



ROYAL MONETARY AUTHORITY OF BHUTAN
Domestic Liquidity Management Framework

Reference No: RMA/DMRS/1312

Date:2/11/2020

In exercise of the powers conferred by Chapter 2 (Section 7) and Chapter 7 (Section 120, 122, 123 and 124) of the RMA Act 2010, the Royal Monetary Authority of Bhutan hereby issues the Domestic Liquidity Management Framework to the Banks. This Framework will remain effective from 29th October, 2020

I. Rationale

Prudent management of domestic liquidity is one of the fundamental aspects of RMA's monetary policy operations. Given the increased uncertainty in the fallout of COVID-19 pandemic, implementation of effective liquidity management practices has become crucial for maintaining a balanced and optimum level of liquidity to support the development of the economy. For this reason, liquidity planning, analysis and monitoring will not only play a vital role in managing the current liquidity needs of the banks but also help in examining how funding requirements are likely to evolve under various economic conditions and development of credit market. Although the banking sector currently has adequate liquidity to support the demand of the economy, there is high variation in liquidity holdings amongst banks, in particular due to its varying size and coverage. Thus, one of the key constraints faced by the banking sector is the absence of interbank lending market.

In preparing to revitalize the economy to boost domestic production with new innovations and technological enhancement, export promotion and creation of jobs in the economy, the RMA is committed to ensure an uninterrupted flow of liquidity in the economy all the time and maintain overall health of the financial sector. In order to promote easy access of liquidity in the banking sector, the RMA formulated a Forward-Looking Domestic Liquidity Management Framework (DLMF). The main

objectives of this Framework are (i) to ensure and provide undisrupted and optimal level of liquidity in the banking system (ii) to encourage banks to proactively carry out their liquidity management function based on the need and priority of the economy (iii) to support the development of interbank lending operations and also develop the domestic money market. The implementation of DLMF will not only pave way to promote effective liquidity management system but will also support in developing a benchmark references interest rate for the development of money market in the economy. The DLMF shall be conducted at three different levels; (i) Overnight Liquidity Management Operation (OLMO) (ii) Weekly Liquidity Management Operation (WLMO) and (iii) Long-term Liquidity Management Operation (LTLMO).

1.1 Overnight Liquidity Management Operation

The overnight liquidity management shall be operated through Marginal Lending Facility (MLF). The banks shall use the MLF to obtain overnight liquidity from the RMA, if bank foresee a negative balance on their current account maintained at the RMA. **For details on the operating procedure, please refer Annexure II.**

Interest Rate: The interest rate on MLF shall be at 5 percent. The interest rate on MLF shall be reviewed on a regular basis by the RMA depending on liquidity situation and broader macroeconomic conditions. The interest rate on MLF shall be computed using simple interest rate based on the actual/360 day-count convention.

1.2 Weekly Liquidity Management Operation

In addition to the OLMO, the RMA shall conduct WLMO. The objective of WLMO is to meet the short-term payment obligations of the banks that are maturing within a week. On a weekly basis, the RMA will mobilize deposits from the banks. The liquidity mobilized from the surplus banks shall be redistributed based on the needs and demand amongst the deficit banks. The RMA shall conduct the WLMO either to inject or to absorb liquidity in the banking sector. **For details on the operating procedure, please refer Annexure III.**

Interest Rate: The applicable interest rate on WLM shall be based on average interest rate provided by the banks. However, the RMA shall determine the interest rates and tendering procedure applicable from time to time. The interest rate on the WLM shall be computed using simple interest rate based on the actual/360 day-count convention.

1.3 Long-term Liquidity Management Operation

To promote secondary market transactions in the capital market, the RMA shall participate in long term liquidity management operation. The LTLMO shall be a monthly liquidity providing or liquidity absorption operations with a maturity ranging from 30 days to 90 days. For liquidity providing operation, the RMA shall purchase marketable securities and other evidences of indebtedness issued or guaranteed by the Royal Government of Bhutan and Government owned Companies with applicable discount rates. For liquidity absorption operation, the RMA will issue its own bills. **(For details on operating procedure, please refer Annexure IV).**

Interest Rate: The interest rate for the LTLMO shall be based on market auction. For liquidity absorption, the RMA shall issue 30 to 90 days bills using either Uniform or Multiple Price auctioning methods. In the case of liquidity providing operation, the RMA shall apply a discount rate on Securities based on the nature of the instrument. The interest rate on the LTLMO shall be computed using simple interest rate based on the actual/360 day-count convention.

