

# Banking Infrastructure in Bhutan: An Assessment of Commercial Bank Branches

---

RODERICK WIJUNAMA<sup>1</sup>

ABSTRACT: This paper in trying to examine and understand the banking system in Bhutan, particularly its infrastructure and banking penetration, undertakes a cross-sectional review of dzongkhag-wise statistics of Bhutan. It presents four broad findings. First, in terms of its financial infrastructure vis-à-vis its population, Bhutan has sufficient infrastructure in place. The spread of its financial institution is comparatively much better than India, with at least 3 bank offices in place for each dzongkhag. Second, Bhutan Development Bank Ltd and Bank of Bhutan are two banks which have its bank offices in all of the dzongkhags and hence have the highest reach. These two banks also have the highest number of deposits and credit accounts. This could perhaps be attributed to their precedence in arrival, in the sector. Thirdly, it is observed that there is a huge disparity between deposit accounts and credit accounts. While some dzongkhags have a relatively good amount of deposit accounts, the figure for credit is largely still low. Fourth, and finally, it is observed that Thimphu has a very disproportionate share of financial banking services, especially in credit dissemination. This article concludes by highlighting the need to decentralize finance, primarily in terms of its accessibility.

---

<sup>1</sup>Roderick Wijunamai is an Associate Lecturer in the Department of Social Sciences, RTC. He holds an MA in Development Studies from Tata Institute of Social Sciences, Mumbai.

## Introduction

Bhutan, like all its other aspects of the economy and the country as whole, has a very unique and interesting evolution of its banking system. Unlike India, its immediate neighbour, who nationalized and made the Reserve Bank of India, a privately owned bank, into a central bank in 1935 with the 'Reserve Bank of India Act, 1934,' Bhutan established the Royal Monetary Authority of Bhutan (RMA) in Thimphu with the 'The Royal Monetary Authority of Bhutan Act 1982,' and made it operational the year after (1983). The Bank of Bhutan (BOB), the oldest national bank established by a Royal Charter in May 28, 1968<sup>2</sup>, acted as the Central Bank from 1968 until 1982. It executed all the functions of a central bank along with the Ministry of Finance and the State Trading Corporation of Bhutan. The State Bank of India (SBI) facilitated BOB to improve its banking services. This partnership led to the re-constitution of the equity share holding of BOB, a 40 percent of the equity share ownership was given to SBI in 1971 (RMA, 2015). This also marks the first advent of foreign bank investment in the banking sector of the Bhutanese economy. Eventually, the Royal Government of Bhutan (RGoB) expanded its equity share and reduced the share of SBI to 20 percent in 2002 (ibid). While banking services were taken care of by the BOB, the printing and issuing of currency was done by the Ministry of Finance. It issued a variety of Ngultrum denominations, ranging from Nu 1 to Nu 100, ever since the 1974 monetary reform<sup>3</sup>. At that time, the then prevailing currency 'Chhetrum,' with the institutionalization of the new currency, was equated to  $\frac{1}{100}$  of Ngultrum. This means that one Ngultrum was equated to 100 Chhetrum.

This article reviews the dzongkhag-wise statistics to examine and understand the banking system in the country, more particularly its infrastructure and banking penetration across dzongkhags. A longitudinal panel research was initially attempted, to examine the trends and progress of banking system in the country. However, owing to unavailability of data, this article maneuvered to a cross-sectional research by procuring the latest available data of all the dzongkhags from the National Statistics Bureau of Bhutan. This article concludes with the observation that banking infrastructure in the form of bank offices is at least ostensibly in place, yet, except Thimphu, and to a certain

---

<sup>2</sup><https://www.bob.bt/about/> (Accessed on March 7, 2019)

<sup>3</sup><https://www.rma.org.bt/historytp.jsp> (Accessed on March 7, 2019)

extend Chhukha and Bumthang, the penetration and access to banking is still very low across dzongkhags.

There is no gainsaying that Information and communications technology (ICT) has significantly changed the way banking system operates across the world. The same maybe the case for Bhutan. In October 2010, the RMA announced the following, to commercial banks, in relation to applications for branchless banking: “to act as mobile banks to deliver financial services, instead of relying on physical bank branches.”<sup>4</sup> This eventually led to RMA commissioning Bhutan Development Bank Limited (BDBL), in 2015, to introduce mobile and branchless banking technology at the gewog level (ADB, 2016). This was done in partnership with the Asian Development Bank (ADB), under the ‘Strengthening Economic Management Program II’, which was formulated with an aim “to reach the underserved and raise financial literacy.” This article while acknowledging the slow transitioning of the Bhutanese banking scenario owing to the incorporation of ICT and other related initiatives, does not engage with this dimension. This decision is made on two grounds; first, data of such indicators are not readily available in the public domain, at least not yet. Second, such initiatives are still being rolled out and it appears too early to be taken into account and studied systematically. An informed World Bank research report, in view of this, indicated that,

The mobile phone and internet technology available in Bhutan does not appear to be driving financial inclusion. While mobile phone banking has revolutionized banking in countries with difficulties in financial access similar to those in Bhutan, its outreach has been constrained by the limited mobile banking technology in use and by the low English-language literacy in Bhutan (Niang, 2013, p. 5).

