



BHUTAN

TECHNICAL ASSISTANCE REPORT—REPORT ON THE EXTERNAL SECTOR STATISTICS TECHNICAL ASSISTANCE MISSION—APRIL 2–13, 2018

November 2018

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**South Asia Regional Training and
Technical Assistance Center**

Building Macroeconomic Capacity in South Asia



Bhutan

**Report on the External Sector Statistics
Technical Assistance Mission**

April 2–13, 2018

Author

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**Technical Assistance Report
June 18, 2018**

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CONTENTS

Glossary	4
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SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS	5
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DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS	7
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A. Action Plan	7
B. External Debt Statistics (EDS)	9
C. Direct Investment	13
D. Hydropower Projects	15
E. Other Issues	18
F. Staff Resources	19
G. Officials Met During the Mission	20

TABLE

1. Priority Recommendations	6
-----------------------------	---

APPENDICES

I. Progress on Recommendations from May 2015 Mission	21
II. External Debt Positions vs. IIP Liabilities	23
III. Loans Liabilities—Revised Data vs. Published Data	24
IV. Formulas on Accrued Interest for ESS	25
V. Direct Investment—Revised Data vs Published Data	26
VI. Example. Transactions on Construction Projects by Nonresidents	27
VII. Compensation of Employees and Workers' Remittances	28

Glossary

<i>BPM6</i>	Sixth edition of the <i>IMF Balance of Payments and International Investment Position Manual</i>
BIS	The Bank for International Settlements
CDIS	Coordinated direct investment survey
COTI	Countries other than India
CS-DRMS	Commonwealth Secretariat's Debt Recording and Management System
DMEA	Department of Macroeconomic Affairs (MOF)
EDS	External debt statistics
e-GDDS	The Enhanced General Data Dissemination System
ESS	External sector statistics
FDI	Foreign direct investment
FERD	Foreign Exchange and Reserve Management Department of the RMA
IIP	International investment position
MFS	Monetary and Financial statistics
MEA	Ministry of Economic Affairs
MOF	Ministry of Finance
NFC	Nonfinancial Corporations
QEDS	World Bank's Quarterly External Debt Statistics
RMA	Royal Monetary Authority
MRSD	Macroeconomic Research and Statistics Department of RMA
SARTTAC	South Asia Regional Training and Technical Assistance Center
SDDS	Special Data Dissemination Standard
SDR	Special drawing rights
STA	IMF's Statistics Department
TA	Technical assistance

SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS

1. **As part of the IMF-South Asia Regional Training and Technical Assistance Center (SARTTAC) work program,** a technical assistance (TA) mission on external sector statistics (ESS) was conducted during April 2–13, 2018. The mission assisted the Royal Monetary Authority (RMA) in compiling and disseminating external debt statistics (EDS) consistent with the international investment position (IIP), reviewed the compilation method of direct investment statistics, and assessed the coverage of external flows related to hydropower projects.
2. **The RMA is the institution in charge of compiling and disseminating the balance of payments, the IIP, and the EDS of Bhutan.** The annual balance of payments is prepared on a fiscal year basis (July–June) and separate statements are produced for the overall balance of payments, the balance of payments with India, and the balance of payments with countries other than India (COTI). The Macroeconomic Research and Statistics Department (MRSD) of the RMA compiles and disseminates balance of payments, IIP, and EDS on a quarterly basis. However, the EDS published by the RMA comprises only debt liabilities in the form of loans.
3. **External debt data should be bridge from the IIP statistics on a quarterly basis.** The mission and compilers prepared the total external debt data of Bhutan, using the data compiled in the IIP, and completed the EDS tables required for participating in the World Bank's Quarterly External Debt Statistics (QEDS). The mission included a validation to assure the consistency between the IIP and the EDS (Total IIP liabilities–direct investment equity = gross external debt).
4. **ESS should be recorded on an accrual basis and not on a settlement basis.** The mission and compilers reviewed and amended the Excel-based loan-by-loan external debt database prepared by the previous mission. The database holds information on a loan-by-loan basis from June 2009 onward. This comprehensive database estimates the accrued interest of each loan, to update the primary income account of the balance of payments, and the transactions and positions on loans liabilities (including accrued interest not yet paid) of the RMA, the general government, and nonfinancial corporations (NFC), mainly hydro companies. The results of this new database should be used to update the ESS.
5. **Enterprises with foreign direct investment (FDI) are requested to submit through the ESS form information on direct investment into the enterprise.** MRSD obtains FDI data from 38 companies out of 61 FDI companies. Compilers plan to visit all these 61 companies in the coming weeks, to explain the survey form and request the submission of quarterly data with quarterly timeliness. After these visits, improvements in the coverage of FDI statistics are expected.
6. **The mission assisted compilers in developing a more clean and integrated FDI worksheet.** A new FDI worksheet was prepared and populated with quarterly FDI data for two

years, 2015 and 2016. Aggregated data were calculated and mapped to the standard components of the balance of payments (overall, with India, and with COTI) and IIP statistics and validations were included to assure the consistency of these datasets. The data were reviewed, and some inconsistencies were detected and corrected. The mission also explained to compilers how to use this worksheet to complete the coordinated direct investment survey (CDIS) form, which has to be consistent with the direct investment data included in the IIP. Compilers will review the CDIS data submitted to STA to eliminate the current differences with the IIP.

