

COVID-19 Pandemic in Bhutan: Policy Responses and its Impact

Abstract

The COVID-19 pandemic not only brought a health crisis but also severely impacted the socio-economic conditions due to disruption in economic activities and loss of jobs leaving major strains in the economy. Guided by His Majesty The King's magnanimous wisdom and selfless leadership, the Government and Central Bank have come together to put in place several fiscal and monetary measures in light of the COVID-19 pandemic, by ensuring adequate relief measures and safeguarding the livelihood of the people. Driven by the principle of Gross National Happiness (GNH) on wellbeing and happiness of the people, the measures in combating the pandemic have restored the confidence of people and livelihood, and reverted fallout of economy into recession. In addition, as Bhutan enters into the "New Normal" with the roll out of nationwide vaccination program, the economy prospect shows some signs of recovery.

1. Introduction

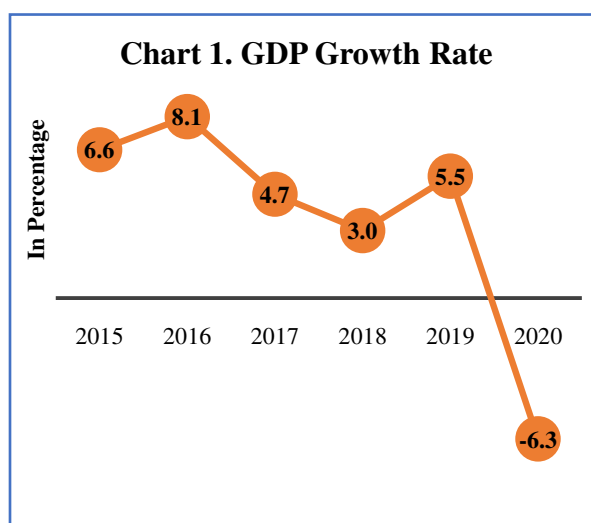
Bhutan confirmed its first COVID-19 case on 6th March 2020, triggering series of events affecting the overall economy. Since the outbreak was first detected, the Government immediately implemented strict containment measures such as travel restrictions on the entry of incoming tourists, closure of schools, public institutions and started flexible working hours temporarily for two weeks and later extended indeterminately. Additionally, the state implemented mandatory quarantine for all incoming Bhutanese for 21 days for free. A contact tracing app, "Druk Trace" was also launched. Along with containment measures, one of the key expedients by the Government was chartering the planes to bring thousands of Bhutanese expatriates working abroad back to the country, where they are provided free testing and medical services.

The global pandemic crisis not only brought a health crisis but also severely impacted socio-economic condition due to disruption in economic activities and loss of jobs leaving major strains in the economy. Furthermore, the closure of border gates which was the business hub and simultaneous lockdown in 12th August and 20th December 2020 has tremendously affected the daily economic activities in the country displacing thousands of workers.

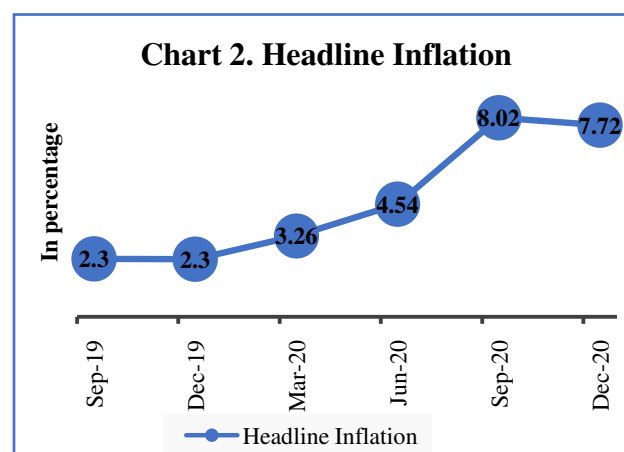
Guided by His Majesty The King's magnanimous wisdom and selfless leadership, the Government and Central Bank have come together to put in place several fiscal and monetary measures in light of the COVID-19 pandemic by ensuring adequate relief measures and safeguarding the livelihood of the people. Driven by the principle of Gross National Happiness (GNH) on wellbeing and happiness of the people, Bhutan is considered one of the 'safe haven' during the time of global pandemic.

