



Nepalese Banking Industry

Current Status & Opportunities

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Nepal

Country Profile

Geo-Strategically Located

- **Land-linked with 2 of top-5 world economies**
- **Access to 1/3 world population**
- **High potential to drive regional energy demand**

Diversified

- **8 of 14 peaks above 8K metres**
- **Rich cultural diversity**
- **44% land under forest cover**

Growing

- **Aspiring middle-income nation**
- **>65% active population and youth**
- **High population dividend ~ 56%**
- **Literacy ~ 66%**
- **Financial inclusion >60%**



Regional Block:

South Asia

Capital City:

Kathmandu

Population:

29 Million

Male to Female Ratio:

96%

Currency pegged with INR

Current _____ **Macroeconomic Situation**

Macro-economy

Inflation Rate : 7.26%

Forex Reserves: USD 10.28 Bio

Forex Import Cover: 10.4 months

BOP: USD 0.73 Bio

Remittance Inflow: USD 4.50 Bio

GDP: USD 40.15 Bio

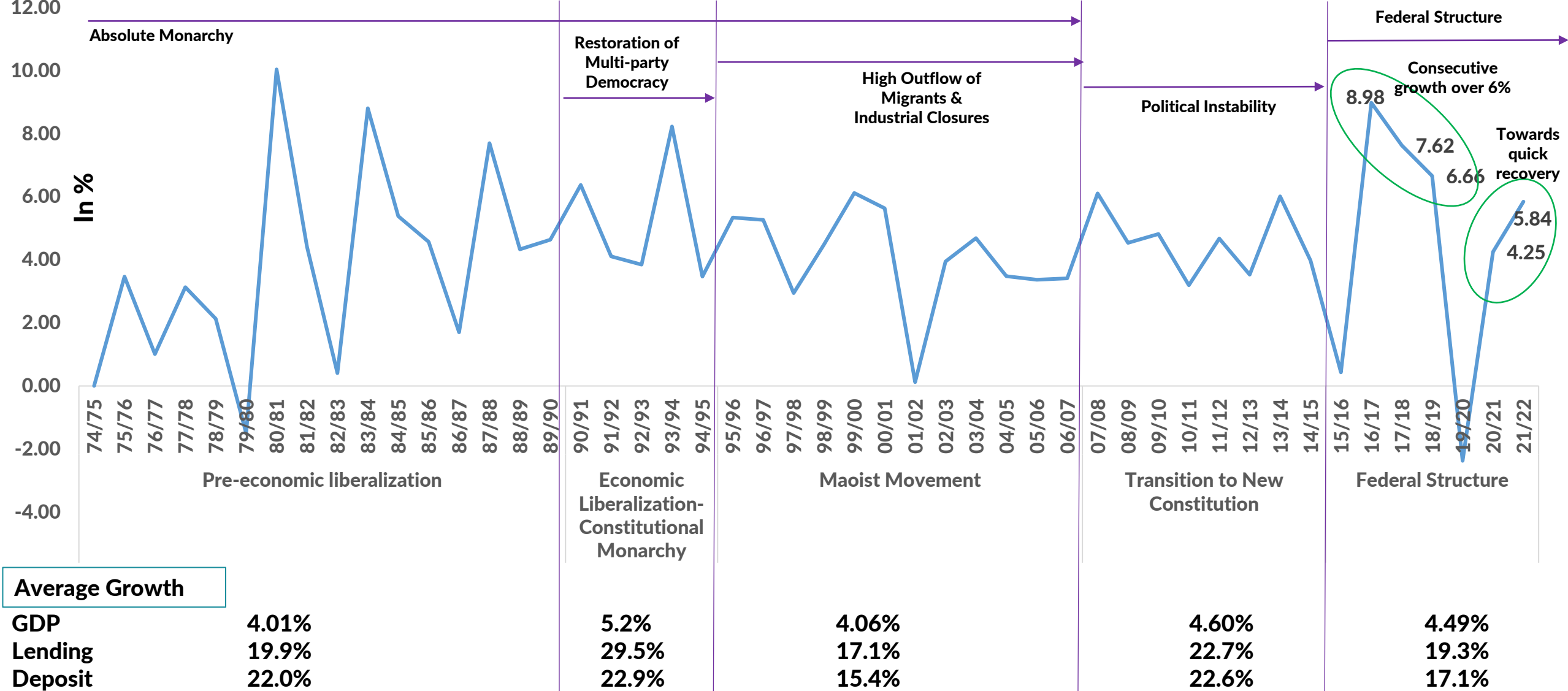
**Nominal GDP per Capita: USD
1,381**

GDP Growth: 5.84% (FY 21/22)

Doing Business Index 2020

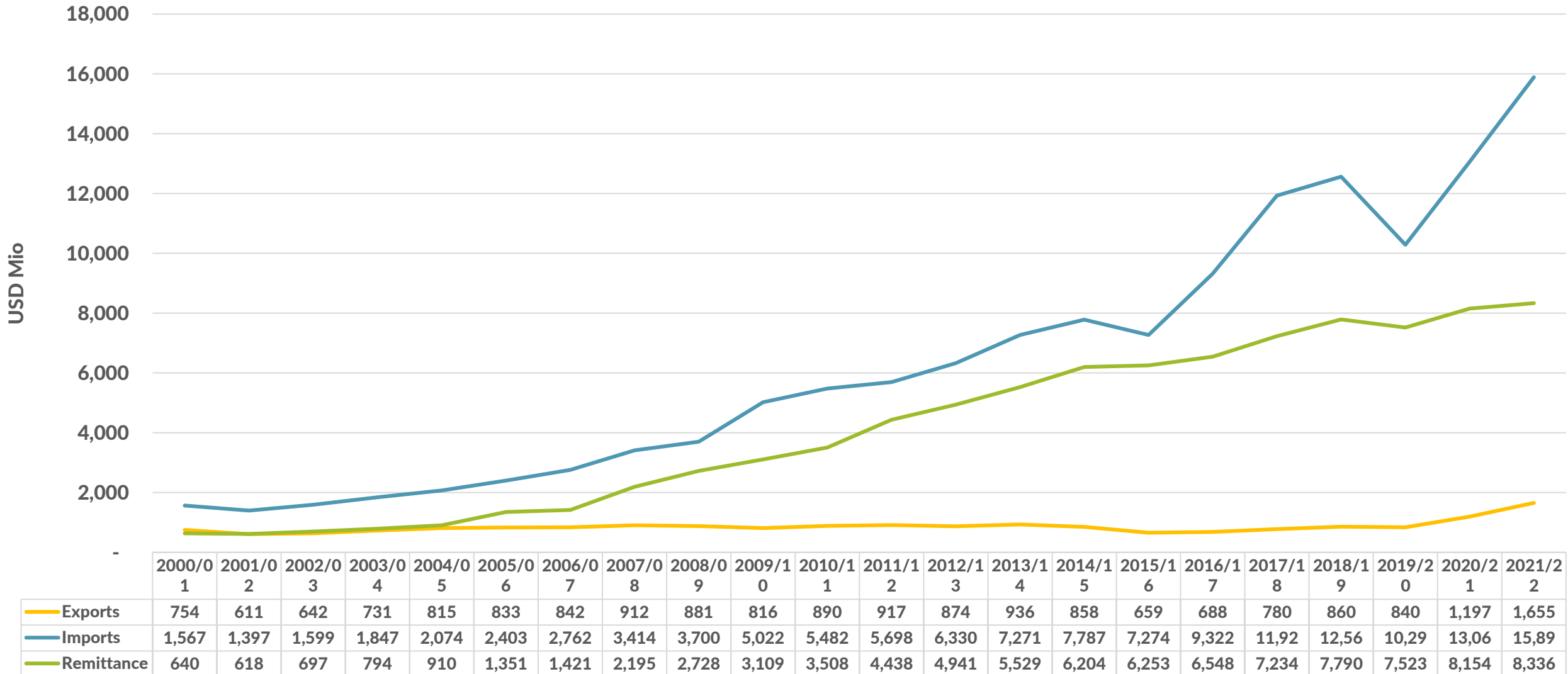
- **Ranked 94th (up from 110th in 2019)**
- **3rd most favorable business climate in South Asia**