7. The mission reviewed the new survey form prepared by the MRSD to collect detailed data from the hydropower authorities from 2007. The mission explained the international transactions related to hydropower projects that need to be collected through the survey and how to record these transactions in the balance of payments. Compilers should visit all five hydro authorities with projects under construction to explain the new report form and request detailed quarterly information on these projects.

8. IIP data should be consistent with the financial account of the balance of payments. At the request of compilers, the mission prepared a file to validate the consistency between the financial account of the balance of payments and the IIP and some inconsistencies were found and corrected. Compilers should regularly check the consistency between these two datasets.

9. To support progress in the above work areas, the mission recommended a detailed action plan with the following priority recommendations:

Table 1. Priority Recommendations

Target Date	Priority Recommendation	Responsible Institutions
June 2018	<i>Update the IIP and the balance of payments statistics from September 2013 to include the accrued interest of all loans.</i>	RMA
September 2018	<i>Expand the current coverage of the EDS by including all debt liabilities components and participate in the World Bank's Quarterly External Debt Statistics (QEDS) database.</i>	RMA
December 2018	<i>Collect data from the five hydro projects using the new form.</i>	RMA

DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS

A. Action Plan

Priority	Action/Milestone	Target Completion Date
Outcome: A new data set has been compiled and disseminated internally and/or to the public		
M	Include the original maturity breakdown for all financial instruments in the balance of payments, the IIP, and the EDS.	May 2018
H	Expand the current coverage of the EDS by including all debt liabilities components, based on data from IIP.	September 2018
H	Participate in the World Bank's Quarterly External Debt Statistics (QEDS) database, providing the tables prepared during the mission (tables 1 and 6). Check the consistency between the total external debt provided in these tables and the IIP.	September 2018
Outcome: Internal consistency within a macroeconomic or financial dataset has improved (reduced discrepancies)		
H	Check the consistency between external debt positions and IIP liabilities before the dissemination.	September 2018
H	Compile CDIS data using the new FDI worksheet, review CDIS data from 2013, and check the consistency between CDIS and direct investment data included in the IIP before the submission.	October 2018
M	Update the CDIS metadata questionnaire to indicate that CDIS and IIP data are consistent.	October 2018
H	Request from the FERD the financial statements of the FDI companies and cross-check the equity values with the information collected in the surveys.	May 2018
H	Check the consistency between the financial account of the balance of payments and the IIP before the quarterly data dissemination.	June 2018
Outcome: Data are compiled and disseminated using the coverage and scope of the latest manual/guide		
H	Review the Excel-based loan-by-loan external debt database: (i) include the missing loans; (ii) exclude the swap facilities from the estimates; and (iii) review the sectoral allocation of each loan.	May 2018

Priority	Action/Milestone	Target Completion Date
H	Update the IIP and the balance of payments from Sept 2013 to include (i) the accrued interest of the rest of the loans (other than those under the grace period) in the primary income account, (ii) the accrued interest not yet paid of the period in the financial account of the balance of payments and (iii) the outstanding amount of interest in the IIP.	June 2018
M	Request from the MOF information on fees and charges to reclassify these values from primary income-other investment- interest to the services account.	June 2018
H	Maintain and update the Excel-based loan-by-loan external debt database to estimate the accrued interest and the loans liabilities transactions and positions with quarterly periodicity.	September 2018
H	Use the new FDI worksheet to compile FDI data, regularly validate the consistency between the balance of payments and the IIP.	September 2018
H	Request direct investment data from all 61 FDI companies to improve the coverage of FDI statistics.	September 2018
H	Review and explain the differences between the FDI data compiled in the new file and the published FDI data.	September 2018
H	Review the difference in the equity position reported by an insurance company in the FDI form and in the financial statements.	May 2018
M	Review the difference between the market value and the book value of the equity position of a commercial bank.	May 2018
H	Estimate the value of goods imported by foreign contractor to update the percentage applied to the construction cost to obtain the values of construction services-debits.	March 2019
H	Meet with the five hydropower authorities with projects under construction to explain the new report form and request the submission of quarterly data.	September 2018
H	Collect data from the five hydro projects under construction using the new form and check the new information with the current data included in ESS to assess the revisions.	December 2018
H	Once the collected data through the new forms are validated, review ESS data and submit revised data to STA.	March 2019
M	Compare the estimated values on compensation of employees and workers' remittances with the	March 2019

Priority	Action/Milestone	Target Completion Date
	information provided by the hydro authorities in the survey forms and review the estimates.	
H	Review the values of currency and deposits assets of other sectors provided by the BIS. Assess if these values should be included in the financial account of the balance of payments and the IIP.	September 2018
H	The RMA's human resource policies should support skills retention to assure the further development of ESS. Staff should keep learning and applying their knowledge to the improvement of the quality of ESS of Bhutan.	Ongoing
M	Allocate an additional assistant to the External Sector Unit to assist in the processing of the data.	March 2019

B. External Debt Statistics (EDS)

10. Public external debt is compiled and disseminated by the Debt Management Division, Department of Macroeconomic Affairs (DMEA) of the Ministry of Finance (MOF)

which reports detailed information to the RMA needed for the compilation of all public debt related components of the balance of payments, IIP, and EDS. The MOF provides detailed information on disbursements, principal payments, interest paid, interest rate, and outstanding stock for all loans held by the government, the RMA, and the public companies, included in ESS as nonfinancial corporations (NFC). However, the values provided as outstanding stock do not include the accrued interest not yet paid. The loans for the construction of the hydropower plants have a grace period for repayment until the construction is finished, the MOF estimates the accrued interest of these loans and also provides this information to the RMA.