2. Impact of COVID-19 on Macroeconomic Performance

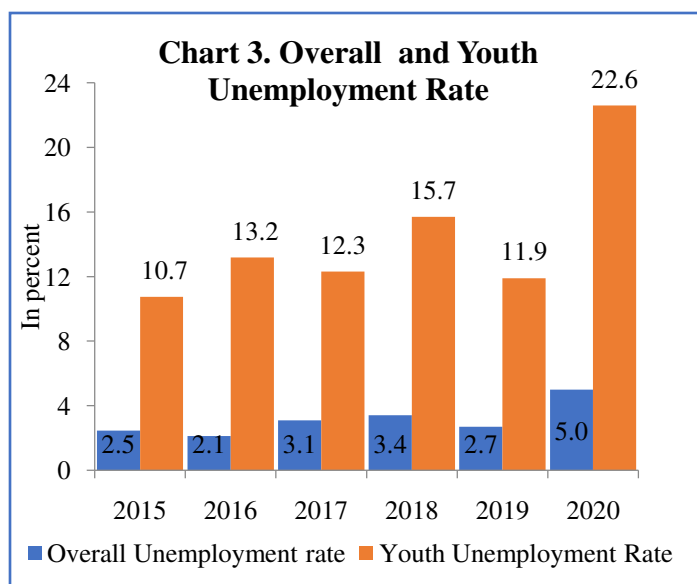
Despite being a small land-linked nation with an approximate total projected population of 756,129 persons, the economy had its own share of burden from the COVID-19 pandemic. The pandemic has devastated the economy with economic growth dipping into -6.3 percent in 2020, which is an all-time low growth in the Bhutanese economic history. The negative growth in GDP was mainly due to decline in performance of tourism and allied sectors, construction and production & manufacturing sectors in particular has been greatly impacted by the pandemic.



The overall headline inflation picked up from 2.3 percent in December 2019 to 7.7 percent in December 2020. The build-up in inflationary pressure in the recent month is attributed to rise in domestic food prices as there is restriction on the imports of goods and services. In addition, due to containment measures and repeated lockdowns, the disruption in supply chain in production also considered a main factor in rising inflation.



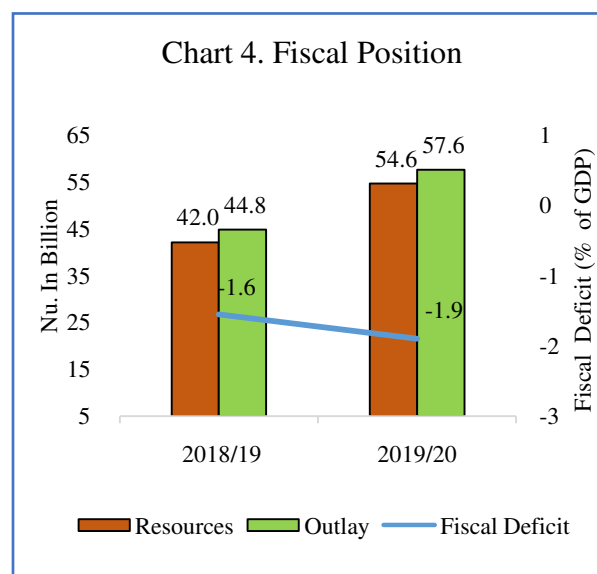
On the labor market, the unemployment continues to remain a major challenge, which has been further aggravated by the pandemic on the already existing high unemployment issues. With the implementation of travel restrictions imposed in response to the pandemic, the tourism and its allied sectors were the first to face the major consequences of the pandemic. The uncertainty of the COVID-19 pandemic has forced the employers in the sector to lay off their employees either partially or



permanently, thereby adding to the existing unemployment issues. In addition, the increasing number of returnees from abroad, growing numbers of new graduates and displaced workers continue to add the labor market. As per the Labor Force Survey Report of 2020, about 19 percent of total economically-active working population (331,222 persons) were laid off from the job market. The overall employment rate increased to 5 percent (16,660 persons) in 2020 from 2.7 percent (8,698 persons) in 2019. An increase in unemployment in 2020 was due to increase in 'employees laid-off' in tourism sector by 19 percent of total unemployment and rest are from other sectors. Similarly, the youth unemployment jumped to double digit to 22.6 percent (6,922 persons) in 2020 from 11.9 (3,626 persons) percent in 2019, owing to labor market distortion as the investments in the private sector and productivity decreases.

