



## **Economic Stimulus Programme**

Guidelines on the implementation of the Economic Stimulus Programme  
(ESP) 2024 Credit Lines

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## Part A: General Provision

1. **Background:** Officially launched on May 19, 2024, in Thimphu with Nu 15 billion support from the Government of India (GoI), the Economic Stimulus Programme (ESP) aims to help the economy recover from the impacts of the COVID-19 pandemic. The primary goals are to enhance domestic production in selected sectors that can generate employment and promote self-employment, improve foreign currency reserves, and promote new businesses.  
  
The ESP package is to be implemented through a combination of fiscal and monetary measures supported by reforms such as access to affordable credit, price guarantee schemes, value chain development and management, skilling and training programs, market creation, and service improvements. Recognizing the importance of the ESP intervention and the substantial funding involved, this guideline will outline the 'access to affordable credit' component, which will be facilitated through the country's financial institutions;
2. **Title:** These guidelines shall be called the Guidelines on the implementation of the ESP 2024 Credit Lines;
3. **Commencement:** These guidelines shall come into force with effect from August 7, 2024;
4. **Objectives:** To have a common understanding of the ESP and uniform implementation across the stakeholders and Participating Financial Institutions<sup>1</sup> (PFIs);
5. **Interpretation:** If any issue arises in the interpretation of the provisions of these guidelines, the matter shall be referred to the RMA, and the decision of the RMA shall be final and binding on the stakeholders concerned;
6. **Applicability:** These guidelines shall apply to all the Participating Financial Institutions (PFI);
7. **Others:** These guidelines shall be read in conjunction with the following:

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<sup>1</sup> The PFI includes five commercial banks and three non-banks. The commercial banks include Bank of Bhutan Limited, Bhutan National Bank Limited, Bhutan Development Bank Limited, Druk PNB and T-Bank Ltd. The non-banks are Royal Insurance Corporation of Bhutan, Bhutan Insurance Limited and National Pension and Provident Fund.





- 7.1. Synopsis of ESP approved during the 12<sup>th</sup> Session of the Fourth Lhengye Zhungtshog held on May 4, 2024;
- 7.2. ESP Implementation Mechanism approved during the 18<sup>th</sup> Session of the Fourth Lhengye Zhungtshog held on June 5, 2024;

#### **Part B: Investment Areas (Targeted Sectors)**

8. The ESP investment areas are as approved during the 12<sup>th</sup> Session of the Fourth Lhengye Zhungtshog held on May 4, 2024;
9. Any amendments in the investment areas shall be communicated to the PFIs;
10. The current list of approved investment areas is as per Annexure I;

#### **Part C: Funding Modality**

11. The ESP credit lines shall be supported through two windows as follows:
  - 11.1. **Window 1 – Concessional Credit Line (CCL):** The CCL is targeted to support new business loans and scaling up with low interest rates to identified sectors;
    - 11.1.1. The loan interest rates shall be at 4% p.a;
    - 11.1.2. The loan shall be collateral-free but backed by project assets wherever applicable;
  - 11.2. **Window 2 – Reinvigoration Fund (RGF):** The RGF is targeted to help distressed borrowers and businesses with the potential to grow and recover from setbacks caused by the COVID-19 pandemic and other external factors through two support areas;
    - 11.2.1. Modality I – Interest Subsidy: An outstanding loan of eligible borrowers will be subsidized at 4% p.a for up to 3 years. The clients will bear the difference in the subsidized rates and existing rates of the PFIs;
    - 11.2.2. PFIs shall carry out annual evaluation of the borrowers to assess progress, commitment and viability to determine the continuity of the subsidy within the 3-year limit;
    - 11.2.3. Modality II – Additional Loan: Under this modality, the ESP will subsidize the interest rate at 4% p.a. for any additional loans provided by PFIs. The clients will bear the difference in the subsidized rates and existing rates of the PFIs;
    - 11.2.4. The borrowers shall be eligible for Modality I or Modality II but not both;
12. The RMA shall determine the RGF fund allocation among the PFIs based on considerations such as demand for the credit, and impact;
13. The RMA shall release the funds to the PFIs quarterly based on the amount disbursed by the PFIs;



14. The fund allocation within the investment areas/sectors shall be communicated to the PFIs by the RMA according to the communication between the RMA and ESP Secretariat;