GDP Growth Trend

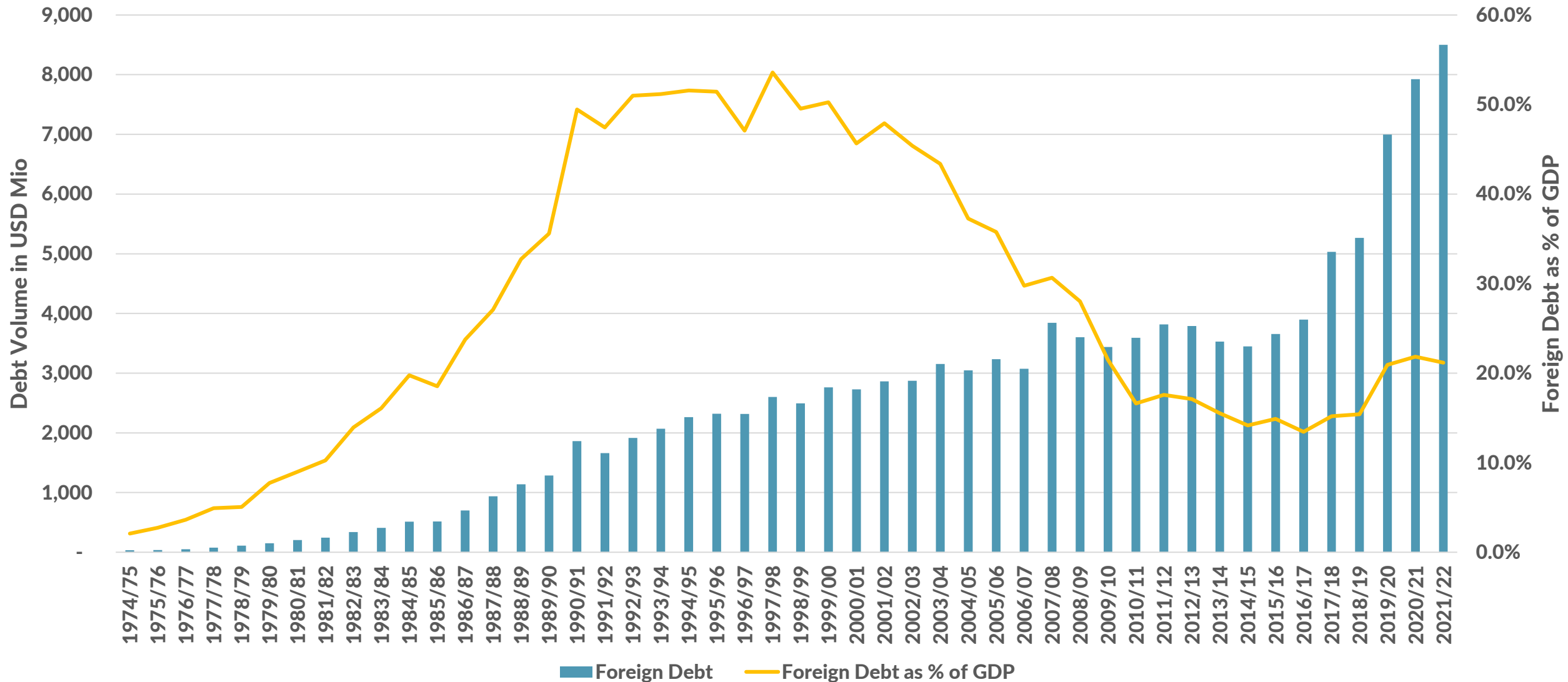


External

Sectors & Remittance



Foreign Debt Status



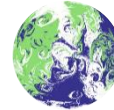
Nepal SDG Goal

Graduate to **Developing Nation status** from a Least Developed Country (LDC) in the next few years. A **middle-income country by 2030** and **Developed Nation by 2043**.



COP 26 COMMITMENT

- decarbonize economy in all sectors. Achieve **net zero emission by 2045**.
- 15% total energy demand to **supply from clean energy sources**.
- maintain 45% of our country under **forest cover** by 2030.



