

Opening remarks

Greetings

Good morning everyone. It is my pleasure to welcome everyone to this two-day workshop on "Capital Market Development in Bhutan".

At the outset, I would like to thank UN ESCAP for funding, and organizing this workshop in Bhutan in collaboration with DMEA, MoF. In addition, I would like to thank all the international participants and speakers for taking your time to come to Bhutan for sharing your expertise on capital market development- your presence during this workshop will make the sessions even more enriching.

And, I also would also to thank officials from different agencies for your participation.

With this, let me talk about the Government's fiscal policy and how the development of capital market will help in achieving the fiscal policy objectives.

Government's fiscal policy

The fiscal policy of the Government is to maintain the fiscal balance at a sustainable level through effective resource mobilization and prudent expenditure management.

To achieve these policy objectives, the recurrent expenditures are met from the domestic resources, while the capital expenditure are met from revenue surplus and grants. The deficit thereafter is financed through borrowings from external concessional windows and domestic capital market.

The fiscal deficit in 12FYP is projected to be about Nu. 29 billion, of which only Nu. 4 billion is expected to be financed through concessional borrowings from multilateral development banks. The rest has to be financed from the domestic sources.

Given that large portion of fiscal deficit in 12FYP has to be financed from domestic market, a well-developed, liquid capital market has become imperative. In particular, the development of a robust domestic bond market will be critical for financing the Government's fiscal deficit in the 12 FYP.

Moreover, as Bhutan graduates from the group of LDCs in 2023, the access to concessional financings is expected to slow down, or come at a hardened term. Therefore, the domestic bond market will play even more critical role in meeting Government's financing needs in the 12th FYP and beyond.

Therefore, the Ministry of Finance is committed to developing an efficient domestic bond market, which will also help in overall capital market development in the country. Thus, this workshop on "Capital Market Development" is very pertinent and timely.

Now, let me talk briefly about current status of capital market in the country.

Brief status of capital market in Bhutan

Market capitalization: Bhutan is home to one of the smallest stock markets in the world with the equity market capitalization of just over Nu. 50 billion. Today, there are about 22 listed companies for the equity and 19 outstanding bonds with the Royal Securities Exchange of Bhutan.

Secondary market transactions: In the past, there were hardly any secondary market transactions in the stock market.

However, in recent years, secondary market transactions in shares have been gaining traction. According to RSEBL's Annual Report 2018, in 2017 about 4.4 million shares worth Nu.125 million were traded, which drastically increased to 11.83 million shares worth Nu. 384.26 million in 2018.

Although the secondary market transactions in debt securities has remained dormant over the years, there were few transactions in 2018, worth about Nu. 18.51 million.

Recent IPOs: This year, we saw one private company (Sherza Ventures Limited) going for an IPO. This was a new IPO after a gap of almost five years, the last one being GIC-Bhutan Reinsurance company in 2014.

Though the Sherza Ventures was not able to raise their target amount (Nu. 247 million), they still managed to raise about Nu. 64 million, which is a good amount given the narrow investor base in the country.

However, as more Bhutanese become financially literate about investing in bond and equities, I am confident that the future IPOs will be more successful, and the secondary market will become more liquid, thereby developing an efficient capital market in the country.

Importance of well-functioning capital market

Having taken stock of capital market in Bhutan, let me talk about the importance of a well-functioning capital market from three perspectives.

Economic growth through efficient allocation of resources: A numerous studies related to capital market development have shown that a well-developed capital markets facilitates efficient allocation resources in the economy, leading to better economic growth.

In a well-functioning capital market system, the best investment opportunities receive necessary financing, while the inferior investment proposals are denied financing, thus allocating the financial resources in areas or sectors with greatest potential for return on investment.

Alternative source of financing: As stated in the beginning, Bhutan is preparing towards graduating from the group of LDCs at the end of 2023. With the graduation, the Government's access to concessional financing from multilateral and bilateral institutions will gradually decrease, or come at a hardened term. Therefore, development of a well-functioning capital market, especially the domestic bond market, will be critical in providing alternative, reliable source of financing for the Government.

Financing PPPs: The PPP is one of the innovative financing that the MoF is exploring to finance infrastructure development in the 12 FYP.

Therefore, the Government prepared and adopted the PPP policy in 2016, and PPP rules and regulation in 2017 with the main policy objective of promoting economic growth and social development by leveraging private sector resources, given the Government's fiscal limitation.

The capital markets can promote PPPs by encouraging participation of private sector in productive investments; a well-developed capital market will enable private sectors that want to take up PPP projects to have access to long-term project-based capital.

Now, let me talk about MoF's initiative in development of domestic bond market, which will be crucial element of capital market development in the country

MoF's initiative in bond market development

I would like to convey that the Ministry of Finance is committed to developing a well-functioning capital market in the country.

Towards this end, the Ministry of Finance is preparing towards issuing its first long-term sovereign bond with the objective of developing domestic bond market, besides raising fund to finance fiscal deficits.

MoF has already formed a Working Committee on Government Bond Issuance, with high-level representation from Ministry of Finance and RMA.

The Committee has prepared a strategy on long-term bond issuance, and drafted rules and regulations on Government Bond Issuance. The draft Rule on Government Bond Issuance has been shared with financial institutions in the country for review and feedback.

It could be costlier for the Government to issue bond in the domestic market compared to financing through concessional loans. However, we expect the cost of financing through bond to fall in the long run as the domestic bond market become more liquid and efficient. Most importantly, the regular issuance of benchmark bond by the Government will help develop domestic bond market, and the capital market development in the country.

Expectations from this workshop

During workshop, we should be able to take proper stock of the capital market development in the country; more importantly, we should identify deficiencies in our system, be it at the policy or regulatory front that is hindering capital market development in the country.

I would also expect the experts in the panel provide us practical recommendations on how to develop a robust, well-functioning capital market development in the country.

Concluding Remarks

This two-day workshop has about eight important sessions on topics related to capital market development. I hope that the discussions and exchange of viewpoints during the session over the two days will contribute towards developing a vibrant capital market development in Bhutan.

Finally, I thank you all for your participations, and I wish you all an enjoyable and fruitful workshop.