This article hence exclusively analyses the distribution pattern of physical bank branches, and bank accounts (both deposit and credit) across dzongkhags, and in doing so attempts to analyze it vis-à-vis population figures.

---

<sup>4</sup>[http://country.eiu.com/article.aspx?articleid=47781589&Country=Bhutan&topic=Economy&subtopic=Curr\\_7](http://country.eiu.com/article.aspx?articleid=47781589&Country=Bhutan&topic=Economy&subtopic=Curr_7) (Accessed on May 7, 2019)

## Evolution of Banks and Financial Institutions in Bhutan

Until 1997, the Bank of Bhutan (BOB) was the only commercial bank operating in Bhutan. It was only in January 6, 1997, that the Bhutan National Bank (BNB) was officially opened with the aim “to promote and inculcate saving habits among the general public and to channel capital to productive sectors in the economy” (RMA, 2015; p. 147). BNB was originally set up as a ‘Unit Trust of Bhutan’ in 1980 by the Royal Government as a subsidiary of Royal Insurance Corporation of Bhutan (RICBL). It got its status of ‘independent financial institution’ only in 1992, but later, with the assistance of the Asian Development Bank, this trust was converted into a commercial bank in the year 1995<sup>5</sup>. The equity of the bank was floated to the public in December 5, 1996, making it the first bank to be owned by the public. Along with it, 40 percent of its equity was owned by the Asian Development Bank and Citibank, while the remainder was owned by RGoB and RICBL.

The most significant year for the banking industry in Bhutan was however the year 2010. Three banks, of the five existing banks, were either opened or became operational in the first three months in the year 2010. First, Druk PNB Bank Limited (DPNBL) started its business on January 27, 2010. It not only became the third bank to be established in the country, but also the third bank to receive FDI in the banking sector. Its first office was opened at the Bhutan-Indo border city of Phuentsholing. It was incorporated in the banking sector as a joint venture bank with a majority of 51 percent shareholding by Punjab National Bank (PNB), another major Indian bank. The remaining 49 percent was an amalgamate of local promoters and the public.

In March 12, 2010, T-Bank Limited launched its operation “to meet the growing demand of the banking services of the general public and to provide cohesive competition in the financial sector in Bhutan.”<sup>6</sup> The bank made its headway with three domestic promoters holding a total of 60 percent shares, while the remaining shares were floated to the public.

Finally, the Bhutan Development Bank Ltd (BDBL) which existed since January, 1988, evolved into a deposit-taking commercial bank, with cheque facilities, in March 2010. Prior to that, BDBL functioned as a development finance institution with assistance from the Asian Development Bank (ADB)<sup>7</sup>. Its primarily objective was to

---

<sup>5</sup><https://www.adfiap.org/members/BNB/BNB.htm> (Accessed on March 7, 2019)

<sup>6</sup> <http://www.tbankltd.com/about-us/> (Accessed on March 8, 2019)

<sup>7</sup> [http://bdb.bt/?page\\_id=471](http://bdb.bt/?page_id=471) (Accessed on March 7, 2019)

assist the private sector by providing financial and technical assistance for industrial, agricultural, and commercial projects.

Apart from these five banks, there are three other Non-Bank Financial Institutions (NBFIs), two insurance companies and one pension fund: Royal Insurance Corporation of Bhutan Ltd (RICBL), Bhutan Insurance Ltd (BIL), and National Pension Provident Fund (NPPF). RICBL is the second oldest financial institution in the country. It also started its operation with the Royal Charter of His Majesty the fourth Druk Gyalpo, Jigme Singye Wangchuck, on the 7<sup>th</sup> of January 1975. The objective envisaged was “primarily to meet the insurance need of its Citizen as well as to actively participate in the economic development of the nation.<sup>8</sup>” 39.3 percent of the shares in RICBL is owned by the RGoB while the remaining 60.7 percent owned by the public.

On the other hand, BIL, which started its operations on August 20, 2009, has 32 percent of its share owned by local promoters, and 68 percent by public holding<sup>9</sup>. NPPF was set up on March 30, 2000, for managing and administering retirement schemes in the country. On March 9, 2007, RMA licensed NPPF to carry out limited financial services, and subsequently also brought it under the purview of RMA in July 1, 2007 with the objective to “ensure that members’ funds were safeguarded.” The form and function of NBFIs is outside the scope of this article, however.

## Financial Sector Development

The Global Financial Inclusion’s Global Findex supposedly “is the world’s most comprehensive set of data on how people make payments, save money, borrow, and manage risk... launched in 2011, [it] includes more than 100 financial inclusion indicators that allow worldwide comparisons of adults’ access to financial services, including by gender, age, and household income.<sup>10</sup>” Although the 2014 Global Findex database shows a low 34 percent of formal financial institution penetration in Bhutan, which is lower than the 53 percent for India, Bhutan has a good population-bank ratio. This means that the ratio of banks to population is very decent and that sufficient infrastructures seems to be in place for a higher financial inclusion.