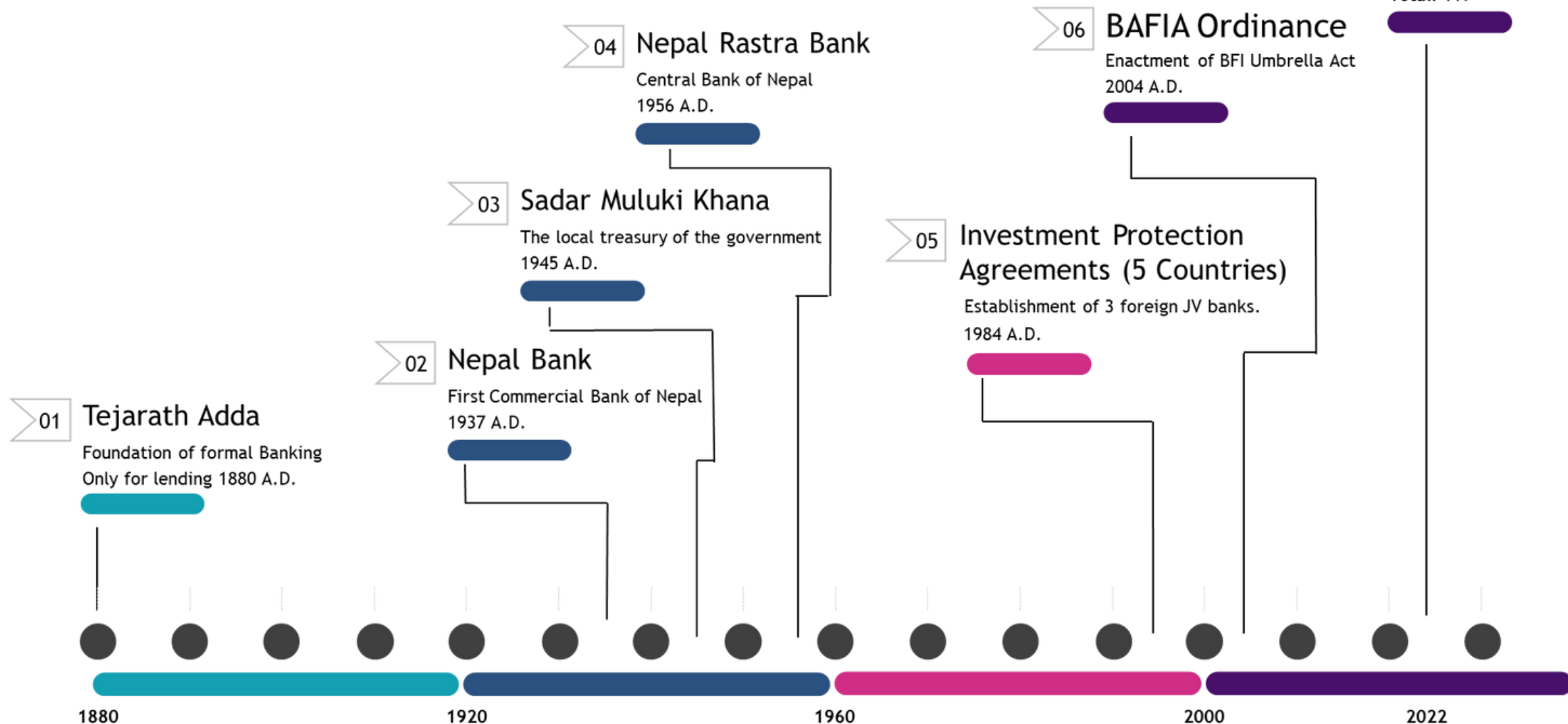
GRID Approach (Green, Resilient and Inclusive Development)

- Systematically address the impacts of COVID-19 and Nepal's structural challenges, including slow **domestic job creation**, a high vulnerability to **climate change** and **environmental degradation**, **low rates of inclusion** and **large infrastructure gaps**.



