate Governance Rules and Regulations of 2024 require financial institutions to report fraudulent incidents within 24 hours. The government also implemented electronic government procurement – also known as the e-GP system – to strengthen internal auditing.

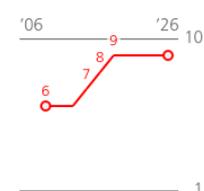
Policy
coordination

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Anti-corruption
policy

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16 | Consensus-Building

There is broad agreement among political elites and the bureaucratic apparatus on the overarching policy directives set out in the country's Gross National Happiness Plan. Accordingly, the fourth national election in 2024 marked a further consolidation of democracy. Power has shifted from the ruling party in each of the four national elections. The two-party restriction on general parliamentary elections allows for strong opposition to the ruling party. Furthermore, the rural population actively participates in local governments. Bhutan increasingly shows signs of a maturing and consolidating democracy.

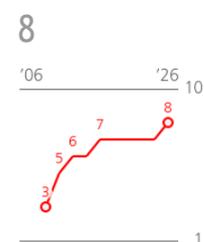
Despite tendencies toward liberalization, Bhutan's economy is still dominated by SOEs. Restrictions on entrepreneurship – limited credit access, cumbersome permit processes and high costs for cross-border trade – impede the establishment of a market economy. The overall commitment to the philosophy of GNH also restricts the government from fully promoting market transformation. The population generally lacks in-depth knowledge of the complexities of a market economy, and most enterprises are small and simple in structure. The financial sustainability of private enterprises, particularly those in the tourism sector, has been further undermined by the COVID-19 pandemic. Under the 13th five-year plan, the government has allocated more financial resources to foster the private sector. The implementation of the Gelephu Mindfulness City is also aimed at strengthening the market economy through private sector involvement.

Democratization enjoys broad support among relevant actors in society. No group actively opposes the current democratic system, and the monarch's firm support for democratic rule and high levels of deference to the monarchy among political parties and the public ensure stability. The monarchy is the only potential domestic veto player in Bhutan, yet the king has remained resolute in his support for democratic political arrangements. However, India could potentially act as an external veto player, interfering in Bhutanese politics if it deems such intervention beneficial. The most vocal opposition to the government is found among exiled populations of Nepali descent, but to date such opposition groups have had no impact on Bhutanese domestic policy.

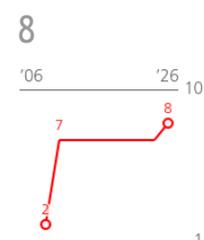
In the early 1990s, Bhutan's government faced a significant challenge to its authority when ethnic Lhotshampa living in the southern region opposed increased attempts at Bhutanization. About 100,000 members of the community were displaced and forced to leave the country. Although the Lhotshampa still constitute more than one-fifth of the population, this development eradicated a major source of opposition to the government. Other ethnic minorities do not pose a serious challenge to Bhutan's nationhood.

Potential conflict within society is largely mediated through consensus-building mechanisms. Consensus also is the cornerstone of policies based on the Gross National Happiness Index (GNHI). The GNHI serves as the overarching framework

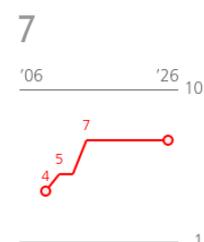
Consensus on goals



Anti-democratic actors



Cleavage / conflict management



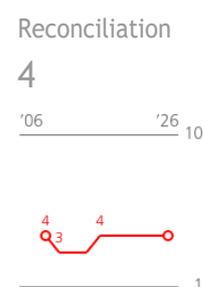
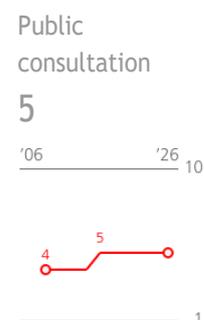
that political parties must adhere to. Bhutan's courts are also increasingly involved in resolving potential conflicts. The Gyalsung training program, launched in 2024, seeks to forge a common sense of Bhutanese national identity among young people from different regions and socioeconomic backgrounds.

Traditional civil society in Bhutan was community-based and focused on local matters such as water rights, human security and festivities. The introduction of modern civil society in the form of NGOs and professional associations is relatively new. According to the constitution, the state will make efforts to establish civil society. The Civil Society Organizations Act of 2007 differentiates between public and mutual benefit organizations as well as foreign CSOs. However, despite their significance at the local level, traditional organizations go unmentioned in the legislation. Bhutan's Civil Society Organization Authority lists 42 public benefit organizations, five of them inactive. The Civil Society (Amendment) Act 2022 seeks to streamline CSO operations by establishing a Civil Society Authority that also represents CSOs.

CSOs may be consulted by the government in their specific areas of expertise, such as women's affairs, youth and the environment. They can also function as professional associations that provide guidance in certain policy areas. NGOs are prohibited from engaging directly in political activities, necessitating a deliberate approach to pursuing their agendas. NGOs exert only marginal influence in many policy areas, and the country has no trade unions. Consequently, the overall impact of civil society on the policy process is selective and limited, if any.