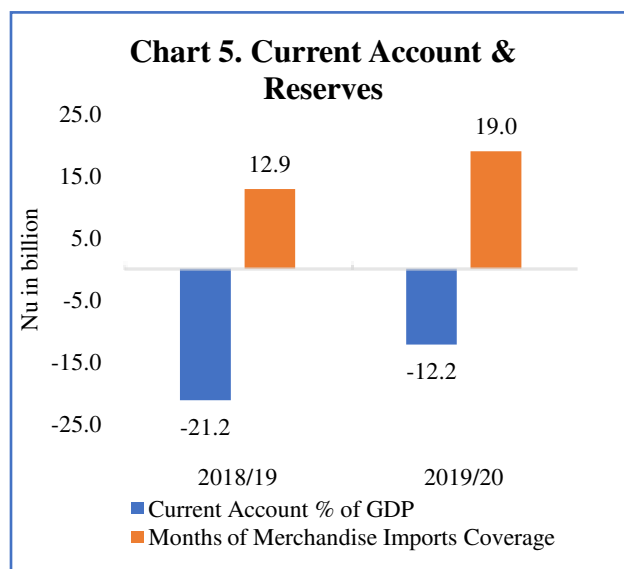
While on the fiscal front, the domestic tax revenue collection has decreased by 16.3 percent in the FY 2019/20 from Nu 27.2 billion in the FY 2018/19 due to several tax deferral measures, undertaken to combat the pandemic particularly in tourism and allied sectors.

In addition, implementation of new tax measures passed by the parliament in 2019



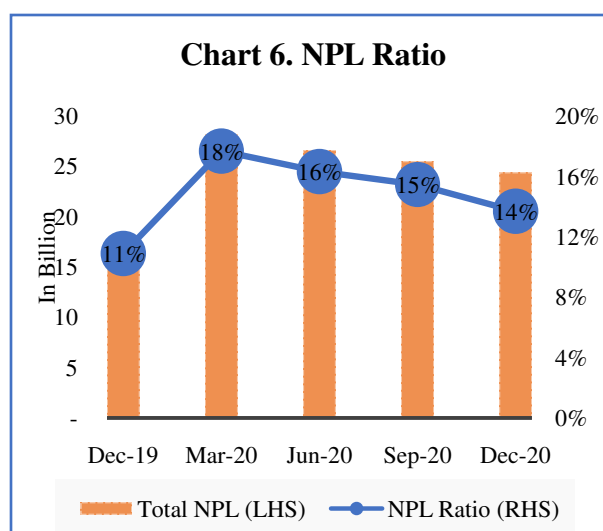
has forgone the Personal Income Tax (PIT), Corporate Income Tax (CIT) and Business Income Tax (BIT) by 17 percent, 5 Percent each respectively, which has further aggravated the revenue performances. With increase in allocation of budget towards containment measures and mobilization of budget for economic recovery to expediate capital expenditure, the total expenditure approved for the fiscal year is Nu 69.2 billion, an increased by 7 percent from the previous year. As a result, the fiscal deficit amounts to Nu 15.3 billion (1.9 %) and of the total fiscal deficit, about 77.1 percent was financed from the internal borrowing and rest are from external borrowing. As of March, 2021, the public debt increased by 16.6 percent to Nu 224.9 billion which is 120.5 percent of GDP from 193 billion in the previous year.

On the external front, the current account deficit improved to 12.2 percent (in % of GDP) in FY 2019/20 from 21.2 percent (in % of GDP) in 2018/19. The contraction was largely attributed with improvement in trade deficit to 9.8 percent (in % of GDP) in FY 2019/20 from 17.5 percent (in % of GDP) in FY 2018/19. The service sector, which records positive during pre-pandemic has been largely affected, recording a negative trend in the service accounts. The receipt from service sector, which accounted for 43.4 percent to GDP in FY 2018/19, recorded a huge decline by 7.9 percent of GDP in FY 2019/20 as the service sector which mainly driven by tourism and allied sector were impacted by the pandemic. The gross receipts from tourism that include Minimum Daily



Package Rate (MDPR) and out-of-pocket spending amounted to USD 13.79 million in 2020, recorded a huge decline of 91.8 percent from USD 170.10million in the 2019. Given the current uncertainty and no sign of declining the virus infection, the inflow from travels is expected to further reduce in 2021. However, the positive capital and financial account due to higher inflow of aid and grants, concessional loans and FDI has resulted into overall balance of payment surplus. The positive balance of payment resulted to accumulation and adding up reserve assets of US \$1.5 billion, which is adequate to finance more than 27 months of merchandise import coverages.