Journey

Nepalese Banking



BFI

Access



Number of Branches
6,437



Deposit Accounts
48 Mio



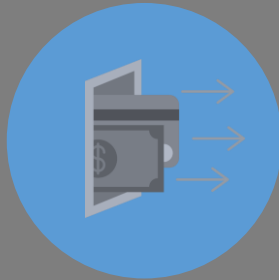
Loan Accounts
1.8 Mio



Number of ATMs
4,648



PSP
27



PSO
10

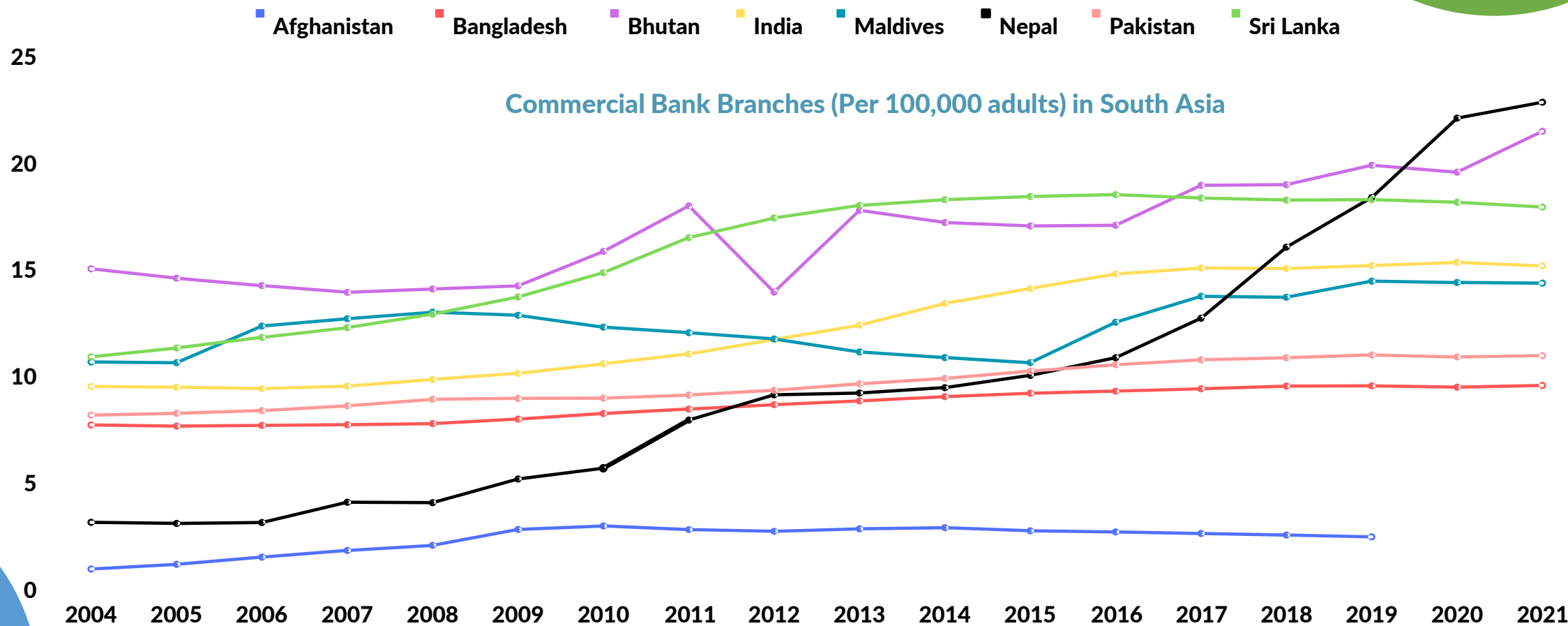


Mobile Banking
Customers
20Mio



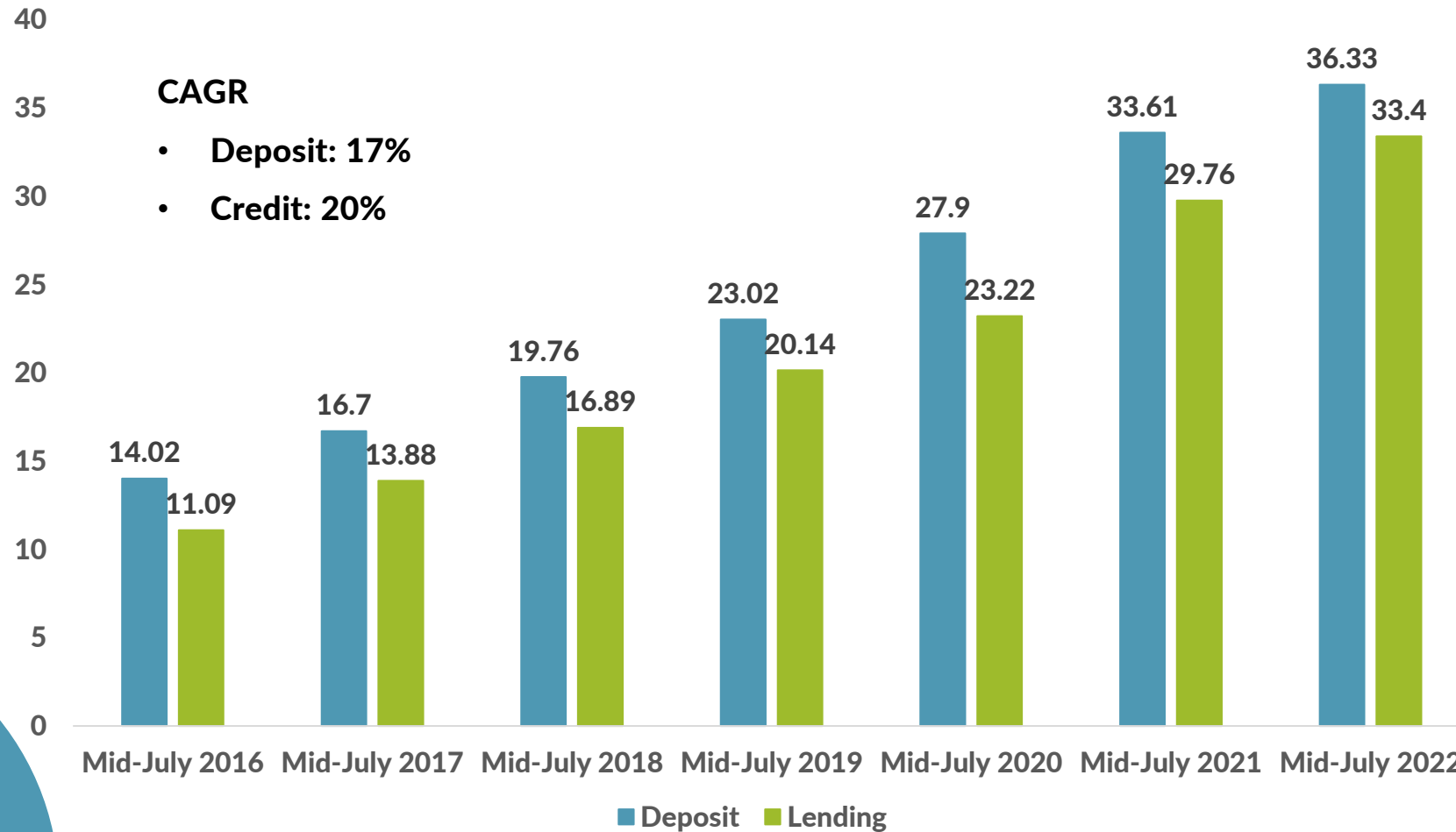
Local level