1.4 Eligible Institutions & Non-Compliance

Eligible Institutions: Only commercial banks are eligible for Overnight Liquidity Management Operations and Weekly Liquidity Management Operation¹. However, for Longer-term Liquidity Management Operation, the RMA in exceptional circumstances may consider access to a Non-Bank Financial Institutions (NBFIs).

Non-Compliance: Failure to comply with the obligation on the interest payment by the Banks shall result in financial penalty for the period of default as determined by the RMA. The RMA may set additional terms and conditions for operating the DLMF or suspend the Facility at any time, if Banks repetitively fail to comply the terms and conditions of this Facility.

¹ Banks are the deposit mobilizing entities and are subject to CRR compliance.

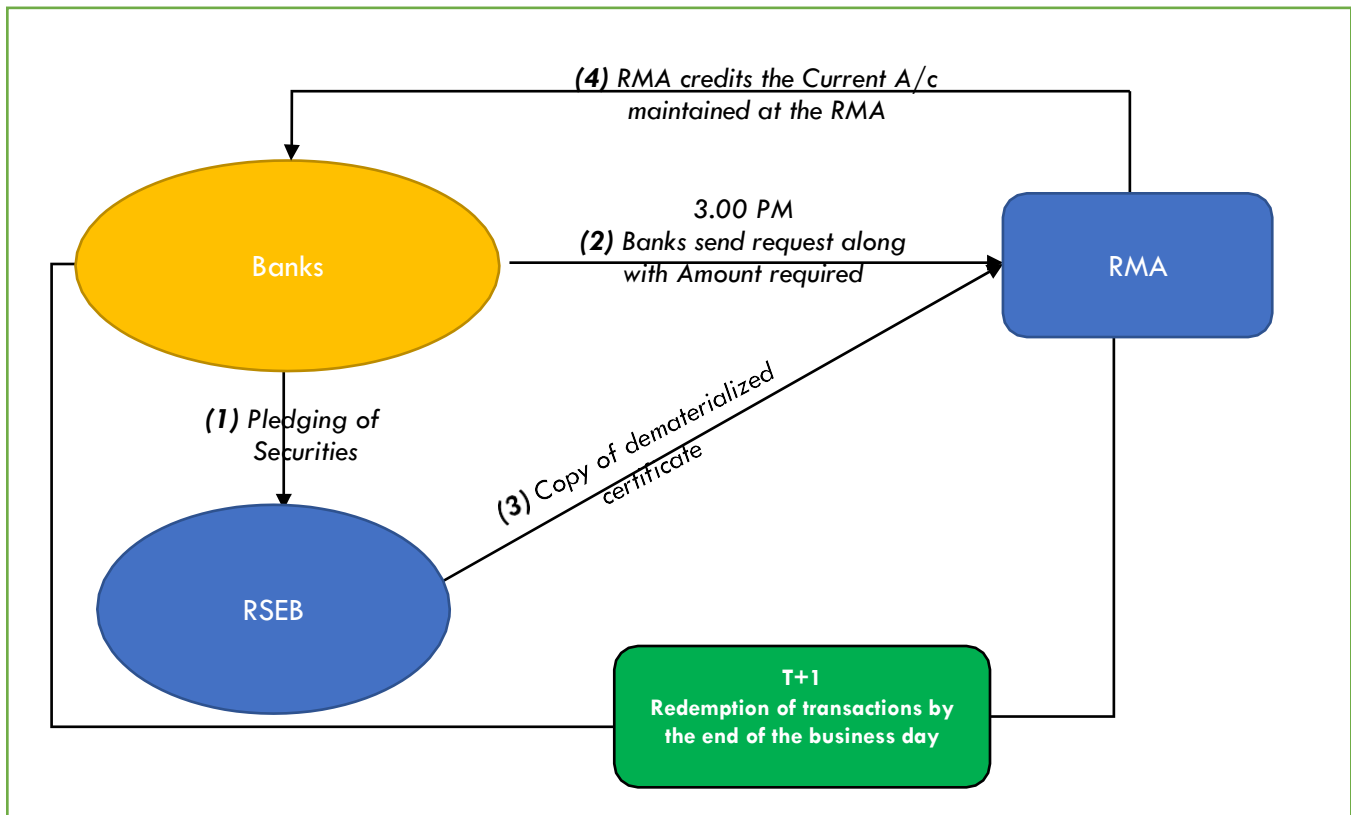
Annexure I: List of Eligible Securities

To provide a broad collateral framework for liquidity management and to support the development of public and private debt securities market for operating the Domestic Liquidity Management Framework, a list of eligible collateral assets includes; (i) Government Securities, (ii) Corporate and private bonds, (iii) Commercial paper and (iv) Certificate of deposits and (iv) any other eligible collateral approved by the RMA, with application of appropriate risk control measures. Banks availing the lending facility should have sufficient eligible collateral prior to availing the facility. Banks with insufficient collateral will be provided liquidity only up to the value of the collateral. Irrespective of the fact that an asset is eligible, a counterparty shall not submit or use securities issued, owned or guaranteed by itself. The RMA shall update the list of securities registered on a regular basis.

