**CHAPTER 10: FOREIGN TRADE AND BALANCE OF PAYMENT**

B

hutan’s economy is closely linked with India, though efforts towards diversification of products and markets are actively pursued. While economy links with other countries are limited, significant amount of aid have been received in recent years and this has enabled substantial increases in imports from third countries. Exports to third countries continue to be very low against higher imports, so reliance has to be placed on inflows of aid for the financing of imports.

Balance of Payments statistics are designed to show the difference between the total payments made to foreign countries and the total receipts from foreign countries. Payments and receipts include imports and exports of merchandise; services and transfers (such as freight and insurance charges); expenditure by travelers; and capital movements (such as loans and investments). The trade balance measures the balance between imports and exports. Including services and transfers to provide a measure of the current account balance obtain a more comprehensive picture of the balance of payments situations.

The balance of payments statements also show how any negative current account balance is financed. In the case of Bhutan this is achieved through foreign aid. Any surplus of foreign aid over and above current account deficits means an increase in the foreign currency reserves of the country. Balance of payments statistics in Bhutan are compiled by the Royal Monetary Authority based on information from its own accounts and those of the Banks, together with information on imports and exports.