Coverage
752/753

Access- South Asia



Growth

Deposit/Lending of Banks



Total Deposit/GDP Ratio: 97.23%

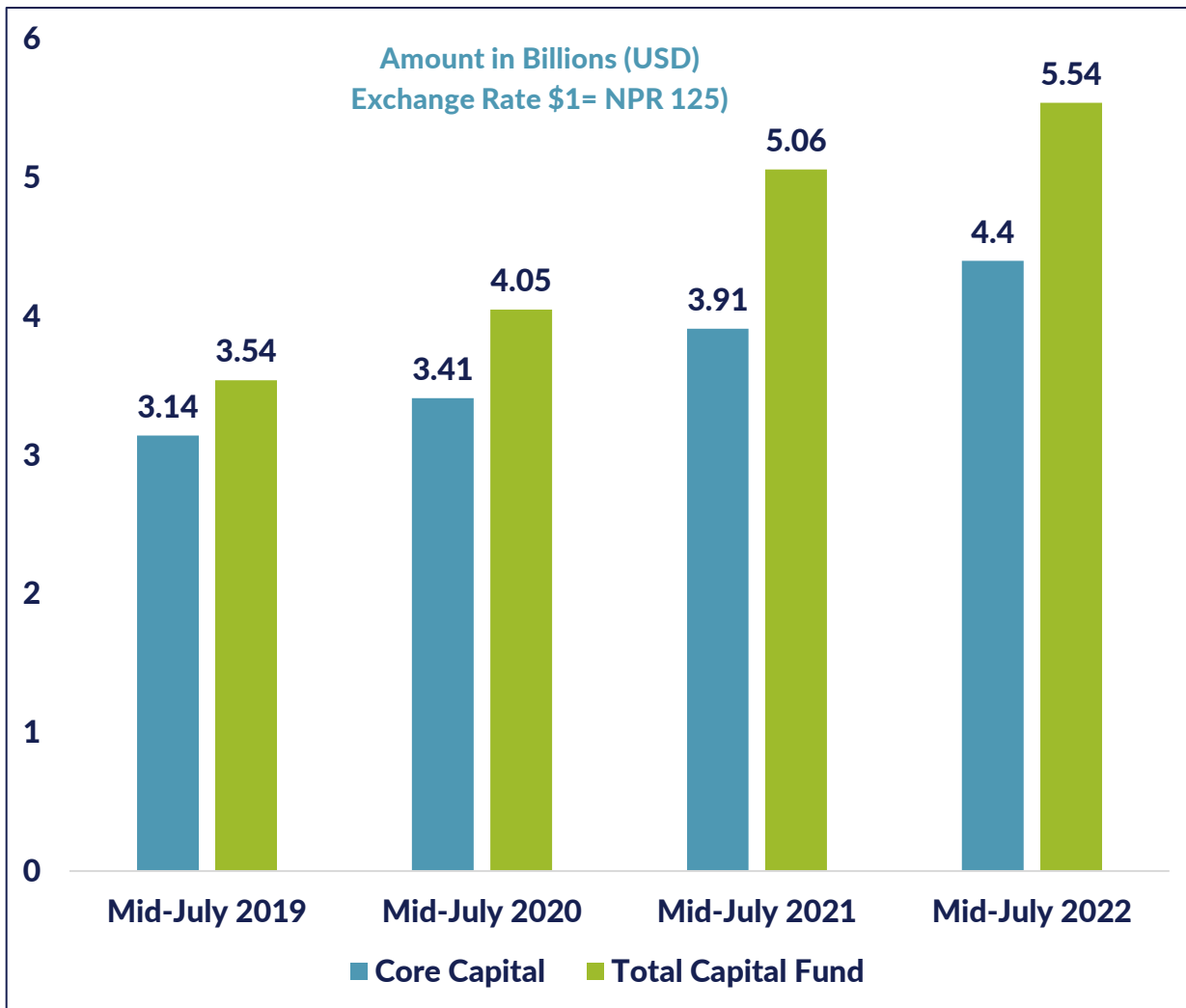
Total Credit/GDP Ratio: 88.40%

Deposit and Lending to GDP

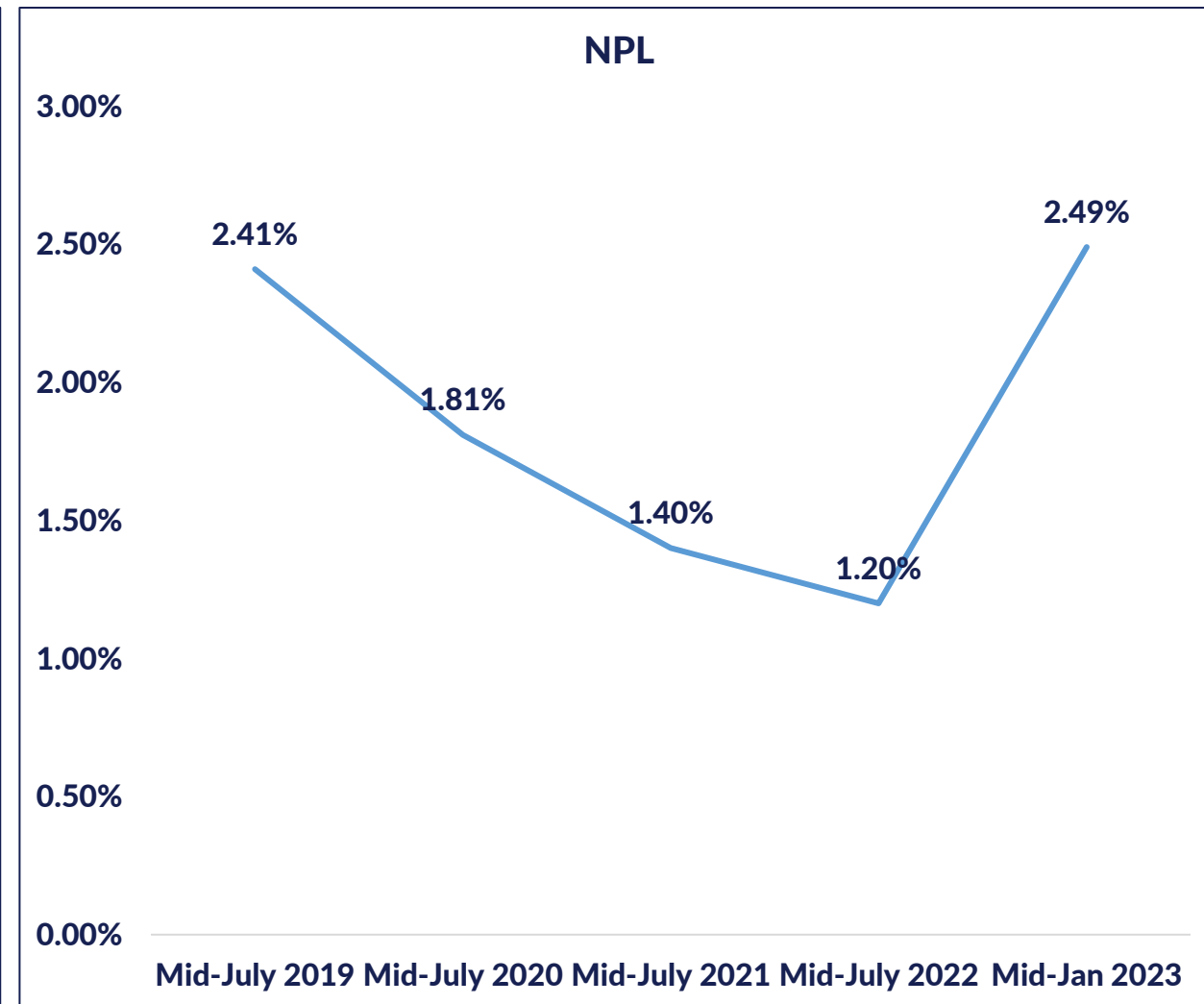
as of mid-Jan 2023

Amount in Billions (USD)
(Exchange Rate \$1= NPR 125)