On the financial sector stability front, the growing Non-Performing Loans (NPL) poses high risks on the Financial Sector (FIs). While the NPL comparatively recorded high over the years, the pandemic has further heightened the financial vulnerabilities despite a comfortable and stable liquidity position in the banking sector. The disruption of business activities, loss of employment opportunities and income generation have caused difficulty



in repayment of debt and accessing new loans. As a result, the overall NPL ratio has increased from 10.9 percent in 2019 to 14.6 percent in December 2020 amounting to Nu 24.4 billion. Going by the sector wise contribution to NPL, service & tourism has the highest share of NPL of 29.8 percent, followed by trade & commerce and production & manufacturing sector of 19.6 percent each.

At the onset of the pandemic, under the guidance and visionary leadership of His Majesty the King in close coordination and collaboration with Government, Bhutan could revert the pandemic crisis more effectively and successfully. The tireless efforts and hard work of His Majesty the King and the Government put into combating the pandemic has restore the confidence of people and livelihood, and reverted fallout of economy into recession.

3. Response to COVID-19 Pandemic

3.1 Monetary Policy Measures

The Royal Monetary Authority of Bhutan (RMA) in collaboration with the Financial Institutions implemented several monetary measures to support the borrowers and also to cushion the risk on the financial sector. The monetary measures include deferment of loan repayments, interest payment support and access to soft working capital, bridging loans and liquidity support to ensure uninterrupted flow of liquidity and supply of domestic credit in the economy during the time of pandemic.

The monetary measures and easing of regulatory requirements in 2020 are as follows:

3.1.1 Reduction of Cash Reserve Ratio (CRR)

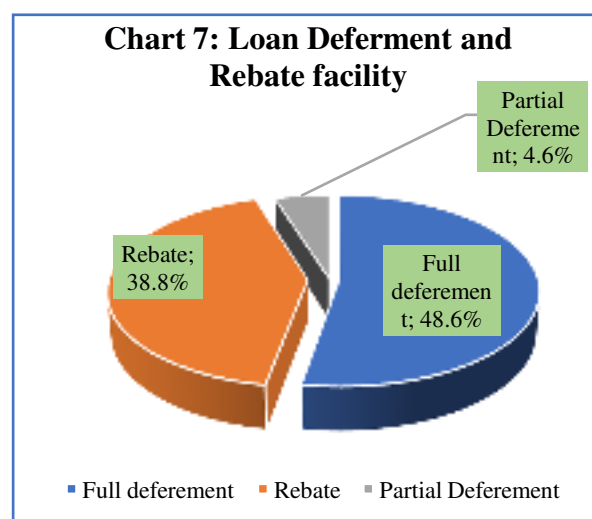
As part of the monetary measures to ensure adequate liquidity in the banking system to anchor continuous operation of the financial sector, the CRR was reduced from 10 percent to 9 percent on 17th March 2020 and further to 7 percent on 27th April 2020. The reduction of 300 basis points injected an additional liquidity of Nu 4.2 billion in the banking sector, which will be used to finance the working capital loans and term loans. As on December 2020, Nu 3.12 billion has been utilized in form of working capital loans, benefiting 2,753 applicants under the three phases of monetary measures.

3.1.2 Deferment of loans

Complementing the interest payment support measures undertaken by the Government, RMA in collaboration with the Financial Institutions in the country provided the deferment of loan repayment and gestation period for projects under construction. The deferment period of 3 months, starting from April until June 2020 to all loans under the Financial Institutions without any interest penalty were granted. The loans deferment includes both performing and non-performing loans of all products except loans to Government and Financial institutions and staff incentive loans.

A total loan of Nu 118.8 million for 77,529 account holders have availed the full and partial deferment facility as of December 2020.