#### **Part D: Redemption of the ESP Fund**

15. At the end of the fund tenure, the Government will redeem the fund from the PFIs as follows:
- 15.1. Window I (CCL) – Under Window I, the redemption shall be as per the following schedule:

<b>Redemption Date</b>	<b>Proportion</b>
June 2029	30%
June 2030	15%
June 2031	15%
June 2032	15%
June 2033	15%
June 2034	10%

- 15.2. Window 2 (RGF) – Since the ESP will finance the interest rate subsidy for the borrowers, there will not be any redemption. However, if loans slip into NPL, the subsidized interest amount shall be paid back to the Government by the PFIs, which shall be recovered from the client;

#### **Part E: Application Process**

16. Borrowers shall submit applications for loans to be covered under the ESP to the PFIs;
17. Applications for Window I and Window II will close by 31 December 2024;
18. The PFIs shall ensure full due diligence when ensuring that only prospective and viable business projects are funded through the ESP<sup>2</sup>;
19. PFIs shall ensure that the relevant government agencies conduct a technical assessment of the borrower's project proposal where applicable. The technical clearance shall not guarantee loan approval, which shall be carried out independently by the PFIs;
20. The evaluation of the ESP loan applications shall be the sole responsibility of the PFIs based on the investment areas specified under these guidelines;

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<sup>2</sup> For any technical assistance that may be required to assess the project under the ESP, the PFIs through the Financial Institutions Associations of Bhutan (FIAB) may submit formal requests to the Government through ESP Secretariat established in the Office of Cabinet Affairs and Strategic Coordination (OCASC), Office of the Prime Minister and Cabinet.

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#### **Part F: Monitoring & Reporting**

21. The PFIs shall be responsible for appraisal, monitoring, and recovery of the ESP loans;
22. The PFIs shall ensure to monitor and review the loans covered under the ESP as per their existing loan monitoring and review procedures;
23. The PFIs shall be subject to monthly financial reporting requirements to RMA;
24. To ensure accountability and transparency, PFIs shall submit reports on ESP loans (as per the prescribed template) every quarter;

#### **Part G: Prudential Requirements**

25. The PFIs shall comply with all the requirements/provisions stipulated by the RMA except the following:
  - 25.1. Loan to Value (LTV) Ratio up to 90% based on the cost of the project;
  - 25.2. Loan to Income Ratio (LTI) up to 90% based on the cash flow projection;
  - 25.3. All loans granted under the ESP shall be assigned 50% risk weight for the computation of the weighted Capital Adequacy Ratio (CAR) of the PFIs;

#### **Part H: Review**

26. The RMA will review the guidelines as and when required to ensure that it provides the PFIs with the necessary flexibility and incentives to meet the objectives of the ESP.

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ANNEXURE I: Sectors for the ESP Concessional Credit Lines for Phase 1					
Sector	Scale of investment	Sub-sectors	Fund allocation (Nu in million)	Interest rate	Loan Tenure
Primary Agriculture and Livestock	Small (Up to Nu 1 mil)	Crop Cultivation, Fishery and Aquaculture, Poultry Farming, Piggery, Raising of Cattle, Raising of Other animals Mixed Farming, Agriculture Machineries, Agri- Infrastructures and Support Dairy products	500	4%	Up to Banks
Production and Manufacturing (CSIs)	Small (Up to Nu 10 mil)	EXCEPT services, construction, mining in raw form and primary agriculture (since it is already covered under agri credits)	500	4%	Up to Banks
		Scale up existing Startups	300		
		Movie Production	200		
Production and Manufacturing (Medium Scale)	Medium (Above Nu 10 Mill and Max. Nu. 100 mil)	EXCEPT services, construction, mining in raw form and agro-based.	1,800	4%	Up to Banks
Business Reinvigoration	Distressed businesses of any scale with potential to revive and stimulate economic growth	EXCEPT housing, personal transport, trade & commerce (import-oriented business), personal Loans (including credit card, education, term deposits, shares, medical), staff incentives, hotels and tourism sector.	2,000	4% (It is the interest subsidy and the borrowers will pay the difference in the subsidised and the existing rate)	Max. 3 years
		<b>Total</b>	<b>5,300</b>		

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