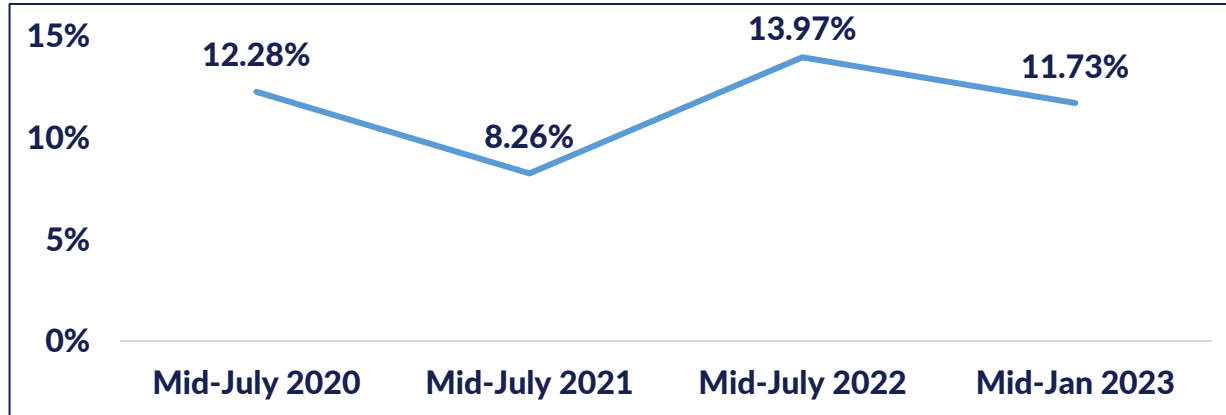
Total Capital Fund



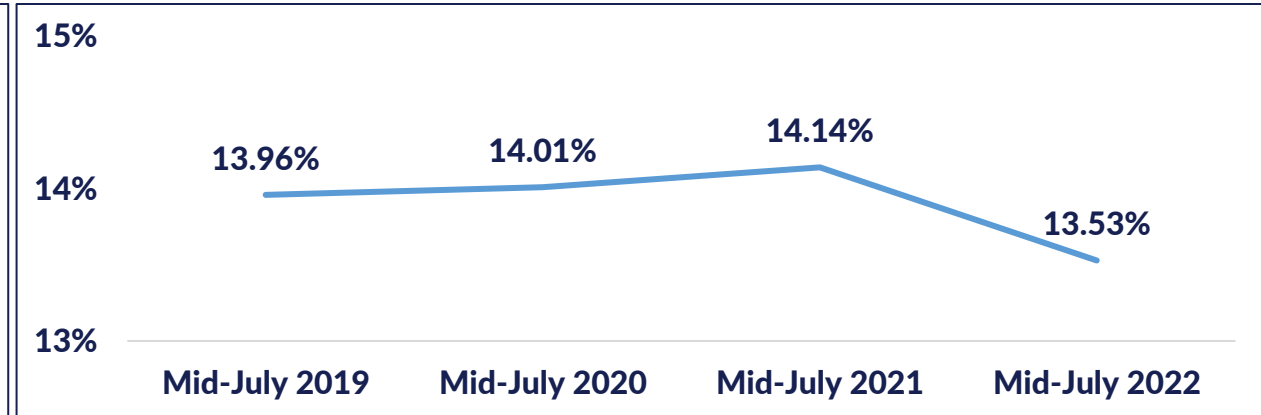
NPL Status



Return on Equity

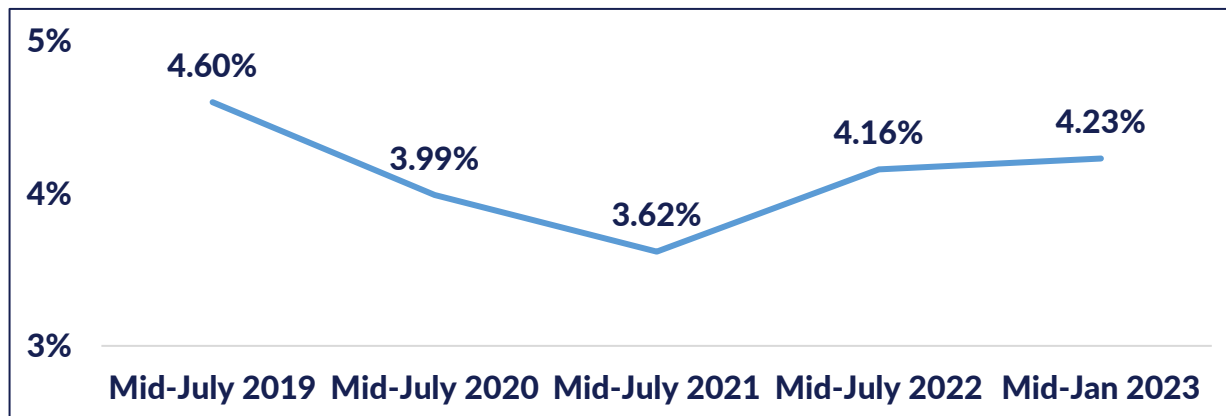


Capital Adequacy Ratio



Spread Rate

Source: Nepal Rastra Bank



Earnings per Share



ECB


Provisions

- Banks allowed to borrow 100% of core capital of the Bank
- Interest Rate:
 - Lender
 - Organization: Max One Year MCLR + 0.5% p.a.
 - Foreign BFIs, Pension Fund, Hedge Fund: Max 1 Year Benchmark Interest Rate + 4.5% p.a.
- Payment Period: Min. 6 months – Max. 15 years (renewable upon central bank's approval)
- Purpose: Lending to Energy, Infrastructure, Tourism, Agriculture, SME sectors excluding lending to Housing, Real Estate, and Margin Lending Sectors
- The obtained foreign currency loan may also be denominated in Nepalese Rupees, however, the risk of foreign currency exchange rate shall remain with the lender. The maximum interest rate (IR) of such loan may be up to the average base rate of the licensed commercial banks
- In case of obtaining foreign currency loan at a fixed interest rate, the rate can be up to the maximum interest rate prevailing at the time of loan approval by NRB. However, fixed IR is applicable only for a maximum of two years period at a time.
- The involvement of third party (including domestic party) and the payment to them is prohibited for transactions related to foreign currency loan. Incase it is necessary to execute works on behalf of the lender by third party, the lender itself should make arrangements for the payment to the third party

ECB



Conditions & Use of Fund

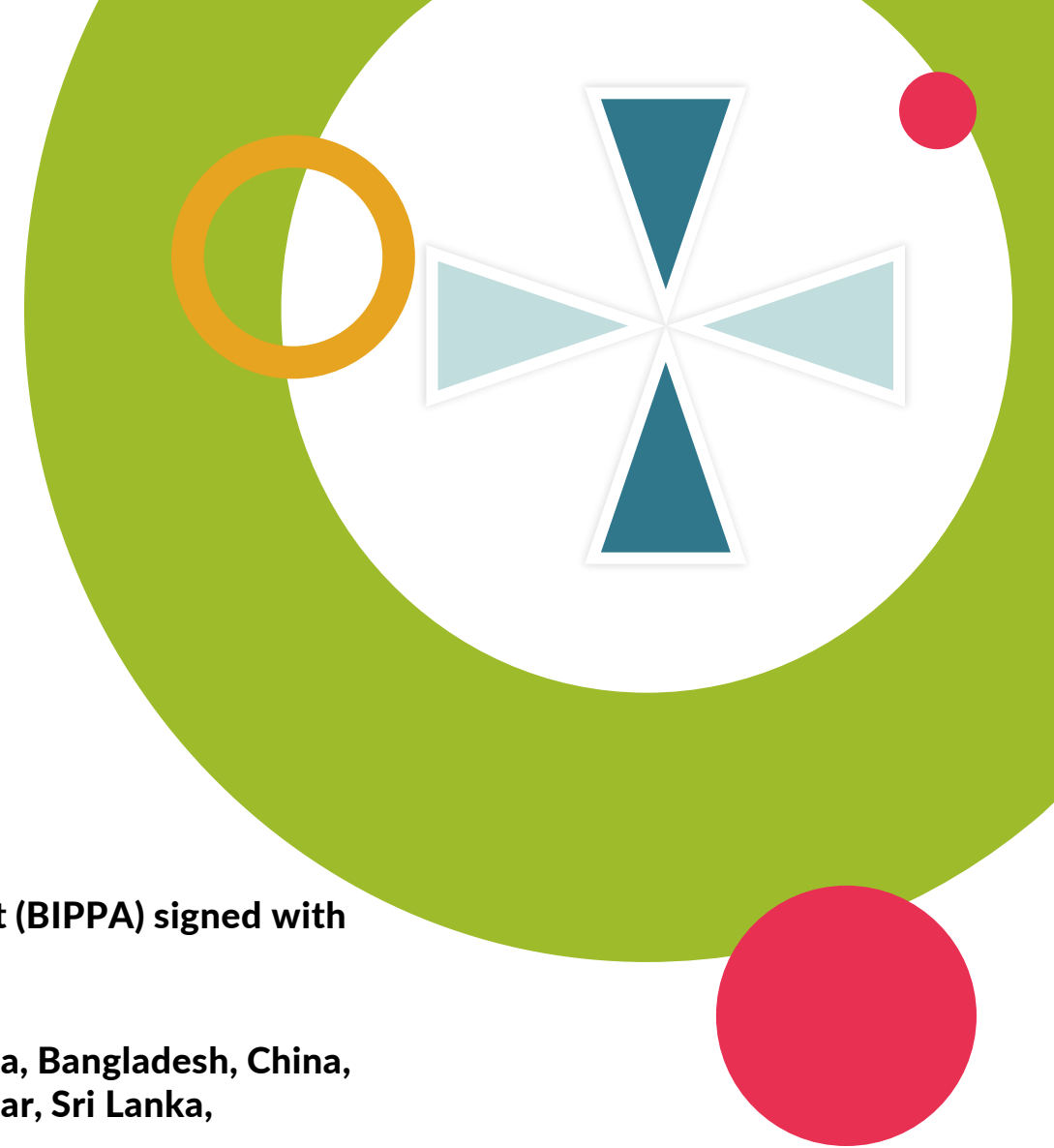
1. Prior approval of NRB must be obtained before obtaining loan.
 2. The fund borrowed from foreign banks and financial institutions can be used for financing physical infrastructure projects such as hydropower, transmission lines, roads, tunnels, airports, cable car (except housing, land planning and real estate development) as well as in businesses in tourism, agriculture and micro-credit sector
 3. The loan obtained from foreign bank and financial institution could be mobilized (as loan) in convertible foreign currency subject to they have FCY sales Income.
- 