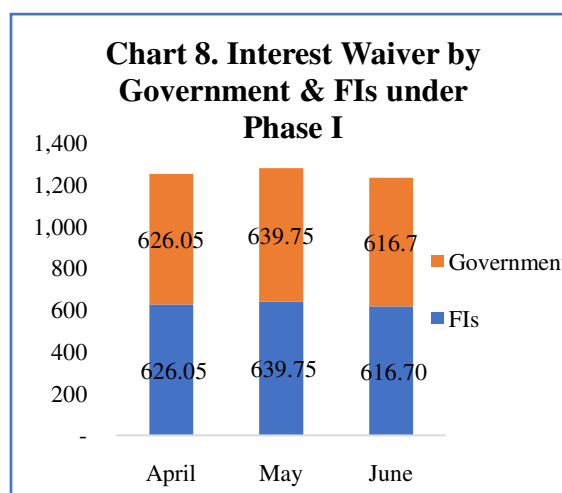
Along with the deferment of loan repayment, the rebate of 1 percent interest rate was also given to all regular repayment of loan. A total of 56,696 loan account of holders have benefitted from the provision of one percent rebate on the interest rate, amounting to Nu 37 billion.



Under the monetary measure Phase II, the deferment of all loans has been further extended by another year until end of June 2021. The loan deferment was subjected to accrual of interest at normal rate on the principal amount during the deferment period.

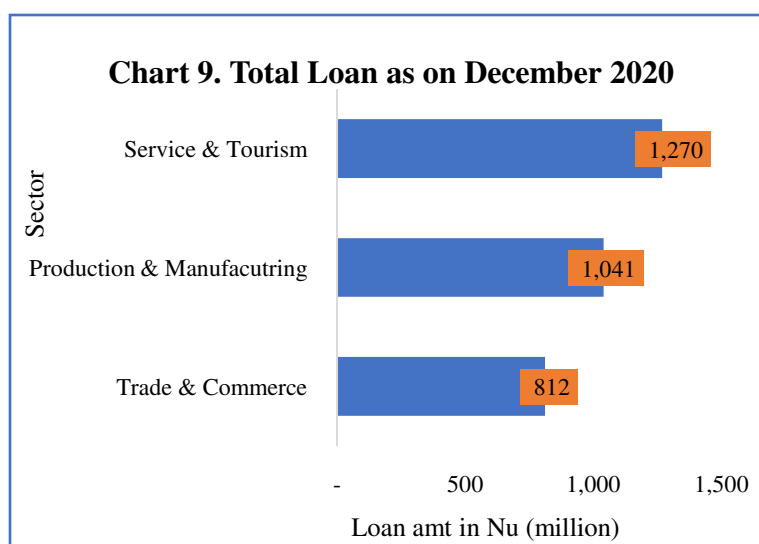
3.1.3 Interest waiver

Along with interest payment support provided by the Government, the Financial Institutions also waived the interest for the loans to all the sectors. During the 100 percent interest waiver from April to June 2020, the cost of interest waiver was shared by the Government and Financial Institutions amounting to Nu 3.8 billion. For the period of 3 months, 50 percent cost of interest waivers was borne by the FIs was Nu 1.9 billion.



3.1.4 Concessional Term based Working Capital

With lowering of the CRR, a total of 4.2 billion liquidity support was injected in the banking sector to ensure interrupted supply of credit