Since the expulsion of an estimated 100,000 Lhotshampa people from southern Bhutan in the early 1990s, various organizations, often based in refugee camps in Nepal, have strongly criticized the government, sometimes with support from international human rights organizations. Despite a series of meetings between the Nepalese and Bhutanese governments, no agreement has been reached on the return of these refugees to Bhutan. The Bhutanese government has not initiated any process of reconciliation.

Western countries, particularly the United States, have permanently resettled about 90,000 people from the Bhutanese refugee camps. Recently, some individuals have been deported from the United States following criminal convictions. After their deportation, Bhutan typically refuses to accept them, and Nepal often detains them for entering the country illegally. As a result, the issue has taken on greater significance.



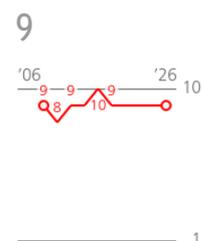
17 | International Cooperation

Bhutan depends heavily on international support and seeks to align that assistance with targets set in the country’s five-year plans. India remains the major donor to Bhutan, particularly financially, and Bhutan is the largest recipient of India’s foreign aid budget. Other suppliers include major international financial institutions, such as the World Bank and the Asian Development Bank (ADB), as well as some U.N. agencies, including UNDP and UNICEF. Aid is effectively directed toward activities specified in the five-year plans and contributes to achieving the Sustainable Development Goals (SDGs). In December 2024, the World Bank approved \$40 million for Bhutan’s climate and disaster resilience. In April 2024, Bhutan and the European Investment Bank signed their first long-term project worth €150 million for renewable energy generation. The project aims to diversify Bhutan’s renewable energy sources. This could open opportunities for deeper cooperation with the European Union, involving both the public and private sectors.

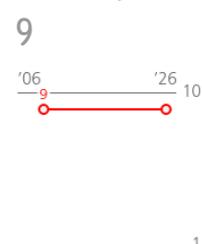
Bhutan is considered a reliable partner by the donor community. Accordingly, in 2012 the ADB rated Bhutan the best-performing country for efficient project implementation and effective fund use. The country has also drawn significant international interest and enjoys a commendable reputation for its unique alternative development philosophy of GNH. As of July 2024, Bhutan maintains diplomatic relations with 56 countries and the European Union. Bhutan signed the Paris Agreement in 2016 and has remained fully compliant, having permanently achieved net-zero emissions. Furthermore, the decision to join the WTO is likely to expand Bhutan’s trading relations. In December 2023, Bhutan announced a special economic zone, the Gelephu Mindfulness City (GMC), within its territory to expand international investment and involvement in its bid to achieve high-income status. The GMC is also an attempt to promote Bhutan’s credibility among international partners.

Bhutan relies heavily on regional cooperation in trade and investment. In October 2023, Bhutan ratified the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Charter after acceding in 2004. Furthermore, a free-trade agreement is in place with India, and preferential trade agreements facilitate trade with Bangladesh and Nepal. In April 2023, India’s government agreed to facilitate electricity exports from Bhutan to Bangladesh through India, with Bangladesh initially planning to import about 1,500 MW from Bhutan. Bhutan also announced three major projects under the South Asian Association for Regional Cooperation (SAARC) Development Fund’s (SDF) social window. In November, India approved 61 Project Tied Assistance (PTA) projects under Bhutan’s 13th Five-Year Plan and approved the first tranche of BTN 49,578.75 million. India’s overwhelming influence in the economic, political and security realms is a key determinant of the scope of Bhutan’s relations with other regional countries.

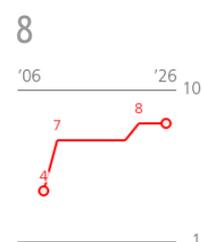
Effective use of support



Credibility



Regional cooperation



Strategic Outlook

Bhutan has a stable democracy, but its political and economic landscape remains constrained by tightening restrictions on the media, slow progress in prosecuting corruption and a highly restrictive fiscal and regulatory environment for private businesses. Although the king's guidance continues to play an important stabilizing role, limits on media freedom and weak support for independent journalism undermine critical public debate on policies and programs. Women remain significantly under-represented in parliament and senior government positions, a gap that will require meaningful corrective action. Corruption also remains a major obstacle to effective public services and to building confidence in democratic institutions. Strengthening the Anti-Corruption Commission – both financially and politically – will be essential for a credible anti-corruption effort.

A sustained thaw in India-China relations could create new diplomatic space for Bhutan to improve ties with China in ways that support trade and development.

Revitalizing the private sector will require substantial commitments, including greater access to credit and broader support for enterprise development, to expand the private sector's role in the national economy. This is vital for creating well-paid jobs and slowing the outward migration of young, skilled workers. Bhutan will also need continued policy innovation and deeper international cooperation to address the growing effects of climate change. The country's recent entry into cryptocurrency mining is expected to increase energy demand, given the electricity-intensive nature of mining operations. Meanwhile, Bhutan's declining birthrate poses another long-term challenge that will require thoughtful policy responses.

Bhutan's ability to meet the goals of its 13th Five-Year Plan – and to realize the ambitions of the Gelephu Mindfulness City project – will depend on major improvements in the business climate and banking system, along with stronger incentives for risk-taking, innovation and creativity among political and business leaders. A more open media environment would also support policy innovation and strengthen Bhutan's democratic resilience.