11. The RMA is the institution in charge of compiling the balance of payments, the IIP, and the EDS of Bhutan. The Macroeconomic Research and Statistics Department (MRSD) of the RMA compiles and disseminates ESS on a quarterly basis. However, the EDS published by the RMA comprises only debt liabilities in the form of loans. The mission explained that the EDS should also include other debt liabilities that could be obtained from the IIP.

12. The stock of EDS could be derived from quarterly IIP liabilities. EDS should be consistent with IIP Liabilities, noting that equity and investment fund shares, and financial derivatives and employee stock options are excluded from EDS. The mission compared the external debt positions disseminated by the RMA in the RMA's *Monthly Bulletin* (table 21) with quarterly IIP liabilities reported to STA and found that the following IIP liabilities were not included in EDS: (i) Currency and deposits of the central bank and other deposit taking corporations; (ii) Special drawing rights (SDR) allocations; (iii) Trade credits; and (iv) Direct investment – Debt instruments. (The compared values are included in Appendix II)

13. External debt instruments have to be broken down by maturity (short-term and long-term) on an original maturity basis. Some of the financial instruments included in the IIP, EDS, and in the financial account of the balance of payments, were not broken down by original maturity as requested by international standards. The maturity breakdown for loans is available and should be incorporated to all datasets. During the mission, the loans liabilities of the central bank and the general government were classified either under short or long term. In order to provide the maturity breakdown for all other instruments, the mission advised to apply the recommendations stated in the *2013 External Debt Statistics-Guide for Compilers and Users*:

Recommendations:

- Include all *currency and deposits* in the *short-term* category unless detailed information is available to make the short-term/long-term attribution.
- In the absence of information to make the short-term/long-term attribution, classify *insurance, pension, and standardized guaranteed schemes* as *long-term*.
- Report *SDR allocations* as *long-term* external debt liabilities.

14. ESS should be recorded on an accrual basis and not on a settlement basis. As indicated before, the hydropower loans disbursed during the construction time bear interest which, according to the contracts' terms, has a grace period for repayment until after the construction is finished. Currently, the accrued interest during the grace period is provided by the MOF and recorded in the balance of payments; in the primary income account-debits and in the financial account as an increase in loans liabilities. Therefore, the accrued interest during the grace period is capitalized and, as so, added to the outstanding amount of loans liabilities in the IIP and EDS. However, accrued interest not yet paid on the rest of the loans is not yet included in ESS.

15. Accrued interest was calculated for all external loans to be included in ESS. The mission and compilers reviewed and amended the Excel-based loan-by-loan external debt database prepared by the previous mission. This comprehensive database estimates (i) the accrued interest of the rest of the loans (other than those under the grace period) to update the primary income account of the balance of payments, (ii) the accrued interest not yet paid of the period, to update the financial account of the balance of payments, and (iii) the outstanding amount of stocks (including accrued interest not yet paid) to be included in the IIP and the EDS. The database holds information on a loan-by-loan basis from June 2009 onward and should be updated every quarter to estimate the accrued interest and the loans liabilities transactions and positions of the RMA, the general government, and the NFCs. To make the calculations, the mission assumed that the accumulated accrued interest not yet paid at June 2009 was zero and that capitalized interest does not accrue interest.

16. The mission and compilers conducted an extensive review of the Excel-based loan-by-loan external debt database. The mission included some validations in the file to periodically cross check the consistency of the calculated positions and the calculated financial account and primary income transactions. Compilers found that few loans of the RMA and the NFCs were not yet included in the database. Also, the swap facilities should be excluded from this database since financial derivatives do not accrued interest.

17. The results obtained from this new database were compared with the disseminated values in the balance of payments and the IIP. (The results are shown in Appendix III) The differences in the IIP are quite small as expected and some differences in the loans liabilities transactions of the general government need to be further analyzed. Additionally, the mission recommended to review the sector allocation of each loan, to reduce or explain the differences by sector.

18. Once the issues indicated on the previous paragraphs (16 and 17) are solved or explained, the mission recommended to update the ESS using these new estimates from September 2013 (first quarter of the FY13), the date when the MRSD started disseminating quarterly IIP statistics, (formulas and standard components of the Excel-based loan-by-loan database are included in Appendix IV).

19. External debt data should be bridge from the IIP statistics on a quarterly basis. Once the new estimates are incorporated to the IIP and the balance of payments, EDS can be calculated. The mission and compilers prepared the total external debt data of Bhutan, using the data compiled in the IIP, and completed the EDS tables required for the Enhanced General Data Dissemination System (e-GDDS) and Special Data Dissemination Standard (SDDS) countries to participate in the World Bank's Quarterly External Debt Statistics (QEDS) (Tables 1 and 6). The mission included in the worksheet validations to assure the consistency between the IIP and the EDS (Total IIP liabilities – direct investment equity = gross external debt) and between the total gross external debt provided in both tables. The mission recommended to report quarterly data to the World Bank, which disseminates EDS of SDDS and e-GDDS countries on the QEDS website.¹

20. The mission, together with compilers, met with the DMEA to discuss data provided by the MOF. Currently, the MOF is providing detailed information on the loans liabilities of the public sector (as indicated in paragraph 10) on a pdf format, that has to be manually processed by the MRSD. The MOF agreed on providing this information on the new Excel file. The DMEA indicated that principal amounts and interest of the loans are paid when due, therefore, arrears are not created. The mission noted that the values provided by the MOF as interest paid, also included "fees and charges" paid to nonresidents. The MOF should provide separated information on these fees and charges and indicate the specific service paid to be allocated to

¹ <http://datatopics.worldbank.org/debt/qeds>

the corresponding component of the services account of the balance of payments. These amounts are currently included in the primary income account and should be reclassified to the services account.