---

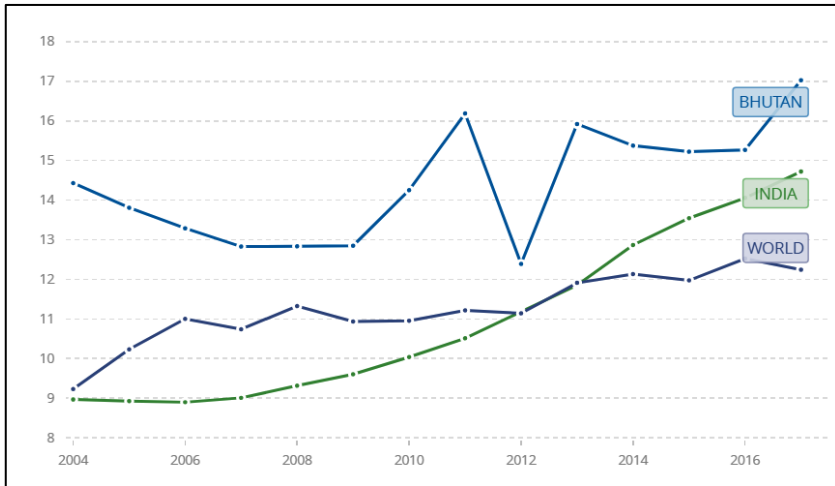
<sup>8</sup> [https://www.ricb.bt/company\\_profile](https://www.ricb.bt/company_profile) (Accessed on March 8, 2019)

<sup>9</sup> [http://www.bhutaninsurance.com.bt/index.php?page\\_id=101](http://www.bhutaninsurance.com.bt/index.php?page_id=101) (Accessed on March 8, 2019)

<sup>10</sup> <https://www.worldbank.org/en/events/2018/04/23/global-findex-fintech-inclusion> (Accessed on April 12, 2019)

According to World Bank data, Bhutan’s bank ratio shows a much better figure compared to its giant neighbour, even as India is on the way of becoming a world economic powerhouse. Figure - 1 shows the number of branches of commercial banks for every 100,000 adults in the reporting country.

**Fig 1: Graph of commercial bank branches/offices per 100,000 adults<sup>11</sup>**



Source: International Monetary Fund, Financial Access Survey 2017

In its extent of financial inclusion, as on December 2017, 64.47 percent of adults in Bhutan had a savings account with a bank, but just 16.08 percent had access to credit while 17.79 percent held a life insurance policy (RMA, 2018). This means that a higher exclusion occurs in credit sanctions and insurance coverage.

Financials inclusion is facilitated by financial sector development. Few of the indicators one can look at, to examine financial sector development are: number of bank branches, progress in bank credit, growth in bank deposits, and trends in Credit-Deposit Ratio. The discussion in this article confines itself to the number of bank branches, the number of deposit accounts and the number of credit accounts (owing to the researcher’s inability of accessing a dzongkhag-wise data of other indicators). This of course will not give us the exact picture of financial sector development, but will nevertheless serve to give a clear sense of it.

---

<sup>11</sup>Calculated as (number of institutions + number of branches)\*100,000/adult population in the reporting country.

As highlighted in Figure - 1, the bank branches to population ratio, as of 2017, if taken for the overall country, is decent and sufficiently in place. The graph/data translates to 1 bank office for every 5873 persons in the country, while the world's average (mean) stands at 1 bank office for every 8180, and while India at 1 bank office for every 6793. Studies in Indian banking have however shown that the penetration of banks in some regions are much worse (as low as 1 bank for every 18,626 person in some states - especially after banking reforms), making access to banking services very region specific and/or urban centric, as various scholars have indeed argued (Ramachandran & Swaminathan, 2002; Chavan, 2005; Ramakumar & Chavan, 2014; Wijunamai, 2017). Therefore, it is relevant and necessary to undertake a desegregated analysis of bank offices set up across the dzongkhags to analyse the distribution of bank offices across the country. By doing so, one can examine whether the banking system in the country is concentrated or dispersed, thus giving us an insight into the accessibility of banks. A synoptic view of the distribution of bank offices/branches across the country, as of 2019, is shown in Table - 1. The figures in the table are inclusive of all the bank offices, extension offices and head offices.

**Table 1: Bank-wise distribution of offices across Dzongkhags (as on 2019)**

	Dzongkhag	BOB	BNB	Druk PNB	BDBL	T Bank	Total Bank Offices
1.	Bumthang	1	1		1		3
2.	Chukha	4	1	1	4	1	11
3.	Dagana	1	1		1		3
4.	Gasa	1	1		1		3
5.	Haa	1			1		2
6.	Lhuentse	1	1		1		3
7.	Mongar	1	3		1	1	6
8.	Paro	1	2	1	1	1	6
9.	Pemagatshel	2			1		3
10	Punakha	1	2		1		4
11	Samdrup	2	1		1	1	5
12	Samtse	2	3	1	3	1	10
13	Sarpang	2	1	1	3	1	8
14	Thimphu	5	6	1	1+1	1	15
15	Tashigang	1	4		1	1	7
16	Tashiyangtse	1	1		6	1	9
17	Trongsa	1	1	1	1		4
18	Tsirang	1	1		1		3
19	Wangduephodra	1		1	2	1	5

20	Zhemgang	1	1		2		4
	<b>Total</b>	<b>31</b>	<b>31</b>	<b>7</b>	<b>35</b>	<b>10</b>	<b>114</b>

Source: Bank Websites; RMA Annual Report 2017

Based on Table 1, a few inferences can be drawn. First, the capital, Thimphu, has the maximum number of bank branches/offices in place. As per the data, most of the banks' head offices are also located in this dzongkhag. About 40 percent of the total bank offices in the country are concentrated in just four of the dzongkhags, namely Thimphu, Chhukha, Samtse and Trashiyangtse. Second, although BDBL started felicitating commercial bank operations only in 2010, it has the highest number of bank offices, with its offices present in all the dzongkhags. T Bank and Druk PNB, which also started its operation in the same year, on the other hand, have the lowest infrastructure in place, with its offices set up only in half and less than half the number of dzongkhags. Thirdly, BOB and BDBL are the only two banks which have its offices set up in all the dzongkhags. And interestingly, BDBL has more number of offices outside the capital, Thimphu, with the maximum number of bank offices located in Tashiyangtse.