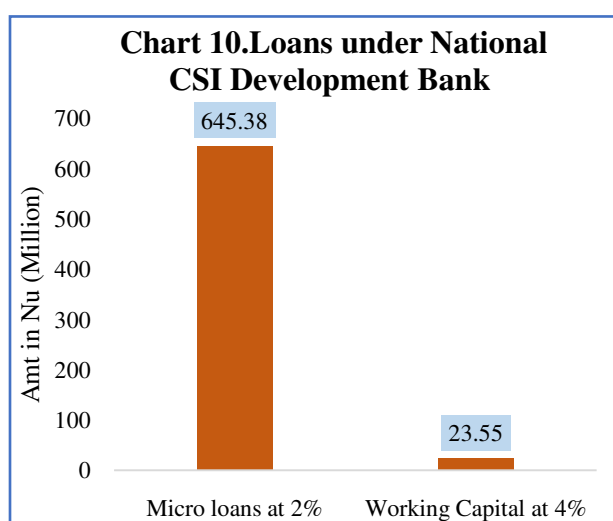


flow for affected sectors. The concessional term-based working capital and bridging loans at 5 percent interest rate were provided to affected sectors. The affected sector includes tourism, trade & commerce, and production & manufacturing industries. The priority in accessing to loans was also given to wholesale distributor to ensure uninterrupted import of continuous supply of essential commodities to support the livelihood and to meet the operational expenses for tourism and allied sectors to retain employees. Among the sectors, the service and tourism sector received the highest share of working capital of Nu 1.28 billion (41.3 %), followed by production and manufacturing sectors with Nu 1.04 billion (32.9%) and trade & commerce with Nu 0.8 billion (26.2 %). The provisioning of credit in these sectors remain vital step towards revival of economy to the pre-pandemic level.

3.1.5 Loans to promote the Cottage and small industries (CSI)

Considering the significance of the CSI as one of the five economic jewels of the country and recognizing high potential to stimulate economic growth through development of local productions during the pandemic, the RMA and the Financial Service Producers identified the CSI as priority sector. In view of promoting the CSI, the National CSI Development Bank provided agriculture loans up to Nu 500,000 at an interest rate of 2 percent per annum without collateral requirement and working capital for the CSI at 4 percent interest rate for a period of 3 months.

Under the Phase II of monetary measures, the provisioning of micro loans to agricultural and non-agricultural CSI were further extended by 12 months until June 2021, at 2 percent and 4 percent concessional interest rate respectively. As on December 2020, a total of Nu 668.93 million to 2,542 projects were finance in the form of micro loans and working capital to the CSIs by the National CSI Development Bank.



3.1.6 Launch of Domestic Liquidity Management System (DLMS)

As a part of the Phase I and II monetary measures, the RMA instituted the forward-looking web-based Domestic Liquidity Management System on 2nd November, 2020. The implementation of DLMS was mainly to facilitate uninterrupted flow of liquidity in the banking system, to encourage FIs to prudently carry out their liquidity management functions and to support spurring economic activities and credit creation in the economy. The DLMS operates at three different levels; i) Overnight Liquidity Management Operations (OLMO), ii) Weekly Liquidity Management Operations (WLMO) and iii) Long-term Liquidity Management Operations (LLMO).

3.1.7 Other Monetary Measures

In addition to the above monetary measures, the RMA eases prudential and regulatory requirement of Financial Institutions to cushion risks from the pandemic on the financial sector stability and promote seamless use of digital payment system to increase economic activities in the country. Some of these measures include as follows;

- I. Release of Capital Conservation Buffer of 2.5 Percent of Risk weighted Average to increase the Lending Capacity of Financial Institutions;
- II. Introduction of National Credit Guarantee Scheme by providing collateral requirement relief and substantial Credit guarantee; and
- III. Facilitation of financial services through digital platforms especially during consecutive nationwide lockdowns.

3.2 Fiscal Measures

3.2.1 Deferment of Tax filing and Tax payment

As part of the fiscal measures, the Ministry of Finance (MoF) announced tax relief measures by the deferring tax filing and payment for the income year of 2019. Given the severity of impact of pandemic on business activities, the filing of Business Income Tax (BIT) and Corporate Income Tax (CIT) was extended till end of June 2020 from 31st March 2020. The tourism and allied sectors that are severely impacted by the COVID-19 pandemic, were provided deferment of tax

payment till end of December 2020. Additionally, the Government also refunded 5 percent sales tax collected on telecom services to make affordable and easy access to communication services for school learning and working remotely from the home. In lieu of deferment of tax payment by the Government, total loss of domestic revenue collection was estimated at Nu 38.5 billion in 2019.

3.2.2 Build Bhutan Project (BBP) to resolve the issues of unemployment

The economic disruption due to the pandemic has impacted the labor market at large. About 19 percent of employees were displaced from the jobs. On the other hand, there is huge demand for labor in market as result of restriction of foreign workers, particularly in the construction and manufacturing sector. This reflect there is a mismatch of demand and supply for the labor, which resulted into huge unemployment gap.