21. The MOF disseminates the public external debt of Bhutan, but accrued interest not yet paid is not included in the outstanding stock, therefore, the values disseminated by the two institutions (RMA and MOF) are different. The MRSD will send to the MOF the new excel file with all the calculations made to estimate the EDS, to inform the DMEA about the values that will be disseminated by the RMA.

22. The EDS source data from the DMEA are maintained in a database, the Commonwealth Secretariat's Debt Recording and Management System (CS-DRMS).

However, the information collected has to be manually uploaded to the system and the consolidated information has to also be manually downloaded from the system. Therefore, the system is only used to calculate stocks, forecasting or aggregates but it does not yet allow to produce all the information needed for compiling ESS in an automatic way. The MOF should be trained to be able to apply all the functionalities of the CS-DRMS. The mission suggested to contact other compilers who may know about the functionalities of the system.

Recommendations:

- Include the original maturity breakdown for all financial instruments in the balance of payments, the IIP, and the EDS.
- Review the Excel-based loan-by-loan external debt database: (i) include the missing loans; (ii) exclude the swap facilities from the estimates; and (iii) review the sectoral allocation of each loan.
- Update the IIP and the balance of payments statistics from September 2013 to include (i) the accrued interest of the rest of the loans (other than those under the grace period) in the primary income account of the balance of payments, (ii) the accrued interest not yet paid of the period in the financial account of the balance of payments and (iii) the outstanding amount of interest in the IIP.
- Request from the MOF information on fees and charges to reclassify these values from primary income-other investment-interest to the services account.
- Expand the current coverage of the EDS by including all debt liabilities components, based on data from IIP.
- Check the consistency between external debt positions and IIP liabilities previous to the dissemination.

- Maintain and update the Excel-based loan-by-loan external debt database to estimate the accrued interest and the loans liabilities transactions and positions with quarterly periodicity.
- Participate in the QEDS database, providing the tables prepared during the mission (Tables 1 and 6). Check the consistency between the total external debt provided in these tables and the IIP.

C. Direct Investment

23. Enterprises with foreign direct investment (FDI) are requested to submit through the ESS form information on direct investment into the enterprise. The ESS form collects external transactions and positions including direct investment data: data on equity; debt instruments; and primary income (dividends, reinvested earnings, and interest). Compilers obtain FDI data from 38 companies out of 61 FDI companies. The list of FDI companies is provided by the Ministry of Economic Affairs (MEA). MRSD compilers plan to visit all these 61 companies in the coming weeks, to explain to them the survey form and request the submission of quarterly data with quarterly timeliness. After these visits, compilers expect to largely improve the coverage of FDI statistics.

24. The mission assisted compilers in developing a more clean and integrated FDI worksheet. The mission reviewed the new worksheet recently prepared by the MRSD compilers to replace the current FDI compilation file which is not easy to manage and produces inconsistencies between the balance of payments and the IIP. During the mission, the new file was populated with FDI data for two years, 2015 and 2016, aggregated data were calculated and mapped to the standard components of the balance of payments (overall, with India, and with COTI) and IIP statistics and validations were included to assure the consistency of these datasets. The mission with compilers reviewed the compiled data and found some inconsistencies, for example, a bank had misreported its equity and some values with the Indian number format were not added to the total and therefore, not included in ESS. Appendix V shows the differences between the reviewed values and the disseminated values, the compilers will review and explain these differences before disseminating updated data.

25. The calculation of reinvested earnings was reviewed. The reinvested earnings are correctly calculated for each company, as quarterly net profits before dividends multiplied by the percentage of foreign ownership. When dividends are reported, once per year, the dividends paid to foreign owners are deducted from the calculated reinvested earnings. Accumulated reinvested earnings are included in the direct investment equity positions. The mission prepared some validations to assure the consistency of the values of reinvested earnings included in the primary income, the financial account, and the IIP and to cross check the income account (dividends and interest) with the IIP (equity and debt instruments).

26. No data are reported under direct investment – interest, in the primary income account. Some direct investment enterprises in Bhutan have loan liabilities to their direct

investors but they do not report incurred interest. Compilers were informed that some of these loans between related companies do not accrue interest. The mission explained that this could be considered “transfer pricing” and an adjustment could be made in the balance of payments (a market interest rate should be recorded in the primary income account and an increase on liabilities-direct investment equity as a contra-entry). However, as the amounts are not relevant, and the interest rates are low, the mission considers that the adjustment should not be made at this moment.

