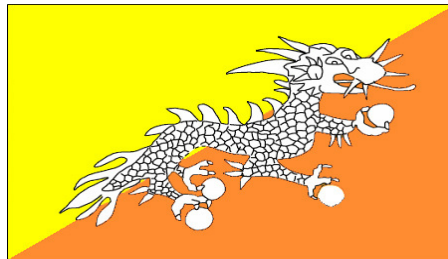


COUNTRY REVIEW

Bhutan



10 September 2010

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EULER HERMES COUNTRY RISK GRADE: C

Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.

COUNTRY PROFILE

Capital city:	Thimpu
GDP:	USD1.12bn (2009e)
Population:	0.7mn (2009e)
GDP per capita:	USD1,600 (2009e)
Currency:	Ngultrum (BTN) + Indian Rupee (INR)
Form of state:	Constitutional monarchy with an independent parliament
Head of state:	King Jigme Khesar Namgyel Wangchuk
Head of government:	PM Jigme Thinley
Next elections:	Electoral system established 2008

Under the constitution adopted by parliament in July 2008, the **king is head of state**. However, he can be required to abdicate by a two-thirds vote in the 47-member National Assembly, the legislative body and lower of two parliamentary houses. **Executive power is vested in the ten-member cabinet, led by the prime minister, currently Jigme Thinley**. Of the 25 seats in the upper house, the National Council, 20 are elected and the remainder are appointed by the king.

King Jigme Khesar Namgyel Wangchuck succeeded when his father, Jigme Singye Wangchuck, abdicated in December 2006, a year earlier than expected. It is thought that he did this to enable his son to oversee the later changes in a political transition from absolute monarchy to parliamentary democracy. It is also likely that the **royal family wanted to avoid the political and social turmoil of neighbouring Nepal**, where the monarchy refused to give up its absolute power and was overthrown by a (largely) Maoist opposition. Bhutan held two trial elections, intended to educate the population in democratic procedures and the **first full general elections were held in 2008**. The political reform agenda had been widely supported (if not understood), although popular acceptance of the king purely as a figurehead appears to be taking time.

International relations focus on links with neighbouring regional power India. The latter provides direct financial assistance, as well as project support for infrastructure and power developments. The tenth five-year development plan was launched in 2008 with a budget of BTN127bn (USD3.1bn). It aims to promote poverty reduction through rural and private sector development and improvements to life quality (Bhutan pioneered the concept of gross national happiness, GNH, as an alternative to GNP, stressing the importance of preservation of culture and the environment, and good governance).

Budgets will remain highly dependent on grants and concessional borrowing extended by other countries, notably India. The FY2010/11 (July-June) budget projects a deficit equivalent to around 9% of GDP. Annual average **real GDP growth (5.6% 1992-2001 and 8.7% 2002-09)** was boosted by generator capacity coming on-stream at the 1,020MW Tala hydroelectric plant. Bhutan's hydroelectric capacity has doubled. Exports of power (already over 50% of total receipts), particularly electricity to India, will help maintain **annual average GDP growth of 6-7% in 2010-11**.

The **peg of the ngultrum to the Indian rupee at par** has served the country well, given that India is by far Bhutan's largest trading partner. External debt levels have increased as the large power projects have been developed and we estimate foreign obligations amount to around 80% of GDP, although the servicing ratio on this debt is less than 10% of export earnings as **most loans were extended on concessional terms**.

Although Bhutan ranks 126 out of 183 in terms of the ease of doing business in a country in the World Bank's Doing Business 2010 survey, above Morocco, Brazil and India, the **structural business environment is generally weak, reflecting a small private sector**, lack of legal and regulatory development and there are high barriers to trade and investment. In May 2010, it was announced that 100% foreign ownership will be permitted in some education, health, tourist, IT and infrastructure sub-sectors, while FDI remains prohibited in others including the media, wholesale and retail trade and mining. All **infrastructure projects must be built under public-private partnership (PPP) arrangements**, whereby the government takes ownership on completion of the contracted work.

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