Issuance of the first Government Bond in Bhutan
- Experiences gained and lessons learned-

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Outline

1. Rationale for issuing government bond
2. Strategic steps taken before issuing the first government bond
3. Brief overview of first and second Government bond
4. Key lessons learned
5. Challenges of government bond market development
6. Way forward
1. Rationale for issuing government bond

Two key rationales for issuing government bond are the following:

1. To broaden government’s financing sources to meet its medium and long-term financing requirement.

2. To facilitate development of domestic bond market.
2. Strategic steps taken before issuing government bonds:

3. Conducted survey to study investor appetite for Gov’t bond in 2018.
3. Brief overview of the first and second Gov’t bond

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
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</thead>
<tbody>
<tr>
<td>Issue Amount</td>
<td>Nu. 3,000 million</td>
</tr>
<tr>
<td>Tenor</td>
<td>3 year</td>
</tr>
<tr>
<td>Issuance method</td>
<td>Public Subscription</td>
</tr>
<tr>
<td>Coupon rate</td>
<td>6.5% per annum</td>
</tr>
<tr>
<td>Subscription to Issue Ratio</td>
<td>2.9</td>
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</tbody>
</table>

56 investors subscribed the first bond, of which 68% were individuals.

99.9% of the issued amount was allotted to financial institutions: 91.1% to banks and 8.8% to non-bank FIs.
<table>
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<th>Description</th>
<th>Details</th>
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<tbody>
<tr>
<td>Issue amount</td>
<td>Nu. 700 million</td>
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<tr>
<td>Tenor</td>
<td>10 year</td>
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<tr>
<td>Issuance method</td>
<td>Yield-based auction</td>
</tr>
<tr>
<td>Coupon/cut-off rate</td>
<td>3.98%</td>
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<tr>
<td>Bid-to-Cover ratio</td>
<td>4.14</td>
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Banks constituted 50% of the total bidders (6) for the second bond.
4. Key lessons learned

1. Importance of strengthening domestic bond market

2. Requirement for seamless coordination between MoF and RMA

3. Need to leverage ICT

4. Importance of transparency and competition

5. Need for adequate capacity building
5. Challenges of government bond market development

1. Narrow investor base
2. Absence of money market
3. Preference for T-bills due to lower cost
4. Dormant secondary market for bond
5. Lack of government securities auction system
6. Low financial literacy
6. Way forward

1. Publish government bond auction calendar
2. Develop Government Securities Auction System
3. Conduct periodical meetings with investors
4. Develop Domestic Bond Market Development Master Plan
5. Prepare Bhutan Green Bond Guidelines
Thank You