27. The Foreign Exchange and Reserve Management Department (FERD) of the RMA collects the financial statements of the FDI companies. The mission, together with MRSD, met with the FERD. Only four FDI companies currently submit their monthly financial statements to the FERD. Although the number of reporters is very small, the financial statements collected by the FERD should be periodically validated with the information provided in the FDI surveys to the MRSD. During the meeting, the mission checked that the value of equity provided by an insurance company in the financial statements was Nu 130 million and the value of equity provided by the same company in the FDI survey was Nu 13 million. This large discrepancy should be investigated and corrected. The financial statements collected by the FERD should be used to periodically cross-check the data provided by the FDI companies through the surveys.

28. The FERD and the MRSD plan to visit all FDI companies during April. The FERD will visit the 61 FDI companies resident in Bhutan for inspection. A staff from the MRSD will join these visits to explain the ESS survey form to all FDI companies and request the submission of quarterly data to increase the number of FDI reporters and the coverage of the FDI statistics.

29. The mission, together with MRSD, met with the Monetary and Financial statistics (MFS) compiler. The mission found that the estimated value of direct investment equity of a commercial bank was much larger than the value included in MFS. The difference could be due to the different valuation methods applied. Equity is valued at market value in the IIP and at book value in MFS, however, the estimated market value should be reviewed and confirmed.

30. Discrepancies between the coordinated direct investment survey (CDIS) and the IIP. The MRSD was aware of the large discrepancies between the CDIS and the direct investment positions included in the IIP. The reasons for these discrepancies are explained in the CDIS metadata questionnaire: “Misclassification of data and different compiler for CDIS and IIP”. These datasets are compiled using the same data sources, therefore, they should be consistent. Compilers explained that to submit CDIS data, the values for nonresponding companies are estimated carrying forward the values from the previous period. When the estimated values are received, IIP data are reviewed but CDIS data are not updated. The mission explained that CDIS data should be also annually reviewed when new FDI data are collected.

31. CDIS will be compiled using the same data sources as the direct investment in the IIP. The mission also explained to compilers how to use the new FDI worksheet to complete the CDIS form, which has to be consistent with the direct investment data included in the IIP. The

CDIS collects direct investment positions broken down by partner economy. In the CDIS, compilers will apply the following confidentiality rule, when one value includes the amounts provided by less than three companies, this value will be considered confidential and provided as a “C”. The total unallocated data, including confidential, should be provided as an aggregated value.

Recommendations:

- Request direct investment data from all 61 FDI companies to improve the coverage of FDI statistics.
- Use the new FDI worksheet to compile FDI data, regularly validate the consistency between the balance of payments and the IIP.
- Review and explain the differences between the FDI data compiled in the new file and the published FDI data.
- Compile CDIS data using the new FDI worksheet, review CDIS data from 2013, and check the consistency between CDIS and direct investment data included in the IIP before the submission.
- Update the CDIS metadata questionnaire to indicate that CDIS and IIP data are consistent.
- Request from the FERD the financial statements of the FDI companies and cross-check the equity values with the information collected through the FDI surveys.
- Review the difference in the equity position reported by an insurance company in the FDI form and in the financial statements.
- Review the difference between the market value and the book value of the equity position of a commercial bank.

D. Hydropower Projects

32. The Hydropower authorities submit quarterly data to the MRSD on their international transactions related to the hydropower projects. MRSD collects quarterly data from the five hydropower generating companies and from three hydro projects through the general ESS survey form. The MRSD plans to also request information from the two new hydropower projects which started in the last two years. As indicated by previous missions, most construction projects are long-term and take years to complete. That might suggest foreign contractors should be included in inward FDI and treated as residents. However, the mission investigated and found that most of the construction projects are undertaken by foreign constructors which are not registered in Bhutan and do not pay income taxes. As agreed in

previous missions, in principle, the activities related to the construction of hydropower plants will be included in the balance of payments as construction services.

33. Currently, there are five hydropower projects in Bhutan. The mission explained to compilers how to record the international transactions related to these projects in the balance of payments, when the company undertaking the construction project is nonresident and prepared an example included in Appendix VI. Balance of payments transactions related to these companies include:

- **Construction services-debits** should include the quarterly disbursement to foreign contractors for the cost of the project incurred during the quarter. The cost will mainly include: (i) goods and services imported; (ii) salaries paid; (iii) acquisition of goods and services from Bhutan; (iv) payments to local contractors; and (v) the profit margin:
 - o The goods imported by foreign contractors are included in the balance of payments as imports of general merchandise rather than construction services. This treatment does not affect the result of the current account but is a misclassification in goods and in services. New information could be used for the reclassification from general merchandise to construction services.
 - o The rest of the cost (total construction cost minus goods imported) should be recorded under construction services debits. The MRSD estimates this amount by applying a rate of 15 percent to the total contract amount for construction services, this percentage was estimated and provided by the MEA. Therefore, the imported goods would represent 85 percent of the total cost of the project. The mission recommended to obtain information on the goods imported by foreign contractors and update this percentage that could be underestimated.
- **Construction services-credits** should include: (i) acquisition of goods and services by foreign contractor from Bhutan; and (ii) the quarterly disbursement to local contractors for the cost of the construction. The salaries paid to residents by foreign contractors should be included in primary income-compensation of employees-credits. This information is not yet included in the balance of payments.