Sl. No	List of Eligible Securities	Maturity Date
BONDS		
1	RICB BONDS - III (G012)	14-Jan-21
2	DAC BONDS - I (G013)	27-Feb-24
3	DCCL BONDS - I (G014)	29-Apr-24
4	DPNB DEBTS(G015)	8-Apr-24
5	BIL DEBTS (G016)	8-Apr-24
6	RICB DEBTS (G017)	8-Apr-24
7	BNBL DEBTS (G018)	8-Apr-24
8	BDBL DEBTS (G020)	8-Apr-24
9	TBL DEBTS (G021)	8-Apr-24
10	Tashi Air Pvt., Ltd., (G022)	30-Apr-24
11	DCCL BONDS - II (G023)	6-Nov-24
12	DAC BONDS - II (G024)	24-Aug-24
13	RICB BONDS - IV (G025)	27-May-22
14	DCCL BONDS - III (G026)	23-Jun-22
15	ZIMDRA FOODS PVT.LTD., BONDS - I (G027)	2-Dec-22
16	DAC BONDS - III (G028)	27-Feb-25
17	RSA BONDS - I (G029)	25-Jan-24
COMMERCIAL PAPER		
18	DGPC COMMERCIAL PAPERS -IV (CP011)	15-Sep-20
19	DGPC COMMERCIAL PAPERS -V (CP012)	30-Sep-20
EQUITY INVESTMENT		
20	BHUTAN BOARD PRODUCTS LTD.,	
21	BHUTAN CARBIDE & CHEMICALS LTD.,	
22	BHUTAN FERRO ALLOYS LTD.,	
23	DRUK FERRO ALLOYS LTD.,	
24	PENDEN CEMENT AUTHORITY LTD.,	
25	ROYAL INSURANCE CORPORATION OF BHUTAN LTD.,	
26	STATE TRADING CORP. OF BHUTAN LTD.,	
27	Royal Government of Bhutan T-Bills/Bonds	

Annexure II: Operating Procedure for Overnight Liquidity Management Operation

The banks may obtain overnight liquidity from the RMA, if the banks foresee a negative balance on their current account maintained with the RMA latest by 3.00 PM. Banks requesting for the overnight MLF should specify the amount of credit required. The RMA upon receiving the request shall credit the current account of the bank on the same day. The details on the operating procedure and information flow is illustrated in the following Chart.



Annexure III: Operating Procedure for Weekly Liquidity Management Operation

On a weekly basis, each commercial bank shall inform and indicate to the Department of Banking, RMA before the closure of the day (i.e. every Tuesday at 4.00 PM as the summer time and 3.00 PM as the winter time) on the state of liquidity. The Banks shall submit the returns to the RMA on both inflows and outflows and excess or short-fall position in the prescribed format on a weekly basis (**Table 1**). This information shall be submitted through a web-based application platform. In addition to the information submitted by the banks, the RMA shall also monitor the current account and currency chest maintained at the RMA on a regular basis for liquidity assessment. Upon receiving the information, the Liquidity Committee at the RMA chaired by the Deputy Governor shall decide on the volume of operation based and the outcome of the decision shall be informed through the above web-based platform.

