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ROYAL GOVERNMENT OF BHUTAN
PRIME MINISTER'S OFFICE



June 26, 2020

Press Release Comprehensive National Response to the Challenges of the COVID-19 Pandemic Phase II

Background

His Majesty The King highlighted the need to protect the health and lives of the people in our country from the risks posed by global spread of the Novel Coronavirus, during the address to the nation on April 10, 2020. His Majesty also emphasised the need to build resilience, confidence and security of our people and businesses, as we face unprecedented economic difficulties this pandemic.

A National Resilience Fund of Nu 30 billion was established to support the Comprehensive National Response to the Challenges of the COVID-19 Pandemic.

The support included the grant of the Druk Gyalpo's Relief Kidu for individuals directly affected by the pandemic and the grant of interest waiver for the months of April, May and June 2020. In addition, several fiscal and monetary measures were launched to boost economic activities, and sustain growth and employment.

Bhutan has been fortunate, thus far, to have successfully prevented any local transmission of the Novel Coronavirus. The immediate grant of the Royal Kidu for affected individuals, and interest waiver and other government interventions have alleviated the economic difficulties and uncertainties faced by the people and businesses.

However, it is evident that in the absence of a definite medical solution, the economic difficulties continue to persist. As a result of global and regional uncertainties, and imposition of certain restrictions to complement health policies back home have added burden to our people and businesses.



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In view of the ongoing difficulties, His Majesty the King has commanded that in these extraordinary circumstances, the State must rise above all other considerations and continue to provide substantive, timely and inclusive support to sustain public confidence and build resilience in these challenging times.

In keeping with the command, the Prime Minister Dr Lotay Tshering announced the second phase of the Royal Kidu for affected individuals and interest payment support. He also announced additional monetary and fiscal measures, which shall commence from July 1, 2020.

A. Druk Gyalpo's Relief Kidu – Income support to affected individuals

The Druk Gyalpo's Relief Kidu for affected individuals will continue from July until September 2020. However, as announced on April 30, 2020, the amounts are revised to Nu 10,000 and Nu 7,000 per month respectively, in anticipation of rising number of applicants.

Kidu recipients are encouraged to actively seek employment opportunities through various government and private led initiatives.

The Relief Kidu has granted about Nu 700 million to over 23,000 affected people between April and June 2020, boosting their morale and providing critical livelihood support and assurances of hope amid current hardships.

It is imperative to acknowledge the support of many business entities who have continued to employ and pay the salaries and wages of their staff despite the setbacks. There are also many people who have been affected but chose not to avail themselves of the Relief Kidu by exploring other livelihood options. Such support truly reflects the solidarity and unity of our people to make their share of contribution to the country.

The details for Phase II of the Kidu will be made public on the website www.royalkidu.bt in July 2020.



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B. Druk Gyalpo's Relief Kidu – Support for interest payment

In order to alleviate the mounting worries of the people about loan repayments, the prime minister announced the Royal Command to further extend interest waiver for another nine months for loans availed as of April 10, 2020.

Full interest waiver shall be granted for another three months from July to September 2020. This will be followed by partial interest waiver (50%) for six additional months from October 2020 to March 2021.

The Royal Kidu on interest waiver is expected to benefit 112,024 individuals (with 139,261 loan accounts) across 20 dzongkhags with personal and business loan accounts including those accounts listed as NPL. The cost of the interest payment for the period of nine months is estimated at Nu 7.5 billion and will be fully granted from the National Resilience Fund.

As the future direction and magnitude of the global pandemic cannot be ascertained as yet, it will be vital for our people and particularly enterprises to rethink their business strategies to adapt to the changing realities. It is hoped that the relief provided through the interest waiver and other fiscal and monetary measures will provide the much-needed buffer to this end.

The Royal Monetary Authority (RMA) and the financial institutions (FIs) will provide detailed guidelines and standard operational procedures for this support.

C. Monetary and Fiscal Measures

With the COVID-19 pandemic showing no sign of slowing down, economic downturn has become a reality everywhere. In spite of zero local transmissions in Bhutan, our economy will also face similar challenges. Moreover, it is also certain that the economy will take more than a year to rebound.

The government recognises that the costs of this COVID-19 pandemic crisis will be extremely heavy for businesses and employees. Therefore, a package of monetary and fiscal interventions is created to ease some of the burden and help businesses successfully tide over this difficult period.