34. When the company undertaking the construction project is resident, and FDI company is created. If the external operations of a construction enterprise are substantial enough, then an FDI company resident in Bhutan is created. Accordingly, there may be goods and services supplied between the branch and the parent, such as for materials that should be included in FDI. The value of goods imported for constructions should be classified as general merchandise and the value of other services imported in relation to the projects (e.g., architectural, engineering, and other technical services) should be classified under the relevant category (e.g., other business services). In this case, the construction service is provided by a resident company, therefore, no entries should be recorded under construction services.

35. Other transactions related to hydropower projects include: (i) exports of electricity, collected through monthly reports from the five completed hydropower plants; and (ii) grants and loans: the contra entry for payments for the transactions mentioned above to loans or grants, depending on how the project is financed. This information is provided by the MOF.

36. Trade credits on export of electricity are estimated. The MRSD estimates trade credits on export of electricity as the difference between the exported amount minus the received amount in each quarter. This information is complemented with the values collected through the surveys from non-hydro companies.

37. Compensation of employees and workers' remittances. The MRSD estimates the values of compensation of employees and workers' remittances based on the information received from the immigration department. The immigration department provides detailed information on foreign workers, including their wages and salaries. Foreign workers are classified as residents (long-term workers) or nonresidents (short-term workers) based on their skills (for example, teachers are classified as short-term workers because they stay in Bhutan nine months per year). The salaries received by nonresident foreign workers are classified under compensation of employees - debits, and 70 percent of the salaries received by resident foreign workers are classified as workers' remittances. These estimates should be compared with the information provided by the hydro authorities on the surveys. The mission explained that the salaries earned by nonresident foreign workers from nonresident contractors should not be included in the balance of payments. The mission prepared the table included in Appendix VII to explain the transactions that should be included under these components.

38. The MRSD has prepared a new survey form to collect detailed data from the hydropower authorities from 2007. The mission reviewed the form and provided some suggestions to collect sufficient data to compile international transactions of hydropower projects in line with international standards, as indicated in paragraph 33. Compilers should visit all five hydro authorities with projects under constructions to explain the new report form and request detailed quarterly information on these projects. This new form will allow to improve the coverage of hydro projects. MRSD has already collected customs information from the Department of Revenue and Customs of the MOF on the goods imported by three hydropower projects, however, this information was considered underestimated. The MRSD is in process of collecting similar information from individual hydropower authorities, through the new survey, in order to check the consistency with the data on merchandise imports provided by the MOF.

Recommendations:

- Estimate the value of goods imported by foreign contractor to update the percentage applied to the construction cost to obtain the values of construction services-debits.
- Meet with the five hydropower authorities with projects under construction to explain the new report form and request the submission of quarterly data.

- Collect data from the five hydro projects using the new form and check the new information with the current data included in ESS to assess the revisions.
- Once the collected data through the new forms are validated, review ESS data, and submit revised data to STA.
- Compare the estimated values on compensation of employees and workers' remittances with the information provided by the hydro authorities in the survey forms and review the estimates.

E. Other Issues

39. IIP data should be consistent with the financial account of the balance of payments.

At the request of the MRSD, the mission prepared a file to validate the consistency between the financial account of the balance of payments and the IIP and the following inconsistencies were found and corrected during the mission:

- In December 2016, loans liabilities of the central bank reported in the IIP decreased from US\$206 million to US\$103 million and no transactions were reported in the balance of payments. Compilers found that the value of the transaction was missing in the output file.
- In December 2014, large increase in direct investment - debt instruments in the IIP, not recorded in the balance of payments because the input file had values instead of formulas.
- From March 2016, some trade credit transactions were missing because the formula pointed to a blank line below the values.
- In the IIP, currency and deposits assets of other sectors could be further classified under NFCs.

40. Assets - Currency and deposits - Other Sectors. The Bank for International Settlements (BIS) collects and disseminates international banking statistics which provide quarterly data on banks assets and liabilities, in the form of deposits and loans, with nonresident counterparts broken down by banks and nonbanks, and by economy. The data for nonbanks (available at: Table A6 <http://www.bis.org/statistics/bankstats.htm>) can be used in compiling IIP assets- other investment- deposits- other sectors. However, the nonbank sector includes not only other sectors but also the general government sector. Therefore, compilers would have to estimate the amount corresponding to general government to exclude these positions from the nonbank sector to avoid double counting. In June 2017, the value provided in the BIS database of currency and deposits in nonresident commercial banks held by residents in Bhutan was US\$337 million. However, the value recorded under this component in the IIP of Bhutan was US\$2 million. The compilers indicated that residents in Bhutan are not allowed to hold deposits in foreign currency abroad, therefore, they should investigate the values provided in the BIS database. This database

should be used to compile transactions and positions on currency and deposits assets of other sectors.

41. The IIP metadata questionnaire was submitted to STA. The mission and compilers completed the IIP metadata questionnaire and submitted this questionnaire for the first time to STA for dissemination.

Recommendations:

- Check the consistency between the financial account of the balance of payments and the IIP before the quarterly data dissemination.
- Review the values of currency and deposits assets of other sectors provided by the BIS. Assess if these values should be included in the financial account of the balance of payments and the IIP.

F. Staff Resources

42. The ESS are compiled by the External Sector Unit of the RMA's MRSD. The External Sector Unit consists of four staff members who are in charge of data collection, compilation, and dissemination of balance of payments, IIP, external debt, and CDIS statistics. The four staff members are knowledgeable in the balance of payments methodology and dedicated to the assigned tasks, all have undergone training in ESS. Consequently, the mission considers that the External Sector Unit staff should not be moved to another department to assure the improvement on the quality of the ESS of Bhutan. Also, as compilers have to manually process most of the collected data, the mission recommended to allocate an additional assistant to the External Sector Unit to assist in the processing of the data.

