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May 10, 2022

**Joint Statement by Mr. Dresse, Mr. Massourakis, Ms. Rieck, Ms. Cerami, Mr. Manchey,  
and Ms. Wilbert on Bhutan  
(Preliminary)  
Executive Board Meeting  
May 13, 2022**

*We thank staff for the concise report and Mr. Bhalla and Mr. Natarajan for their informative Buff statement. We welcome the expected graduation of Bhutan from the Least Developed Country (LDC) status in 2023, thanks to the remarkable progress in poverty reduction and per capita income growth achieved prior to the pandemic. Safeguarding these gains from the severe impact of the pandemic and related scarring is paramount. To this end, policies should continue to support the economy amidst heightened global uncertainty while boosting potential growth. We broadly share staff's appraisal and provide some additional remarks.*

- **Fiscal authorities should introduce a credible multi-year consolidation framework and accelerate revenue mobilization efforts.** The large fiscal deficits created by the necessary response to the pandemic have increased the urgency of steadfast implementation of revenue mobilization, including the long-delayed introduction of the Goods and Services Tax. Further reforms to broaden the tax base and increase revenue would be critical to build buffers and address high social and capital spending needs in a context of declining concessional financing due to the graduation from the LDC status. For the same reason, we strongly support the authorities' plan to further develop the domestic debt market, based on a medium-term debt management strategy, and welcome the planned Fund's CD in this area.
- **The Royal Monetary Authority (RMA) should start withdrawing monetary support and continue modernizing its policy framework.** We agree with staff that it would be appropriate to begin reducing monetary accommodation to mitigate rising inflationary pressures as well as to protect the ngultrum's peg to the rupee, after the latest increase in the policy rate by the Reserve Bank of India. We acknowledge that implementing the new Domestic Liquidity Management Framework (DLMF) has become more challenging in a context of excess liquidity. Nonetheless, making progress on the DLMF remains critical to facilitate monetary policy transmission and

foster market development. Staff notes that it would also allow to discontinue the use of the cash reserve ratio as the RMA's main policy instrument. *Could staff clarify whether the minimum lending rate, which in previous consultations was flagged as a cause for distortions in the credit market, is still in force and whether the authorities plan to abolish it once the new monetary framework is fully operationalized?*

- **The recovery from the pandemic is an opportunity for further diversification efforts.** Bhutan has made good strides on diversifying the sources of growth and employment, but further progress is needed to overcome the vulnerabilities underscored by the pandemic. We see merit in staff's recommendations on exploiting digitalization to facilitate payments and youth employment, and expand access to finance, education, and public services. We also support the authorities' strategy to improve the sustainability of the tourism sector as well as their programs to address skill mismatches. We invite staff to expand coverage of climate change related policies given their macrocriticality for the country. *In particular, we welcome that hydropower projects are insured against natural disasters, but as Bhutan continues to bear related hydrological risks, we wonder whether such physical risks from climate change and possible measures to enhance climate resilience have been discussed with the authorities.*