Another observation one can make, from the table, about these two banks, is its large presence in Chhukha, the main gateway to India. Both BOB and BDBL share the characteristic of having the second highest number of offices in this dzongkhag.

While the data on the number of bank offices present in each of the dzongkhags gives us an idea of the spread of branches across the country. It gives us only half the picture of the infrastructure and consequently its accessibility. As noted earlier, one can get a better picture of financial structures in place by measuring the number of bank offices against population figures.

**Table 2: Dzongkhag-wise ratio of population-per-bank & other demographic indicators**

	Dzongkhag	Area (in km <sup>2</sup> )	Population (actual)	Population Density	Total Bank Offices	Population per bank
1.	Bumthang	2,717	17,820	7	3	5,940
2.	Chukha	1,880	68,966	37	11	1,620
3.	Dagana	1,723	24,965	14	3	8,322
4.	Gasa	3,118	3,952	1	3	1,317
5.	Haa	1,905	13,655	7	2	6,828
6.	Lhuentse	1,944	14,437	7	3	4,812
7.	Mongar	2,859	37,150	13	6	6,192
8.	Paro	1,293	46,316	36	6	7,719
9.	Pemagatshel	1,030	23,632	23	3	7,877
10.	Punakha	1,110	28,740	26	4	7,185

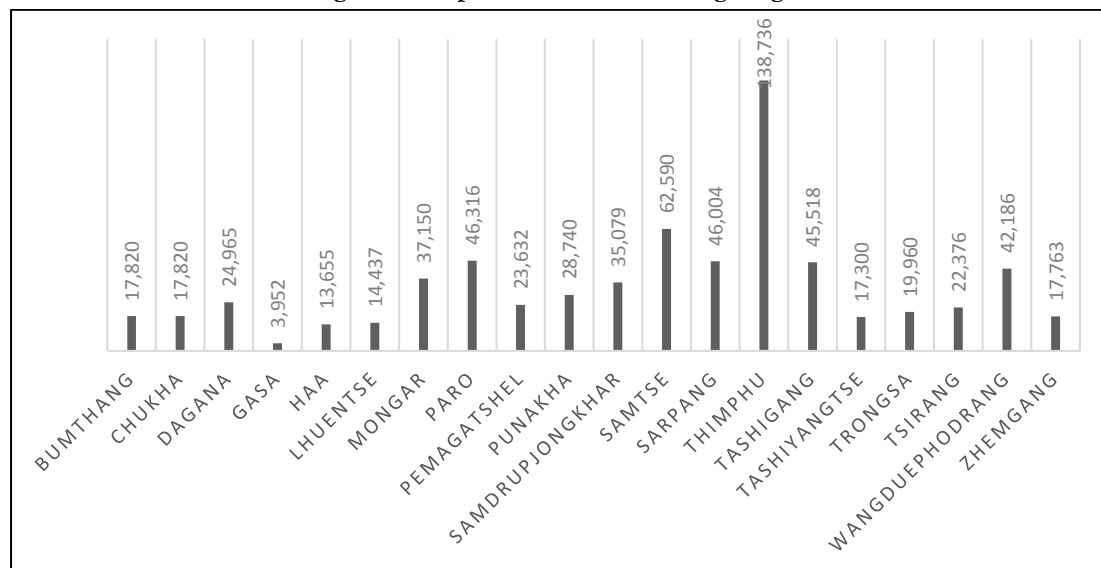


11.	Samdrupjongkhar	1,878	35,079	19	5	7,016
12.	Samtse	1,305	62,590	48	10	6,259
13.	Sarpang	1,946	46,004	24	8	5,751
14.	Tashigang	2,067	45,518	67	7	6,503
15.	Tashiyangtse	3,066	17,300	15	9	1,922
16.	Thimphu	1,438	138,736	12	15	9,249
17.	Trongsa	1,807	19,960	11	4	4,990
18.	Tsirang	639	22,376	35	3	7,459
19.	Wangduephodrang	4,308	42,186	10	5	8,437
20.	Zhemgang	2,421	17,763	7	4	4,441
	<b>BHUTAN</b>	<b>38,394*<sup>12</sup></b>	<b>727,145</b>	<b>19</b>	<b>114</b>	<b>6,378</b>

Source: 2017 Population and Housing Census of Bhutan,  
National Statistics Bureau of Bhutan

[Population excludes all non-Bhutanese/tourist; Density of Population is given in  
Population per km<sup>2</sup>]

Figure 2: Population Size of Dzongkhags



Source: 2017 Population and Housing Census of Bhutan,  
National Statistics Bureau of Bhutan

\*<sup>12</sup>The actual sum of all the Dzongkhag's area does not equal the figure in Total (it adds up to 40,454 km<sup>2</sup>). All the figures (of area, population & population density) in the table, both for the Dzongkhags and the country as a whole, has been reproduced in verbatim from 2017 Population and Housing Census of Bhutan.