In order to address unemployment issues, the Build Bhutan Project (BBP) under the Economic Contingency Plan was launched by the Ministry of Labor and Human Resource that will enhance the productivity and match require skills and experiences to bridge workforce gap in the construction sector. The BBP was also established to meet long-term objectives of transforming and professionalizing the construction sector. Linked to the Build Bhutan initiative, the Government has launched the Specialized Firms, imparting skills and employment facilitation initiatives to boost youth employment in various construction schemes with attractive wages. Under the initiative of the BBP, a total 14,495 individual were employed and filled labor shortage in the construction sector. Under the support of BBP, 18 specialized firms were to be established and skilled 6,702 people in the occupational trades in construction.

3.2.3 Other Fiscal Measures

With the unprecedented economic challenges posed by the COVID-19 pandemic especially on the tourism and allied sectors, other fiscal measure implemented include;

- I. Waived off the monthly rents and other charges for tourism related business leasing Government properties till December 2020.
- II. Deferring the electricity charges payment for industries.

- III. Hotels that served as quarantine facilities were given free electricity and wi-fi services during the review period.

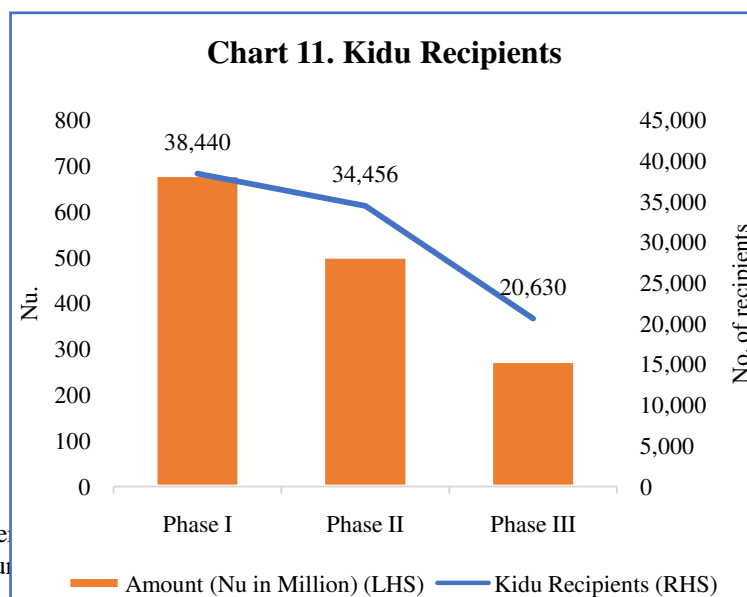
3.3 Other measures

From the very first day of detection of the COVID -19 case in Bhutan, His Majesty The King has commanded the establishment of the National Resilience Fund (NRF) with the fund size of Nu 30 billion. This NRF, in particular provides relief grants through the Druk Gyalpo Relief *Kidu* (DGRK) to those individuals affected by the pandemic in the form of income support to all the affected citizens who are displaced from the jobs and also full and partial interest payment relief to all the borrowers.

3.3.1 Druk Gyalpo's Relief Kidu¹(DGRK): Monthly Income Support

The several containment measures were undertaken by the Government to avert the full-blown crisis of the pandemic, particularly in the tourism and allied services, causing loss of their income sources and jobs. Upon the Royal command, those employees displaced from jobs were granted relief kidu as an immediate financial support to sustain the livelihood. The Royal Kidu would boost morale support and assurance to public from the devastating ongoing pandemic. The relief kidu granted was granted for a period of one year (April 2020 – March 2021) on monthly basis. As of December 2020, a total of 38,000 individual has received a monthly relief kidu in the last one year.

As per the State of Nation's Report presented by the Hon'ble Prime Minister of Bhutan during 4th Session of The Third Parliament of National Assembly on 12th December 2020, Nu 679.6 million has been disbursed as a relief kidu in the form of monthly income to 38,440 individuals. Of the



¹In the Bhutanese governance system, the King provides an interim measure to provide immediate reprieve during the pandemic.

total kidu recipients, 25,126 are individuals and 13,314 children eligible in the Phase I (Apr-June 2020). During the Phase I, a monthly income support was granted in two categories with Nu 8,000 (USD²108) to Nu 12,000 (USD 162). For the dependent, which largely makes up children were granted Nu 800 (USD 11).

