

Managing Reserve in a Small Country

(Practical Insights from Bhutan)

Lesson, Challenges and Strategic Approaches

Session 3: Managing Reserves in a Small Country
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Presentation Outline

- Bhutan at a Glance
- Why Reserve Management Matters in Bhutan?
- Bhutan's Reserve Context
- Reserve Drivers in Bhutan
- Prudent management of Foreign Exchange Reserve
- Practical Approach of Prudent Reserve Management
- Enhancement Priorities
- Future Directions & Key Takeaways

Bhutan at a Glance



- Small, landlocked Himalayan country
- Area: 38,394 square km
- Population: ~780,000 (approx.)
- Government: Democratic Constitutional Monarchy
- Economy: Hydropower-driven, limited export base
- Currency: Bhutanese Ngultrum (pegged to Indian Rupee).

Why Reserve Management Matters in Bhutan?

Why Reserve Management Matters?

- *Reserves in Bhutan are not just a financial buffer*
- Critical for economic and currency stability, and maintaining liquidity.
- Bhutan is an import-driven economy relying heavily on reserve to finance trade.
- Ensures ability to support international trade and debt obligations.
- Provides a buffer against external shocks and volatile capital flows.
- Reserves are largely denominated in USD, ensuring international acceptability

Reserve Management in Bhutan

Objective of Reserve Management

- Safety, Liquidity and Return

Governance and Oversight

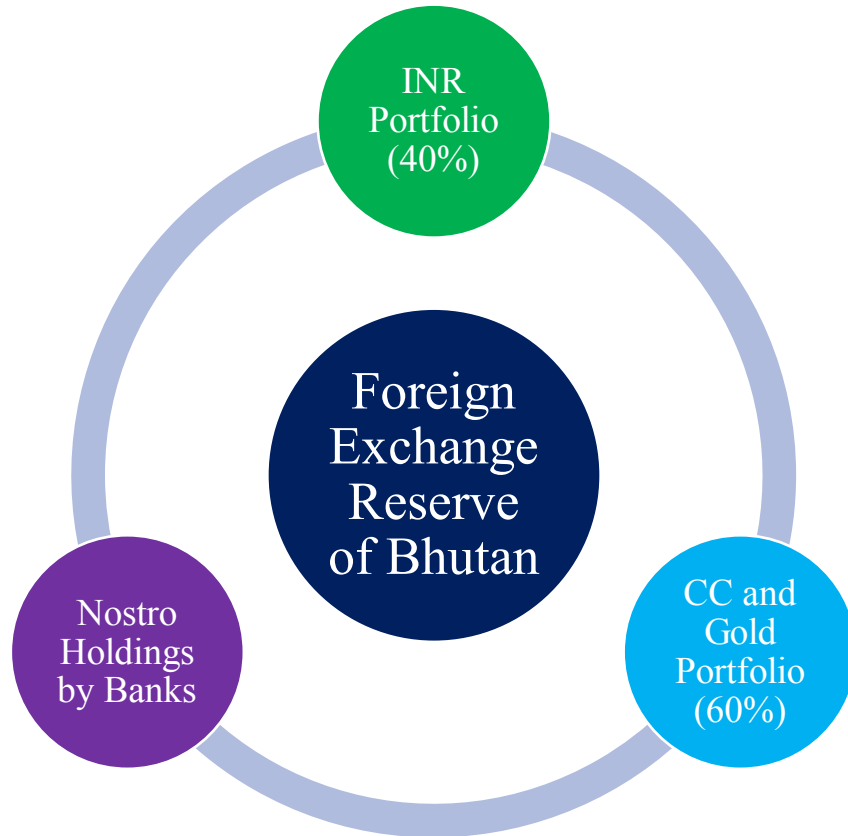
- Reserve Management Committee
- Internal Guidelines & Policies

Reserve Management split between:

- In-house (front, middle, back office functions)
- External fund managers for diversification and professional expertise.