43. The work load related to the compilation of ESS is continuously increasing, due to the increase on the coverage of these statistics, the launch of a new survey for hydro authorities, the upcoming participation of Bhutan in the World Bank's QEDS database, and the continuous improvement in the quality of the ESS through new validations and new estimates. Therefore, the mission considers that any staff turnover could undermine the quality of Bhutan's ESS.

Recommendations:

- The RMA's human resource policies should support skills retention to assure the further development of ESS. Staff should keep learning and applying their knowledge to the improvement of the quality of ESS of Bhutan.
- Allocate an additional assistant to the External Sector Unit to assist in the processing of data.

G. Officials Met During the Mission

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Appendix I. Progress on Recommendations from May 2015 Mission

Recommendation	Institution in Charge	Completion Date	Progress
Based on data available in the customs declarations database, conduct an estimation of ratio of freight and insurance in total cost of imported goods from COTI, as well as of freight and insurance of goods imported from India.	RMA, DRC	2017	Completed but not implemented.
Use data from the RAMIS to estimate the ratio of freight and insurance in total cost of imported goods from India and COTI, and discounts received from imports from India.	RMA, DRC	2017	Completed.
Launch an ad-hoc survey of undeclared import of goods by individuals.	RMA	November 2015	To be completed by 2018/19.
Complete the consolidation of EDS source data from the DMEA (CS-DRMS) and from the RMA into a single database.	RMA, MOF	November 2015	Completed.
Submit a formal request to the management of Hydro authorities (Thimphu office) to access the monthly reports submitted to them by the major contractor.	RMA	November 2015	Ongoing (To be completed by 2018/19 (June 2019)).
Use data sourced from the contractors' reports and include the value of goods and services acquired from domestic entities under construction services credit.	RMA	November 2015	Ongoing.
Uses the data sourced from the contractors' reports to review current methodology of estimating construction services debit (other than applying the current 15 percent).	RMA	November 2015	Ongoing.
Explore the possibility of collecting monthly reports from other hydro authorities in order to have a sufficient coverage of import of hydropower goods. If feasible the data should be used to deduct the value of imported hydropower goods from general merchandise and to include it under construction services.	RMA	November 2015	Ongoing.
Classify as secondary income – current taxes – general government – credit the data on taxes paid on vehicles sourced from the reports obtained from contractors.	RMA	November 2015	To be completed by 2018/19.

Recommendation	Institution in Charge	Completion Date	Progress
Investigate in cooperation with the Monetary and Financial Statistics compilers the list of foreign exchange account holders collected by the FERD in order to segregate deposits of residents and nonresidents. Based on the results compilers should revise previous compilation of nonresidents' deposits in commercial banks accordingly.	RMA	June 2015	To be completed by 2018/19.
In cooperation with the TCB, estimate revenue from travel services in addition to the value from the Tashel system and include in balance of payments under travel services, credit.	RMA	December 2015	To be completed by 2019/20.
Disseminate quarterly EDS on the RMA's website and through the World Bank's Quarterly EDS webpage.	RMA, MOF	July 2015	To be completed by September 2018.

Appendix II. External Debt Positions vs. IIP Liabilities

(In Millions of USD)

EDS from IIP	2016Q4	2017Q1	2017Q2
General Government	571	602	631
Long-term	571	602	631
Loans	571	602	631
Central Bank	171	177	177
Short-term	60	61	60
Currency and deposits	60	61	60
Long-term	111	116	116
Special drawing rights (allocations)	8	8	8
Loans	103	108	108
Deposit-Taking Corporations, except the CB	31	37	35
Short-term	31	37	35
Currency and deposits	31	37	35
Other Sectors	2,039	2,299	2,334
Short-term	21	30	30
Trade credit and advances	21	30	30
Long-term	2,018	2,269	2,304
Loans	2,018	2,269	2,304
Direct Investment: Intercompany Lending	57	57	57
Debt liabilities of direct investors to DIE	57	57	57
Total ED (From IIP)	2,869	3,172	3,233

Table 21 Outstanding External Debt	2016Q4	2017Q1	2017Q2
Convertible Currency Debt	601	631	663
Public	571	601	633
Private	30	30	30
Rupee Debt	1,650	1,840	1,842
Hydropower debt	1,547	1,732	1,734
Other: GOI Line of Credit	103	108	109
Total ED (RMA's Monthly Bulletin)	2,252	2,470	2,505