Why Invest in Nepal

- Geo-strategically located & increasing regional demand for clean energy
- Large pool of capable workers (active population > 65%) & relatively cheap labor
- Foreign investors allowed 100% ownership in majority sectors. Repatriation of capital & profits allowed and easy
- Minimum threshold for FDI: NPR 20 Mio (earlier it was NPR 50 Mio)
- Land ownership allowed in company's name
- Simplified process to obtain business visa
- Various bilateral investment protection and double tax avoidance arrangements in place
- Lowest tax burden amongst countries in South Asia

Trade Agreements

- SAFTA and BIMSTEC Free Trade Agreement
- Bilateral Investment Promotion and Protection Agreement (BIPPA) signed with India, France, Germany, Mauritius, UK, Finland
- MIGA of the World Bank Group and WTO
- Double Taxation Avoidance Agreement signed with Austria, Bangladesh, China, India, Republic of Korea, Mauritius, Norway, Pakistan, Qatar, Sri Lanka, Thailand
- Belt and Road Initiative Agreement

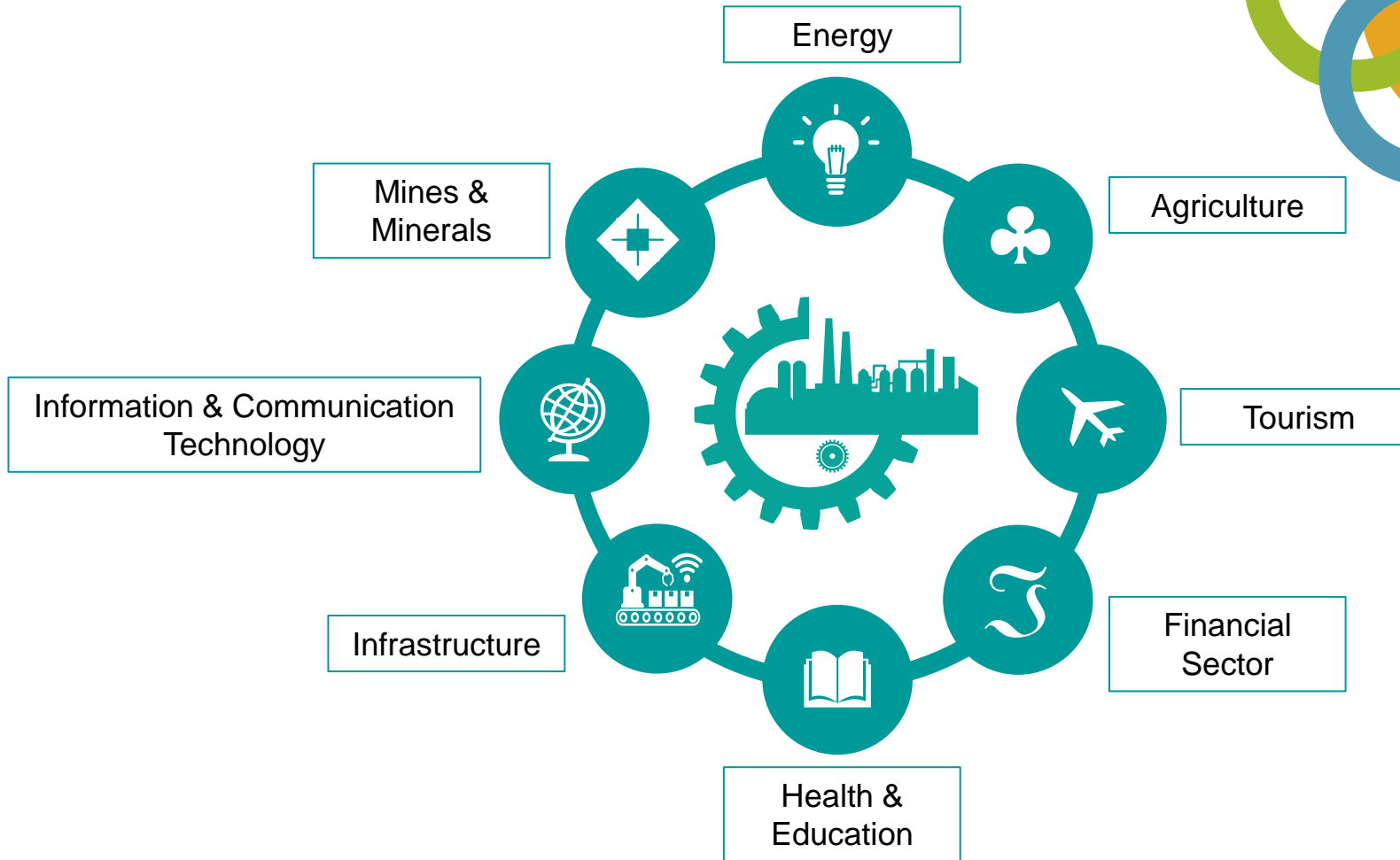


High ROI

Reasons

- Huge investment potential in tourism, hydro-power, agriculture, mine and mineral sectors;
- Abundance of natural resources;
- General income tax rate of 25% (20% in priority sector like Energy, Transport Infrastructure and Manufacturing), Value Added Tax (VAT) of 13%;
- Tax Holiday for specific sectors;
- Income tax concession on profits from exports;
- 1% Income tax on income earned in foreign currency from BPO, Software programming, Cloud Computing and other services based on IT for financial year 2022.23;
- 100% Tax exemption for 15 years and 50% Tax exemption for next 6 years for reservoir based and semi-reservoir based hydropower with capacity more than 40 MW;
- Withholding tax rate of 15% on royalties and technical & management fees;
- Customs, excise duties, and VAT levied on raw materials and auxiliary raw materials of export-oriented industries is reimbursed to the exporter on the basis of the amount of exports within 60 days of application;
- Nepal has open boarder access to India. Nepal has duty free access to China for around 8,000 products. Nepal has duty free access to US market for 77 items for 10 years starting from 2016;