Bhutan has conducted two rounds of population survey (census) to this date. The first round was conducted in 2005 and the second in 2017. The total population as of May, 2017 is 727,145 (National Statistics Bureau, 2017). Two years after the census survey, the UN Population Division estimated/projected the population of Bhutan to be 826,229, as of May 2019, a 1.2 (one point two) percent increase from the 2017 census. This 1.2 percent increase in population, however, may not be uniform across the dzongkhags, and deriving the new census across the dzongkhags based on the same percentage increase may lack precision. Hence, the 2017 population census of the dzongkhags was taken into consideration to derive a bank office-to-population ratio, and also in the later sections to analyse the bank accounts to population ratio.

While Thimphu and Samtse have the highest number of bank offices, it can be noted from Figure - 2 that these two dzongkhags also have the highest proportion of population in the country. Thimphu alone hosts almost 20 percent of the entire country's population. This justifies the high number of bank offices set up in the dzongkhag. Rather, if we were to look at the ratio, the very dzongkhag that has the highest number of bank offices also has the highest population-to-bank ratio. This means that there are lesser number of banks in the dzongkhag facilitating a bigger proportion of the population. The derived figure for Thimphu dzongkhag is one bank for every 9,249 persons, while the country's average stands at one bank for every 6,378 person. In contrast, Samtse, Chhukha, and Tashiyangtse, the dzongkhags with the second highest number of bank offices, have a very good population-to-bank ratio.

Table - 2, suggests that Chhukha has the best ratio of population-to-bank with one bank office in place for every 1620 person. Not very far from it stands Tashiyangtse, which has the second best ratio of population-to-bank with one bank office in place for every 1,922 persons in its dzongkhag. It is further interesting to note that exactly half the dzongkhags have a population-to-bank ratio higher than the country's average. This half includes the capital and two other top tourist destinations, namely Thimphu, Paro and Punakha.

Given the high population density in Thimphu (at least amongst the dzongkhags), it is possible to postulate that the accessibility to banking system, proximity-wise, is relatively well-facilitated. That said, it remains difficult to assume the reach of every population in any of the dzongkhags given its low density of population, topography and widely dispersed population. A look into the number of deposit and credit accounts will, however, offer us a fair idea of the advancement of financial inclusion amongst the population, having established that banks are seemingly distributed sufficiently across dzongkhags.

**Table 3: Bank-wise distribution of Deposit Accounts across Dzongkhags (as on 2019)**

	Dzongkhag	BOB	BNB	Druk PNB	BDBL	T Bank	Total
1.	Bumthang	7147 (2016)	5675 (2016)		4697 (2016)		17519
2.	Chukha		14139 (2016)	18265 (2016)	11173 (2016)	4564 (2016)	48141
3.	Dagana		103 (2016)				103
4.	Gasa				837 (2015)		837
5.	Haa	5032 (2016)	522 (2016)		4111 (2016)		9665
6.	Lhuentse				3622 (2015)		3622
7.	Mongar	19290 (2015)	2700 (2016)		12239 (2016)		24229
8.	Paro	11835 (2015),	13224 (2015)				25059
9.	Pemagatshel	8837 (2017)	408 (2017)		8978 (2017)		18223
10.	Punakha	7517 (2014)	3265 (2016)				10782
11.	Samdrup Jongkhar						0
12.	Samtse	6589 (2016)	1371 (2016)		7706 (2016)		15666
13.	Sarpang	15808 (2016)	2536 (2016)		5575 (2016)		23919
14.	Thimphu	67416 (2015)	68298 (2015)	4709 (2015)	159261 (2015)	17212 (2015)	22373
15.	Tashigang	11016 (2015)	6257 (2015)		5100 (2016)		6281
16.	Tashiyangtse	4936 (2016)	1345 (2016)				316896

17.	Trongsa	4543 (2016)	1978 (2016)		4285 (2015)		10806
18.	Tsirang	5143 (2013)	801 (2013)		2260 (2013)		8204
19.	Wangdue- phodrang		9594 (2017)	9149 (2017)	9199 (2017)		27942
20.	Zhemgang				3622 (2015)		3622

*Source: Annual Dzongkhag Statistics, Various Issues  
National Statistics Bureau of Bhutan*

The data for both the indicators (Deposit accounts and Credit accounts) are taken from various issues of the ‘Annual Dzongkhag Statistics’, published by the National Statistics Bureau of Bhutan. While sufficient care has been taken to avoid discrepancies in the data, as is the case for any vernacular statistics, moderate errors do exist. The data presented in Table - 3 & Table - 4 have been taken from the latest issues of the Annual Dzongkhag Statistics with the objective to give a synoptic view of the latest 3 years of the data available.