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To facilitate better strategy and planning for business sustainability, the measures will provide support over the next six to 12 months.

Phase II monetary and fiscal measures will support all businesses, big and small, through a combination of interventions that will complement the Druk Gyalpo's Relief Kidu (support for affected individuals and interest payment support).

Monetary measures will ease debt pressure through the deferment of loans for one year without penal interest. For borrowers willing and able to service their loans during this period, FIs have offered to reduce the interest by one percentage point as an added incentive.

Further, for business continuity, new soft-term bridging loans at a highly concessional interest rate of 5% for businesses will be provided. Micro loans for agriculture and soft loans to CSIs at 2% and 4% interest rates, respectively, will be extended by another 12 months by the National CSI Development Bank.

While providing highly concessional interest rates to borrowers (at below the minimum lending rate), the interests of savers and depositors will also be protected and deposit rates will not be reduced. The RMA will continue to ensure financial sector stability.

The government will also continue to implement fiscal measures to boost domestic demand, increase economic activities, generate employment and ensure stability and growth. This will be done mainly by front-loading capital investments. To support this, procurement guidelines will be simplified including preferential treatment for local goods. Further, to ease cash flow, targeted tax deferments and rental waivers will also be provided. Support to ensure the country has sufficient stocks of essentials will also continue.

With the implementation of these measures, the government is optimistic that the private sector will continue to play an active role in the economy to provide necessary goods, services and jobs to tide over the period.

C.1 Monetary Measures

Phase II monetary interventions are aimed to help the economy gain some degree of resilience and adapt to the changing circumstances.



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Stakeholders agree that the recovery of businesses and the economy may take longer than anticipated, and therefore, the tenure for Phase II Interventions is considered from over six months to 12 months.

I. Bridging loans for business continuity (soft short-term loans) to corporate and business entities at concessional interest rate of 5%

To ensure the resilience and continuation of operations of corporate and business entities (CIT and BIT filing business agencies) that are seriously affected by COVID-19, FIs will provide “Soft Short-Term Loans for Business Continuity” at the following terms:

- *Eligible for CIT and BIT (accounts/ estimates) filing business entities, whose loans are regular. For Term Expired Loans, viable businesses will be eligible, while the rest will seek foreclosure;*
- *Purpose of the loan facility is to maintain regular operations of the business, particularly paying salaries of employees, utility bills, and rents, where applicable;*
- *Loan size will be determined by the financial institution based on the June 2019 tax returns;*
- *Tenure of the Soft-Term Loan is 4 years with gestation period of 1 year;*
- *Banks agreed to provide Interest Rate at the soft rate of 5 percent.*

II. Soft Short-Term Micro Loans and Soft Loans to CSIs

In order to continue supporting micro clients and CSI borrowers, micro loan of Nu 500,000 at 2% and Soft Term Loans at 4% to be extended by another 12 months by the National CSI Development Bank as approved by the Ministry of Finance.

III. Deferment of Loan Repayment

Loan deferments will be extended for one year until June 30, 2021 for all loans. Deferments can be full or partial. However, partial repayment will cover at least the interest payment on the loans. The RMA will provide clear directives to implement this intervention.



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Conditions for deferment of loan repayment for those not covered by the interest waiver

- *Interest will continue to accrue at normal rates on the principal amounts during the deferment period.*
- *Interest accrued during the deferment period will be capitalised at the end of deferment period. The interest will not be compounded during the deferment period. The FSPs will work out suitable amortization plans with the added tenure of the loans (period of deferment) to maintain the same EMI where possible;*
- *No late fees/penal interests shall be charged during the deferment period;*
- *Further, the term expired loans shall be segregated into viable and nonviable loans, with arrangements for re-scheduling of viable loans and pursuit of foreclosure of non-viable loans in the larger interest of the economy and financial sector. RMA will assist in addressing the foreclosure of non-viable and term expired loans;*
- *All loan account holders will have to register for Loan Repayment Deferment with respective FSPs in a prescribed form for proper assessment and monitoring purposes;*
- *The extension of loan tenures will be considered based on assessments.*

Incentives for regular loan payers (1% interest rate reduction during deferment period)

- Borrowers who repay their loans regularly and fully during the deferment period will be offered a 1 percentage point interest rate reduction during the deferment period.
- This rebate will be adjusted against the borrower's outstanding balance.
- For loans that are fully repaid during the deferment period, the financial institutions will refund the interest differential.