Appendix III. Loans Liabilities—Revised Data vs. Published Data

US Dollars	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
IIP							
Loans liabilities							
Published data	2,246,119,411	2,452,030,048	2,683,381,117	2,821,231,038	2,691,927,995	2,974,325,162	3,055,439,105
Revised data	2,174,949,413	2,396,856,198	2,611,193,502	2,744,747,293	2,592,999,757	2,887,422,773	2,959,062,406
Diff	71,169,998	55,173,850	72,187,616	76,483,745	98,928,238	86,902,389	96,376,700
%	3%	2%	3%	3%	4%	3%	3%
BOP							
Loans liabilities							
Published data	15,837,601	192,152,134	269,599,798	107,298,202	38,937,308	171,141,564	50,331,879
Revised data	8,189,261	194,214,662	252,298,011	103,872,039	(86,083,883)	187,225,615	41,003,013
Diff	7,648,340	(2,062,528)	17,301,786	3,426,164	125,021,191	(16,084,050)	9,328,866
	48%	-1%	6%	3%	321%	-9%	19%
Interest							
Published data	43,578,593	36,213,013	48,785,767	42,789,449	53,141,356	43,807,616	56,838,871
Revised data	34,937,658	38,032,673	42,710,890	44,177,841	42,495,739	45,578,350	47,084,533
Diff	8,640,935	(1,819,660)	6,074,877	(1,388,392)	10,645,618	(1,770,734)	9,754,338
	20%	-5%	12%	-3%	20%	-4%	17%

Appendix IV. Formulas on Accrued Interest for ESS

<u>Variables calculated</u>	<u>Formula</u>
ACCRUED INTEREST	(Disbursement - Principal Payment) * Interest rate/4
BOP FA Transaction	Outstanding stock at the end of the quarter (in original currency) - Outstanding stock at the end of the previous quarter (in original currency)
OUTSTANDING STOCK	Disbursement (Accumulated)- Principal Payment (Accumulated) + Accrued interest not yet paid (Accumulated)
Accrued interest not yet paid (Accumulated)	Accrued interest not yet paid of the previous period (accumulated) + Accrued interest not yet paid of this period (Total accrued Interest of the period - Interest paid (Accumulated interest at the end of the period - Accumulated interest at the end of the previous period))

Variables provided by MOF

DISBURSEMENT	Aggregated from start of loan
INTEREST PAID	Aggregated from start of loan
Fees and Charges	Flows
PRINCIPAL PAYMENT	Aggregated from start of loan
INTEREST RATE (In columns)	

BOP and IIP Data

Standard Components

ACCRUED INTEREST	BOP- Primary Income- Other investment- Interest
BOP Flows	BOP- Financial Account- NIL- Other Investment- Loans-Sector – short/long term (by sector: GG, CB, NFCs)
OUTSTANDING STOCK	IIP- Liabilities- Other Investment-Loans-Sector – short/long term (by sector: GG, CB, NFCs)

Appendix V. Direct Investment—Revised Data vs Published Data

	(In Millions of USD)						
	Mar"15	Jun"15	Sept"15	Dec"15	Mar"16	Jun"16	Sept"16
IIP							
Equity							
OLD	7,874	8,527	7,436	7,291	7,356	7,558	8,807
NEW	7,580	7,552	7,712	7,987	7,835	7,129	7,095
Diff	-294	-976	276	696	478	-428	-1,711
%	-4%	-11%	4%	10%	7%	-6%	-19%
Loans							
OLD	3,624	3,675	3,791	3,809	3,786	3,858	3,795
NEW	3,624	3,675	3,791	3,810	1,636	1,677	1,622
Diff	0	0	0	1	-2,149	-2,181	-2,173
%	0%	0%	0%	0%	-57%	-57%	-57%
BOP							
Equity							
OLD	45	-12	63	83	45	73	-903
NEW	44	-12	68	168	56	-591	43
Diff	-1	0	5	85	11	-664	946
%	-2%	0%	8%	103%	26%	-913%	-105%

Appendix VI. Example. Transactions on Construction Projects by Nonresidents

NR Contractor	2017Q1
Import of goods	1,000
Acquisition of goods from Bhutan	600
Salaries	500
Residents (foreign workers)	200
Nonresidents	300
Import of Services	100
Disbursement to local contractors	400
Profit Margin	50
Total Cost	2,650

Construction in the compiling economy (10.106 BPM6)

a) Construction work for residents of the compiling economy by nonresident construction enterprises (debit)

BOP Transactions	2017Q1			
	Current Account	Financial Account	NAFA	NIL
	Credit	Debit		
Construction				
Construction Services		2,650		
Assets- C&D			-2,650	

b) The goods and services acquired in the compiling economy from resident enterprises by these nonresident construction enterprises (credit)

BOP Transactions				
	Current Account	Financial Account	NAFA	NIL
	Credit	Debit		
Salaries to Residents				
Primary Income Compensation employees	200			
Assets- C&D			200	
Acquisition of goods from Bhutan				
Construction Services	600			
Assets- C&D			600	
Disbursement to local contractors				
Construction Services	400			
Assets- C&D			400	
Remittances (70% salaries to Resident foreign workers)				
Workers' remittances		140		
Assets- C&D			-140	

Appendix VII. Compensation of Employees and Workers' Remittances

Salaries paid by	Salaries paid to		Salary	Remittances
By Foreign Contractors (nonresidents)	Residents	Bhutanese	Compensation of employees (credit)	
		Foreign	Compensation of employees (credit)	Estimates remittances (debits) (% of salary)
	Nonresidents	Foreign	Between NR	Between NR
By other nonresidents	Residents	Bhutanese	Compensation of employees (credit)	
		Foreign	Compensation of employees (credit)	Estimates remittances (debits) (% of salary)
	Nonresidents	Foreign	Between NR	Between NR
By residents	Residents	Bhutanese	Between R	
		Foreign	Between R	Estimates remittances (debits) (% of salary)
	Nonresidents	Foreign	Compensation of employees (debits)	Between NR

R = residents, NR = nonresidents