



Press Release

Workshop on the Modernization of Monetary Policy Frameworks in Bhutan, India and Nepal

September 11, 2018

On September 10-11, the Royal Monetary Authority of Bhutan (RMA), the International Monetary Fund (IMF) and the IMF's South Asia Regional Training and Technical Assistance Center (IMF SARTTAC) held a workshop in Bhutan on issues related to the modernization of monetary policy frameworks in Bhutan, India, and Nepal. The workshop was attended by high-level officials from the Nepal Rastra Bank, Reserve Bank of India and staff from the IMF and IMF SARTTAC. Participants from Bhutan included Members of the RMA Board, two Honorable Members of the National Council and senior officials from the RMA, Ministry of Finance, Gross National Happiness Commission, Royal Institute for Governance and Strategic Studies and the Bhutan Chamber of Commerce and Industry.

The workshop was motivated by India's successful adoption of a flexible inflation targeting framework for monetary policy in 2016. This reform has important implications for monetary policy operations and inflation spillovers in Bhutan and Nepal, which participants explored during the course of the workshop.

In opening the event, RMA Governor Dasho Penjore stressed the importance of sound monetary policy frameworks for ensuring a stable economic environment that can promote sustained growth and job creation. He noted that maintenance of exchange rate peg given the close economic and financial linkages with India is fundamental for modernizing the monetary policy framework in Bhutan.

A presentation by the Reserve Bank of India took stock of India's experience so far in implementing inflation targeting. Participants agreed that the new monetary framework holds promise for entrenching low and stable inflation in India, with important beneficial spillovers for price stability in Bhutan and Nepal. At the same time, analytical work presented at the workshop suggested that prices in Bhutan and Nepal are also driven by domestic factors. These findings highlighted the importance for Bhutan and Nepal to have sound monetary policy frameworks in place to achieve sustained low inflation.

Officials from the RMA and the Nepal Rastra Bank shared plans and ongoing efforts to modernize their monetary policy frameworks with a view to strengthen liquidity management and stabilize short-term interest rates. Participants welcomed these efforts. They acknowledged that by moving toward interest-rate based monetary policy frameworks as intended, central banks would incur some costs. However, these costs are outweighed by the benefits arising from greater financial and price stability.

A number of critical issues were identified for a successful strengthening of monetary policy in Bhutan and Nepal. Among them are effective arrangements with the government for liquidity and government cash-flow management coordination. Central banks also need to enhance their macroeconomic analytical and forecasting capacity with the aim of supporting a forward-looking monetary policy strategy that is based on a timely and comprehensive assessments of transmission mechanisms. Finally, proactive outreach and communications by central banks can foster a better understanding of the central banks' price stability mandate and help generate broad support for the intended reforms.

In commenting on the discussions that took place, Kenneth Kang, Deputy Director of the IMF's Asia and Pacific Department, noted that "a key objective of the IMF is to help member countries implement stability-oriented macroeconomic policies that provide a conducive environment for sustained growth and improvements in living standards. The learning that took place during this workshop clearly contributed to this objective".

In the concluding session of the workshop, participants identified policy and implementation issues that will require further investigation. They also stressed the importance of training and technical assistance to continue to strengthen the analytical and implementation capacity of central banks.

Following up on these points, Sukhwinder Singh, the Director of IMF SARTTAC, noted in his closing remarks that "the IMF's South Asia Regional Training and Technical Assistance Center will continue to provide capacity building on monetary policy issues in Bhutan and Nepal. It will also facilitate peer-to-peer learning among the region's central banks, including through further using the expertise of the Reserve Bank of India which has been extremely helpful in sharing its operational experience."