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ROYAL GOVERNMENT OF BHUTAN
MINISTRY OF FINANCE
TASHICHHO DZONG



F.MoF/PED/01/2012 2240

3-12-2012

Notification

Subject: Revision of External Commercial Borrowing (ECB) Guidelines

The Ministry of Finance is pleased to revise the External Commercial Borrowing (ECB) Guidelines issued vide Notification No. MoF/PED/2010/08/10923 dated April 2, 2010 as under;

5. Amount

The maximum amount of ECB which can be raised by eligible borrowers should be within the borrower's debt-equity ratio of 2:1. For calculation of the debt-equity ratio, all existing and future debt, whether domestic or ECB, must be considered.

9. Guarantees

(ii). Financial institutions in Bhutan may extend guarantees to eligible borrowers for projects that have the capacity to earn the currency in which ECB is raised and meet its debt repayment obligations, but within the prudential norms of the Royal Monetary Authority.

The other provisions of the Guidelines remains unchanged.

The revised Guidelines shall be effective from 1st December, 2012.

The revised Guidelines can be downloaded from the Ministry of Finance's website www.mof.gov.bt


Lam Dorji
Finance Secretary

Copy:

1. The Hon'ble Minister, Ministry of Economic Affairs, Thimphu.
2. The Cabinet Secretary, Cabinet Secretariat, Tashichho Dzong.
3. The Secretary, Ministry of Economic Affairs, Thimphu.
4. The Governor, Royal Monetary Authority of Bhutan, Thimphu.
5. The President, Bhutan Chamber of Commerce and Industry, Thimphu.

REVISED EXTERNAL COMMERCIAL BORROWINGS (ECB) GUIDELINES

External Commercial Borrowings (ECB) refers to commercial loans in the form of bank loans and suppliers' credit availed from non-resident lenders. Export credit from official credit agencies within the prescribed terms and conditions will be considered as ECB.

ECB shall be bound by the following conditions:

1. Eligible borrowers

Incorporated companies registered under the Companies Act of Bhutan, but excluding financial institutions, individuals, trusts, NGOs and co-operatives shall be termed eligible borrowers.

2. Foreign Exchange Conditions

Eligible borrowers shall be only those export oriented entities that have the capacity to earn in the currency in which the ECB is raised such that it will be able to meet its repayment obligations.

4. Recognized lenders

ECB can be from internationally recognized sources such as:

- (i) Commercial banks
- (ii) Export credit agencies
- (iii) Suppliers credit
- (iv) Export/Import banks and
- (v) Multilateral financial institutions (such as IFC, ADB, World Bank, etc.).

5. Amount

The maximum amount of ECB which can be raised by eligible borrowers should be within the borrower's debt-equity ratio of 2:1. For calculation of the debt-equity ratio, all existing and future debt, whether domestic or ECB, must be considered.

6. Maturity

The loan term should not be below 5 years.

7. All-in-cost ceilings

The all-in-cost ceiling refers to the maximum interest and other costs that may be incurred by the borrower in relation to the ECBs. All-in-cost includes rate of interest, other fees and expenses in foreign currency except commitment fee, pre-payment fee, and fees payable in Ngultrums. The all-in-cost ceilings for ECB must not be more than 600 bp above 6 months LIBOR. This will be reviewed from time to time as per the response from lenders.

8. End-use

Rising of ECB will not be permitted for the following purposes:

- (i) On-lending or investment in capital market or acquiring a company (or a part thereof) in Bhutan by the companies;
- (ii) Investing in real estate sector;
- (iii) Acquisition of land;
- (iv) Working capital, general corporate purpose and repayment of existing domestic loans.

9. Guarantees

- (i) There shall be no Sovereign guarantee.
- (ii) Financial institutions in Bhutan may extend guarantees to eligible borrowers for projects that have the capacity to earn the currency in which ECB is raised and meet its debt repayment obligations, but within the prudential norms of the Royal Monetary Authority.

10. Security

The choice of security to be provided to the lender/supplier shall be left to the borrower. Creation of charge on assets will have to be as per the Companies Act of Bhutan. Creation of charge over immovable assets in favour of the overseas lender will be governed by the laws of the Kingdom.

11. Parking of proceeds

Borrowers will not be permitted to keep ECB proceeds abroad. They will have to be remitted to Bhutan immediately to a designated Foreign Currency Account with commercial banks in Bhutan. All transactions pertaining to the ECB must be routed through banking channels.

12. Prepayment

Prepayment of ECB would be permitted if it is met out of the inflow of foreign equity. Prepayment may also be permitted if the ECB has a residual maturity period of one year.

13. Refinancing of an existing ECB

An existing ECB may be refinanced by raising a fresh ECB provided the fresh ECB is raised at a lower *all-in-cost* and the outstanding maturity of the original ECB is maintained.

14. Debt servicing

The remittances of installments of principal, interest and other charges must be routed through the banking system. All the repayments must be based on the net-balancing principal (financed out of the net foreign exchange earnings of the borrower).

15. Procedure for approval

Borrowers may apply to the Ministry of Finance for their intention to engage in ECB.

16. Conversion into equity

- a) Conversion of ECB into equity will be permitted subject to the following conditions:
 - i) The activity of the company is covered under the RGoB's Foreign Direct Investment (FDI) policy.
 - ii) The foreign equity holding after such conversion remains within the specified FDI limit.
 - iii) Pricing of shares are as per the Stock Exchange Guidelines/Regulations in the case of listed companies.
- b)

Conversion must be reported to the RMA as follows:

Balance amount	Amount converted	Nu. Equivalent
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In the case of partial conversion, deviations in the terms and conditions of the loan, if any, must be reported to the RMA.

17. Taxation

Taxes on interest payments on ECB will be as per the tax laws of Bhutan.

18. Reporting

- i. A copy of the loan agreement must be submitted to the RMA.
- ii. The borrower can draw-down the loan only after obtaining approval from the RMA.
- iii. Borrowers will be required to submit monthly returns to the RMA in the prescribed formats.

- a) Conversion of ECB into equity will be permitted subject to the following conditions:
 - i) The activity of the company is covered under the RMA's Foreign Direct Investment (FDI) policy.
 - ii) The foreign equity holding after such conversion remains within the specified FDI limit.
 - iii) Pricing of shares are as per the Stock Exchange Guidelines/Regulations in the case of listed companies.

Conversion must be reported to the RMA as follows:

Balance amount	Amount converted	No. Equivalents
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In the case of partial conversion, decisions in the terms and conditions of the loan, if any, must be reported to the RMA.