Bhutan's Reserve Context

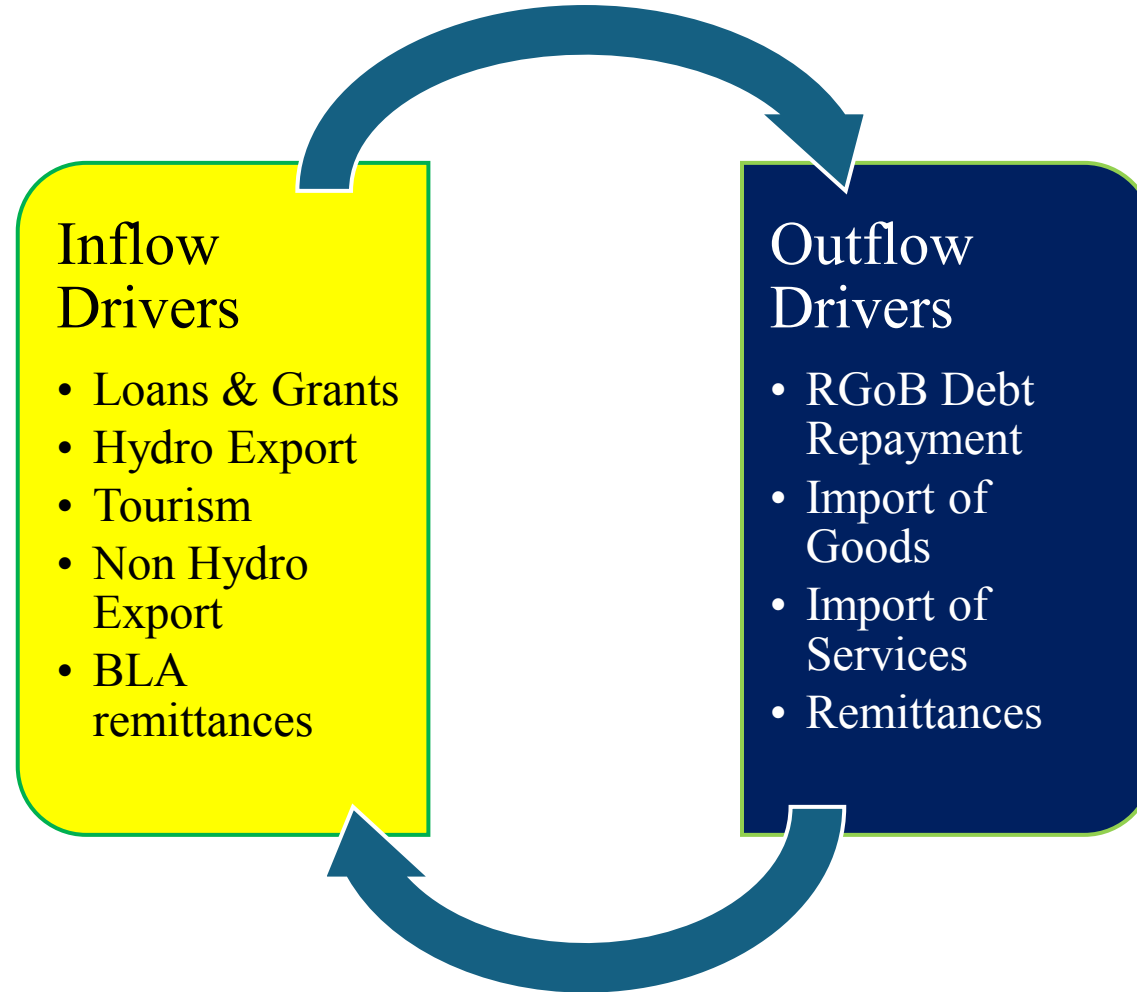
Bhutan's Reserve Context



Principle

- **Constitutional Mandate:** The Constitution requires maintaining minimum foreign currency reserves adequate for one year of essential imports.
- **Primary Use:** Reserves are mainly used for Balance of Payments (BoP) needs.
- **Trade Context:** Around 80% of Bhutan's trade is with India, with the Ngultrum (BTN) pegged to the Indian Rupee (INR).
- **Oversight:** The Royal Monetary Authority (RMA) also oversees the Nostro holdings of Bhutanese commercial banks.