The Phase II was divided into two parts. The Part I under the Phase II (Jul-Sep 2020) measures, a total amount of Nu 501.4 million were disbursed to 28,159 individuals and 6,297 children. In the Part II of the Phase II (Oct-Dec 2020) measures, the total amount of Nu 273.77 million were disbursed to 15,064 individuals along with 5,566 children. At the same time, those more than 4,000 individuals who volunteered through the accelerated “De-Suung³” Integrated Training Program, an initiative to create employment opportunities, has received the monthly income support. Along with income support, the relief kidu also provides for affected individuals in the form of ration supplies and services during the lockdowns.

Considering the uncertainties and economic difficulties posed by the ongoing pandemic, His Majesty The King has commanded that the relief Kidu of monthly income support and 50 percent of interest payment to be continued for an additional period of 15 months from April 2021 till June 2022 as part of the Phase III measures with the intention to ensure the wellbeing of people and support through time of great difficulty.

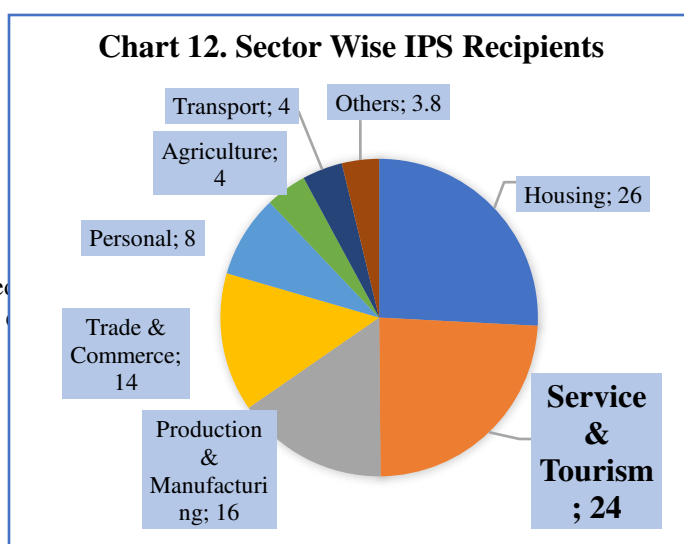
3.3.2 Druk Gyalpo’s Relief Kidu (DGRK)- Interest payment support (IPS)

To provide relief on difficulty in loan re-payment faced by the borrowers, the interest payment support was provided under the NRF. The relief include Interest Payment Support for individuals and business with loans outstanding as of April 2020 including non-performing loans (NPL) on a phase-wise basis.

In the initial Phase I and Phase II measures, interest on all types of loans outstanding before 10th April, 2020 were

² Averaged End of Period exchange rate is taken

³ Meaning ‘Guardians of Peace’ project- A integrated the objective to encourage all citizens to be actively



granted with full interest payment relief for the period of six months from April till the end of September 2020.

The introduction of interest waiver has brought huge relief to a large number of individuals and business enterprises falling into the indebtedness. The 100 percent interest waiver from April to June 2020 was shared equally by the Government (50%) and the financial institutions (50%). The starting from July to September 2020, 100 percent interest payment support was provided by the Government. As of March 2021, a total of 139,096 loan account holders have received the interest payment support amounting to Nu 11.1 billion. Of which, Nu 9.2 billion (83 %) was granted from the DGRK under the Phase I and II for the period of 12 months. In terms of the sector wise disbursement, the housing sector received highest share of 26 percent, followed by service and tourism sector of 24 percent and production and manufacturing sector with 14 percent, and 36 percent was received by other sectors.

4. Conclusion

The COVID-19 pandemic has simultaneously led to health crisis and disruption in economic activities. None-the-less, the pandemic has also provided a unique opportunity to review our economic model and re-orient national plans and priorities to find effective solution to address the challenges and structural weakness.

Amidst the increasing number of COVID-19 cases in the country and emergence of new variant virus, roll out in vaccine towards containing the virus and mobilization of economic stimulus package is seen an important step towards ending protracted period of the crisis. In addition, one of the lessons learned from pandemic was on the exploration and acceleration of digital transformation out of necessity. Investment in emerging digital technologies has become a necessary move for Bhutanese economy to remain relevant and connected in the first-paced world.

Going forward, as Bhutan enters into the “New Normal” with roll out of nationwide vaccination program, the economy prospect shows some silver lining.