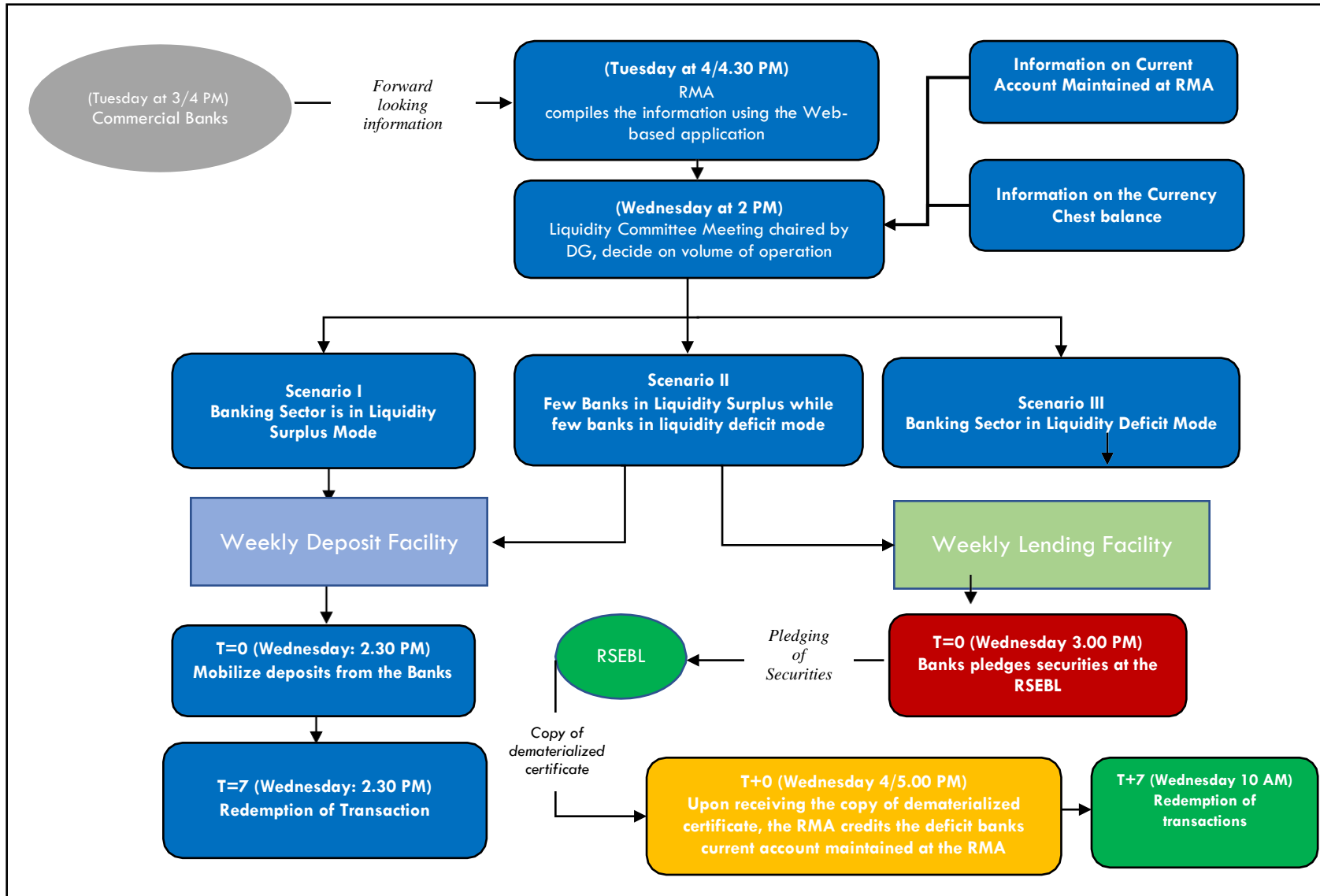
Table 1: Forward Looking Weekly Liquidity Reporting Form

Liquidity Inflows	Expected within one Week 1	Liquidity Outflows	Expected within One Week
Cash in hand		Current deposits	
Expected inflow from Loans & Advance (term loans)		Savings deposits	
Expected inflow from Overdrafts/Working Capital		Time deposits	
Deposits maturing with other Fls		Bonds & other instruments	
Investment securities		Borrowings	
Investment Income		Loan disbursement	
Other Inflows		Other Outflows	
Total Inflows		Total Outflows	

Particulars	Nu in Million	Interest Rate
Indicate the amount your bank is willing to deposit at the RMA for a period of one week		
Indicate the amount your bank needs to borrow from the RMA for a period of one week		

The details on the operating procedure and information flow is illustrated in the following Chart.

RMA's Weekly Liquidity Operating Procedure



Annexure IV: Operating Procedure for Long-term Liquidity Management operation

The RMA shall conduct LTLMO on a monthly basis depending on the liquidity situation in the banking sector. The LTFMO shall be conducted on the first business day of each month to facilitate banks to forecast actual liquidity during the CRR maintenance period. However, special scheduling may take place in case of public holidays. The RMA reserves the right to conduct the LTLMF by means of bilateral procedures. LTLMO shall be performed by means of either variable rate or fixed-rate tender procedure. The details on the operating procedure and information flow is illustrated the following Chart.

Long-term Liquidity Management Procedure