**Table 4: Bank-wise distribution of Credit Accounts across Dzongkhags (as on 2019)**

	Dzongkhag	BOB	BNB	Druk PNB	BDBL	T Bank	Total
1.	Bumthang	672 (2016)	409 (2016)		1509 (2016)		2590
2.	Chukha	3557 (2016)	824 (2016)	350 (2016)	1883 (2016)	549 (2016)	7163
3.	Dagana		60(2016)				160
4.	Gasa				269 (2015)		269
5.	Haa	237 (2016)	118 (2016)		1544 (2016)		1899
6.	Lhuentse				1245 (2015)		1245

7.	Mongar	907 (2015)	580 (2016)				1487
8.	Paro	1353 (2015)	943 (2016)				2296
9.	Pemagatshel	468 (2017)			2689 (2017)		6157
10.	Punakha	628 (2014)					628
11.	Samdrup Jongkhar	773 (2015)	118 (2016)		545 (2015)		2436.02
12.	Samtse	832 (2016)	635 (2016)		3242 (2016)		4709
13.	Sarpang	821 (2016)	1200 (2016)		1621 (2016)		3642
14.	Thimphu	5348 (2015)	5733 (2015)	3395 (2015)	146787 (2015)	2972 (2015)	0
15.	Tashigang						2669
16.	Tashiyangtse	557 (2016)	119 (2016)		1993 (2016)		164235
17.	Trongsa	-	-				0
18.	Tsirang	538 (2013)	35 (2013)		1147 (2013)		1720
19.	Wangdue- phodrang		756 (2017)	161 (2017)	161 (2017)		1078
20.	Zhemgang				806 (2013)		806

*Source: Annual Dzongkhag Statistics, Various Issues  
National Statistics Bureau of Bhutan*

Table - 3 presents the bank-wise distribution of deposit accounts across dzongkhags. Deposit accounts here refers to the sum of current deposit accounts, saving deposit accounts, recurring deposit accounts, and fixed deposit accounts. It is possible for a person to have a savings deposit account or a current deposit account while also having a recurring deposit account or fixed deposit account at the same time. It is also possible

for one person to have multiple savings/current/recurring/fixed deposit accounts in the same bank or in multiple banks. Another shortcoming of this table is missing data for some dzongkhags. Owing to unavailability of data from the officially published reports, some dzongkhags have data for the latest years missing, while other dzongkhags do not have any data on banking furnished altogether. Hence, the discussion emanating from Table - 3 and Table - 4 is not so much about complete accuracy, but rather serves to get a sense of the trends and patterns of financial inclusion. For our purposes here, the latest data available is taken as the existing figure, while for the dzongkhags whose data are not available for any year, the figure zero is attributed.

From both the tables we can infer that Thimphu and Chhukha have the highest proportion of both deposit and credit accounts. Thimphu alone accounts for more than 50 percent of the entire country's deposit accounts, while the second highest, Chhukha, stand at a mere approximation of 8 percent. Interestingly, the proportion of deposit accounts translates to about 118 percent of its entire population, and the proportion of credit accounts translates to more than two times its entire population. This becomes all the more fascinating when we also note that about half the dzongkhags have a proportion of less than 50 percent of their population owning a bank account. Dzongkhags such as Dagana does not even have 1 percent of its entire population owning a bank account (at least according to the data we have, and also assuming the figures to be about the same, for the dzongkhags we do not have data on).

This phenomenon about Thimphu can perhaps be explained by three major reasons. First, as highlighted earlier, most individuals own more than one deposit account, either in the same bank in different types, or in other banks, in any other type (including the same type). This is more often the case for people in urban areas compared to people in rural areas. Second, Thimphu being the capital, a lot of conglomeration takes place - be it in the government sector, with all its head offices located in Thimphu, or other business and civil society sectors. A lot of inward migration happens in Thimphu. As high as 48.7 percent of the country's population migrated within the country, in the year 2018, and from this, Thimphu receives the highest number of incoming internal migrants<sup>13</sup>. Hence, it is quite possible that even in the short in-migrations, a large number of new deposit accounts are opened. Moreover, in terms of accessibility and convenience, one tends to prefer the bank office in the capital as against the others. Thirdly, most of the corporate houses, small and medium scale businesses, and other

---

<sup>13</sup><https://thebhutanese.bt/48-7-percent-of-the-people-migrated-within-the-country-phcb-2017/> (Accessed on April 3, 2019)

government offices, amongst others, will have multiple number of accounts for its department(s) and its employees.

Another interesting observation to note is the relatively high number of deposit accounts in comparison with credit accounts in all of the dzongkhags, except for Dagana. In most of the dzongkhags, the number of deposit account is either twice as high, or even higher. The ratio is the starkest in Punakha where the number of deposit accounts is about 17 times higher than the number of credit accounts. Punakha is followed by Mongar, where the difference is about 16 times. This would seem to imply that there is a very low access to credit facility.

Although a great deal cannot be argued conclusively without the data of actual deposits and credits across dzongkhags, it can nevertheless be postulated that people across are accessing banks more as an institute for savings and deposits rather than to procuring loans. One can however only limit the claim to that since there is no clear data or solid evidence to look at the activity of transactions – of both deposits and credit actually sanctioned.

In terms of deposit accounts' proportion to population, the top three dzongkhags after Thimphu, which have a very good deposit ratio to population are Bumthang, Pemagatshel, and Chukha with a proportion of 98 percent, 77 percent, and 70 percent respectively. The national average, which stands at 81 percent has been skewed, by these four dzongkhags' percentages.