Reserve Drivers in Bhutan



Prudent management of Foreign Exchange Reserve

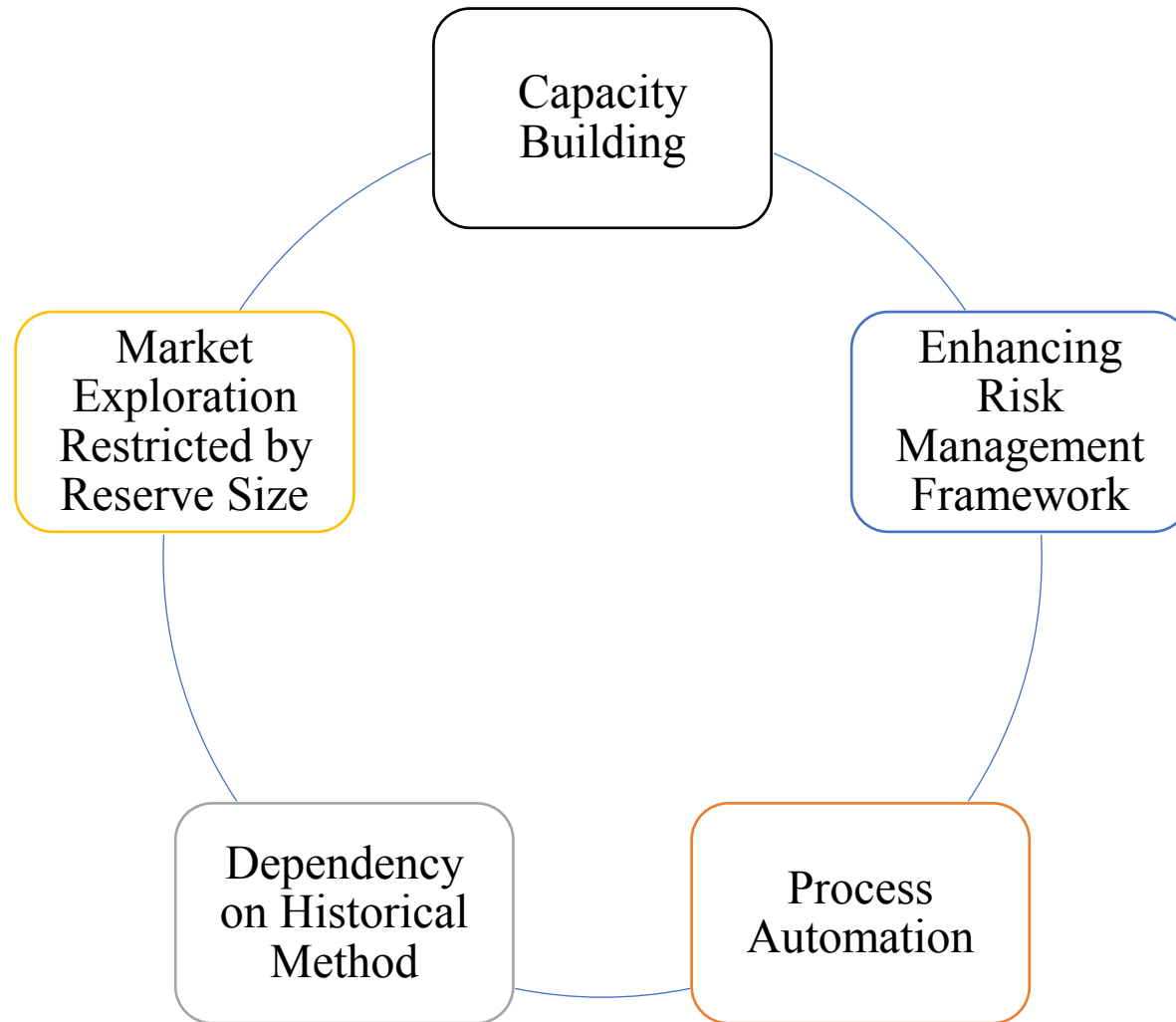


Practical Approach of Prudent Reserve Management



- ☐ Policy-driven, risk-conscious investment
- ☐ In-house systems for record-keeping and reporting
- ☐ Excel and other available tools for analysis
- ☐ Reviewing and updating policies/guidelines on periodic basis
- ☐ Seeking continuous support from experts around the world (Example ADB)
- ☐ Continuous Exposure through trainings and Seminars in order to build capacity

Enhancement Priorities



- ❑ Young workforce
- ❑ Limited Reserve limits market exposure
- ❑ No Reserve Management System. (In-house Excel and other available tools for analysis)
- ❑ Seeking continuous support from experts around the world (Example ADB)
- ❑ Continuous Exposure through trainings and Seminars in order to build capacity

Future Directions & Key Takeaways

Future Directions:

- ☐ Implement Treasury Management System (TMS) as a solutions for reserve management
- ☐ Strengthening staff capacity through training and exposure
- ☐ Enhancing policies, guidelines, and reporting frameworks

Key Takeaways:

- ☐ Strong governance, policy-driven approaches, and tailored automation enable effective reserve management for small country like Bhutan.
- ☐ Safety first, liquidity and risk prioritized
- ☐ Simple systems can be highly effective for small economies
- ☐ Strategic choices = resilience and sustainability

“Managing reserves in a small country is about balancing safety, efficiency, and sustainability—Bhutan shows this is achievable even with limited resources.”



Thank you!

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