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IV. Conversion of concessional working capital schemes to concessional term-based loan (5% interest rate for the tenure of the loan)

The three working capital schemes (for Wholesalers, Tourism, and Manufacturing Industry) applied during the first three months of COVID-19 is now being replaced by the **Bridging Loan for Business Continuity described in (I)**.

However, the working capital loan outstanding at the end of June 30, 2020 will be provided with the following concessional repayment modalities:

The total outstanding working capital with capitalized interest rate at the end of June 30, 2020 will be amortized over the approved tenure of the loan (2-4 years) at the concessional interest rate of 5 percent.

V. Non-Performing Loans (NPLs)

The government and the RMA will conduct an in-depth assessment of NPLs from July 2020 to facilitate rehabilitation and/or foreclosures of non-performing loans.

VI. Support to Financial Service Providers (FSPs) by RMA

To provide adequate and timely support to the FSPs in implementing the approved monetary measures, RMA will provide the following enabling measures:

(a) Opening of Liquidity Window Facility

RMA will open a liquidity window for FSPs (inter-bank borrowing system) to meet the temporary funding requirements and to ease the cash flow/liquidity constraints within the financial system. RMA will release liquidity through reduction of CRR only if the liquidity crunch is of a systemic nature.

(b) Easing of Prudential Regulations

In consultation with FSPs, RMA will, where possible revise or ease Prudential Regulations like Income Recognition and Asset Classification (IRAC), Capital Adequacy Ratio (CAR), and Statutory Liquidity Ratio (SLR) to assist the FSPs in sharing or accommodating business



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risks and vulnerabilities with the loan account holders (*PR relaxations will be done separately with FIs at an appropriate time*).

C.2. Fiscal Measures

I. Taxes, duties and other charges

1. While filing of all CIT and BIT for income year 2019 shall be completed by June 30, 2020, CIT and BIT payment for tourism and allied sectors shall be deferred up to December 31, 2020. Other sectors shall settle applicable CIT and BIT on installment basis by September 2020.
2. Waiver of payment of monthly rent and other charges shall be continued for six additional months (July to December 2020) for tourism related business entities leasing government property.
3. Deferment of electricity charges for industries shall be extended for the period July - December 2020, while demand charges shall be paid on actual consumption basis.
4. Hotels used as quarantine facility shall continue to receive electricity and WiFi free of charge for the period July - September 2020.

II. Budget support for FY 2020-21: Front loading of priority activities

To boost economic activities and sustain growth, the government has decided to front load various economic activities to the current fiscal year through the following measures:

1. Enhance capital budget outlay from Nu 27 billion to Nu 36 billion for FY 2020-21.
2. Accelerate projects in the areas of tourism resilience, agriculture, Build Bhutan and improvement of farm roads for implementation under the Economic Contingency

Plan for which Nu 4 billion has been approved over and above the budget for FY 2020-21.



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III. Regulatory Reforms

1. The Procurement Rules and Regulations have been simplified as SPRR 2020 under COVID-19 situation with provisions for direct award of works, goods and services to expedite the implementation of activities of the 12FYP including projects under the Economic Contingency Plan.
2. In order to enhance self-reliance and promote domestically manufactured/produced goods, Guidelines for Domestic Preference for Procurement of Goods 2020 shall be issued on July 1, 2020 to provide 10% domestic preference.

IV. Essential food and non-food items

1. To sustain public confidence, continued support will be provided to FCB to stock essential food and non-food items.
2. In order to ensure that adequate international reserve is maintained to cover the import of essential items for one year as per the Constitution, import of luxury motor vehicles and bikes of f.o.b. value exceeding USD 40,000 and USD 10,000 or its equivalent, respectively, shall be suspended.

Conclusion

Under the guidance of His Majesty The King, the government in close consultation with all stakeholders will continuously monitor and assess the ground situation and impact of the afore-mentioned measures at regular intervals.

It is our collective prayer that the generous Kidu granted by His Majesty The King, complemented by government interventions and support from stakeholders and the Bhutanese people, will help our nation overcome the current adversity with unity and solidarity.