In the case of credit accounts' proportion to population, except for Thimphu, none of the dzongkhags has its population possessing credit accounts by even a quarter of its total population (Pemagatshel just has about a quarter of its population possessing credit accounts). Rather, more than half the dzongkhags have a proportion of less than 10 percent of their population owning credit account. From this it can be understood that disproportionately a very high amount of credit account exist in Thimphu. While the number of deposit accounts present in Thimphu averages to about 53 percent of the total deposit accounts in the country, the proportion of credit accounts in the city is about 80 percent of the entire country. This is say that finance is very concentrated in the capital of the country, at least from what we see through formal financial institutions, and this is all the more so in its credit sanctioning/dissemination as against its use of financial institutions for savings or other forms of deposits.

## Concluding Remarks

From the discussions presented above, four broad conclusions can be drawn. First, in terms of its financial infrastructure vis-à-vis its population, Bhutan has sufficient infrastructure in place. The spread of its financial institution is much better compared to its giant neighbour India with at least 3 bank offices in place for each dzongkhag (with the exception of Haa, which has only two banks at the moment). This by itself is a huge achievement with regards to Bhutan's aspiration for financial inclusion. Second, BDBL and BOB are the only two banks which have its bank office in all of the dzongkhags and hence has the highest reach. BDBL has the highest number of deposits and credit accounts, followed by BOB. On the other hand, T-Bank and Druk PNB have the lowest reach, with its offices present in just 10 dzongkhags and 7 dzongkhags respectively. This perhaps can be attributed to their precedence in arrival in the sector. While BOB is the oldest bank, BDBL also existed in its non-retail/non-commercial form since 1988. Thirdly, we notice that there is a significant disparity between deposit accounts and credit accounts. While some dzongkhags have a relatively good amount of deposit accounts, the figure for credit is largely still very low. It is difficult to say whether the demand for credit is low or the supply is not meeting the demand. However, as it stands it is clear that fewer people have access to credit. Even if the amount of credit sanctions are high, it is very clear that it is confined to a very small number of its population. Fourth, and finally, we observe that Thimphu is not only the political capital, as data suggests that it is also the finance capital of the country. While it is encouraging to find high business and finance activities taking place in the city, this can also be a source of concern for it has taken the lion share of the entire country's finance. There is therefore a need to decentralize finance, primarily in terms of its accessibility.

While the infrastructural mechanisms are ostensibly in place, it appears that this has not translated to accessibility or reach of the population. Credible research reports on the country, and the region, have attempted to answer this puzzle. Ninag (2013), mentions three key findings, mostly based on the population's status, namely financial illiteracy and diffidence, financial products not being responsive to households' needs, and the population's struggle to meet with banks' loan requirements. Grandolini (2015) shares a similar point of view, while highlighting additionally the socio-economic status. In supplementation to them, some of the other possible reasons for low financial penetration can be Bhutan's difficult terrain. Such geographical factors are not always conducive in facilitating the accessibility of the banking institutions. Another possible reason, especially with regards to deposits, is the absence of saving habits, a related



phenomenon of the lack of financial literacy. In many places around the world, financial illiteracy and lack of basic education prevents people from accessing financial services – both for savings and credit. Financial literacy is defined by the OECD’s International Network on Financial Education (INFE), as “a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions” (OECD, 2011, p.3). One can further elaborate this point as a ‘voluntary exclusion,’ a case where people voluntarily exclude themselves from accessing financial services owing to psychological dispositions or lack of trust on the banks to entrust them their hardearned money. Niang (2013, p. 1) already highlighted this in a World Bank research report in which she notes, “Bhutan is a cash-based economy where households have a vibrant, if informal, savings and lending culture.” Hence, “formal financial services [remains] only weakly integrated into [their] daily life” (ibid).

All in all, the banking sector in Bhutan, at least in terms of its infrastructural providence, does not come across as neoliberal capitalist forces existing and operating only in pursuit of profit in commercial centres. Although one can quickly get stuck with the fact that Thimphu has absorbed all of the banking services and benefits. The approach remains seemingly evident if we examine the infrastructural and computation or methodological (policy) tools, used by the government, or Royal Monetary Authority (RMA), to reach out to the population together. The social and development banking paradigm is very clear from the policies and strategies that the RMA formulate.

Since the last few years, RMA has devised various policy interventions to promote inclusive economic growth through financial inclusion. In their latest Monetary Policy Statement, the Royal Monetary Authority (2018), has highlighted four policy interventions they have undertaken (and will undertake) to promote financial inclusion.

First, Priority Sector Lending, also called PSL, has been in place to promote agricultural and Cottage and Small Industries (CSI) sector through providing them with better access to finance and increased opportunities for youth employment. This has been termed as an ‘integrated’ intervention, “from the government with collective commitment from the financial sector for better financing...to catalyse the CSI sector into a growth driver that will contribute to achieving Bhutan’s overarching national goal of sustainable and inclusive socio-economic development.<sup>14</sup>”

Second, two documents, namely the National Financial Literacy Strategy (NFLS) 2018-2013 and National Financial Inclusion Strategy (NFIS) 2018-2013, a first ever

---

<sup>14</sup><https://thebhutanese.bt/psl-guideline-launched/> (Accessed on April 3, 2019)

initiative by the authority, have been devised to ‘enhance RMA’s strategic priority’ in promoting financial literacy and consequently financial inclusion. With this a Financial Inclusion and Literacy Division has also been created by the RMA, to support, and is responsible to implement both NFLS and NFIS Action Plan 2018-2023.

Third, digitization and the promotion of e-payment gateways. With the increasing use in technology and internet, the RMA has aptly mandated commercial banks to devise people-friendly technology with mostly no charges in order to encourage electronic fund transfers, mobile banking and payments. This makes cashless transactions convenient and cost-effective, while also strategically formalizing the flow of finance to the banking systems.

Finally, RMA has been trying to deepen financial inclusion by promoting Micro Finance Institutions (MFIs) and Cottage and Small Industries (CSIs) banks. As of March 2018, RMA has certified and promoted three MFIs, namely RENEW Microfinance, Bhutan Association for Women Entrepreneurs, and Rural Enterprise Development and Rural Enterprise Development Cooperation Limited, “with the primary focus on women empowerment and promotion of non-formal rural activities” (RMA, 2018; p 10).

With all these policies and provisions in place, and of course the tireless effort of the RMA, the country can surely hope to improve its banking penetration, and consequently its financial inclusion in the near future

## **Acknowledgements**

I would like to thank the anonymous reviewer, whose comments helped improve the earlier version of this paper. In addition, I would also like to thank Karma Yangden and Dawa Zam for helping me compile the data.

## **References:**

- Chavan, P. (2005). How ‘Inclusive’ are Banks under Financial Liberalisation? *Economic and Political Weekly*, 40 (43), 4647–9.
- Grandolini, G. (2015). Five challenges prevent financial access for people in developing countries. *The World Bank IBRD-IDA*. Retrieved March, 20, 2019
- National Statistics Bureau. (2013). *Annual Dzongkhag Statistics*. Retrieved from <http://www.nsb.gov.bt/ADS2013/>. Retrieved March, 7, 2019
- \_\_\_\_\_. (2015). *Annual Dzongkhag Statistics*. Retrieved from <http://www.nsb.gov.bt/xl/?dir=SUBJECTS/ANNUAL%20DZONGKHAG%20STATISTICS/2015>. Retrieved March, 7, 2019

- \_\_\_\_\_.(2016). *Annual Dzongkhag Statistics*. Retrieved from <http://www.nsb.gov.bt/xl/?dir=SUBJECTS/ANNUAL%20DZONGKHAG%20STATISTICS/2016>. Retrieved March, 7, 2019
- \_\_\_\_\_.(2017). *Annual Dzongkhag Statistics*. Retrieved from <http://www.nsb.gov.bt/xl/?dir=SUBJECTS/ANNUAL%20DZONGKHAG%20STATISTICS/2017>. Retrieved March, 7, 2019
- National Statistics Bureau. (2017). *Population and Housing Census of Bhutan*. Retrieved from [http://www.nsb.gov.bt/publication/files/PHCB2017\\_national.pdf](http://www.nsb.gov.bt/publication/files/PHCB2017_national.pdf). Retrieved March, 28, 2019
- Niang, Cecile T., with Mihasonirina Andrianaivo, Katherine S. Diaz, and Sarah Zekri. (2012). *Connecting the Disconnected: Coping Strategies of the Financially Excluded in Bhutan*. Directions in Development. Washington, DC: World Bank. Doi: 10.1596/978-0-8213-9834-0.
- OECD INFE (2011). Measuring Financial Literacy: Core Questionnaire. In *Measuring Financial Literacy: Questionnaire and Guidance Notes for conducting an Internationally Comparable Survey of Financial literacy*. Paris: OECD. Retrieved March, 20, 2019
- Ramachandran, V. K., & Swaminathan, M. (2000). Rural Banking and Landless Labour Households: Institutional Reform and Rural Credit Markets in India, *Journal of Agrarian Change*, 2 (4), 502-544.
- Ramakumar, R., & Chavan, P. (2014). Bank Credit to Agriculture in India in the 2000s: Dissecting the Revival. *Review of Agrarian Studies*, 4(1), 50-79.
- Royal Monetary Authority. (2015). *Annual Report*. Retrieved from <https://www.rma.org.bt/RMA%20Publication/Annual%20Report/annual%20report%20%202014-2015.pdf> Retrieved March, 7, 2019
- \_\_\_\_\_.(2018). *Annual Report*. Retrieved from <https://www.rma.org.bt/RMA%20Publication/Annual%20Report/annual%20report%202017-2018.pdf> Retrieved March, 7, 2019
- Royal Monetary Authority. (2017). *Monetary Policy Statement*. Retrieved from <https://www.rma.org.bt/RMA%20Publication/MPS/MPS%202017.pdf> Retrieved March, 7, 2019
- \_\_\_\_\_.(2018). *Monetary Policy Statement*. Retrieved from <https://www.rma.org.bt/RMA%20Publication/MPS/MPS%202018.pdf> Retrieved March, 7, 2019
- Showcases, K. (2016). *Deploying Mobile and Branchless Banking in Bhutan*. The Asian Development Bank.
- Wijunamai, R. (2017). *Regional Disparities of Banking in India: An Analysis of North-Eastern States*. Tata Institute of Social Sciences, Mumbai.