Potential Investment Areas



Mode of Investment in Nepal

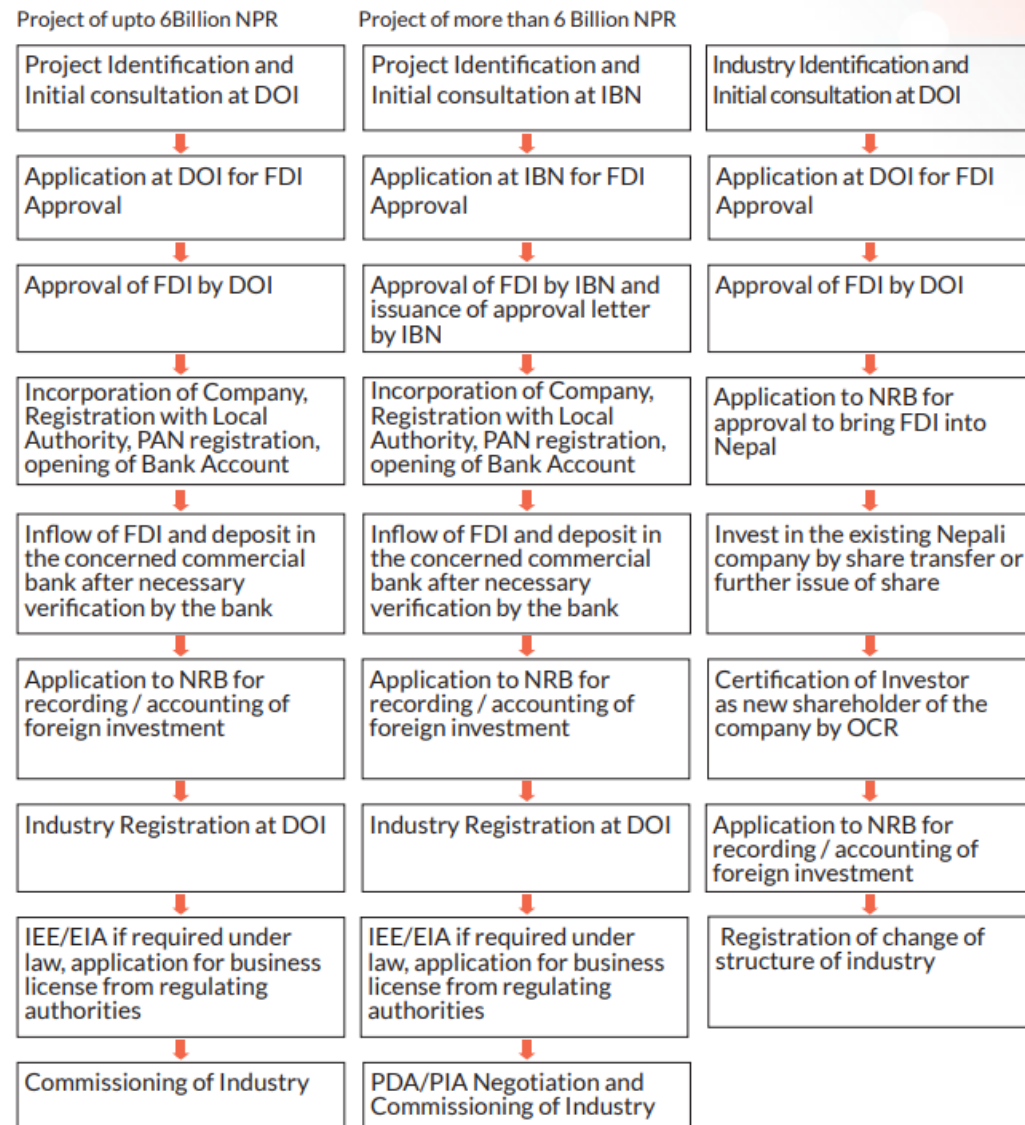
Investment can be made in any industry in following forms:

- Investment in shares in a new or in existing industry, in foreign currency
- Reinvestment of earnings derived from earlier investment
- lease financing of specified equipment like airlines, ships, machineries and equipment (up to prescribed threshold)
- Investment in venture capital funds (VCFs) by institutional foreign investors
- Investment in listed securities through secondary market by VCFs
- Acquisition of shares/assets of existing companies
- Issuance of securities in foreign capital market
- Investment made through technology & know-how transfer agreement

Note:

1. Investment can be made either in cash or in the form of tangible / intangible assets, e.g. machinery and equipment.
2. “Investment in listed securities through secondary market by VCFs” can be done only after notification by Nepal Government.
3. Foreign Financial Institution, with recommendation of ministry and approval of NRB can invest in a Foreign Invested Industry, in the form of project loan or project finance.
4. As per Nepal Gazette dated 14th Nov 2079, the minimum ceiling for foreign investment has been reduced to NPR 20 million by Nepal Government (earlier it was 50 million).

Starting New Business (Process Flow)



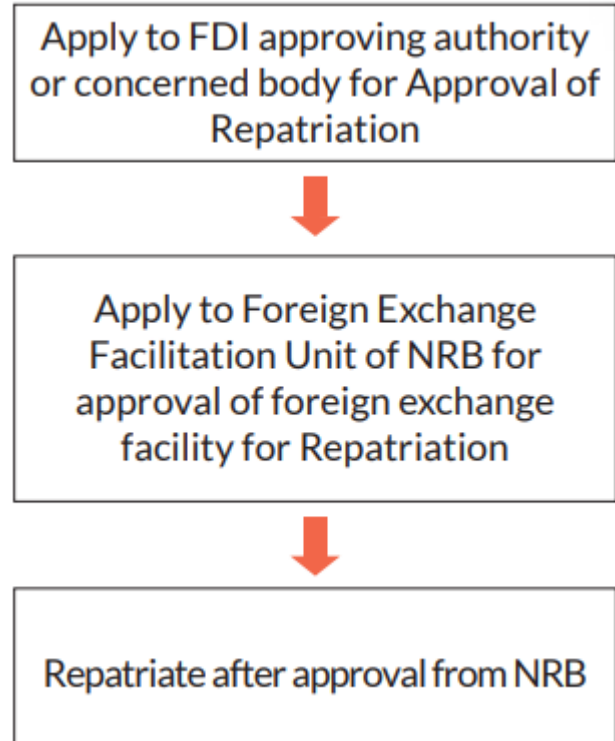
Process

Repatriation

Repatriation allowed on:

- a. The amount received from the sale of shares of foreign investment,
- b. The amount of profits or dividends received from foreign investment,
- c. In case the company or industry has gone into liquidation, the amount that remains after the entire liability has been settled after the liquidation.
- d. Amount of gain (royalty) received under technology transfer agreement, but, in case of royalty or fee for the use of trademark under technology transfer in the alcoholic industries other than 100% liquor exporting industry, the amount of such gain shall be as per the Foreign Investment and Technology Transfer Regulations, 2077,
- e. Lease rent amount under lease investment,
- f. The amount of damages or indemnity received from the final settlement of a case, arbitration or any other legal proceedings in Nepal.
- g. The amount to be repatriated in accordance with the prevailing laws.

Procedure for Repatriation



Key Challenges

International Challenges

- Climate Risk
- International Conflicts
- Recessing World Economy
- Rising Dollar Cost
- Supply Chain Disintegration
- Effect of Pandemic

Domestic Challenges

- Financing Gap
- Infrastructure
- Out-Migration

Industry Challenges

- Cyber Security
- Assets Quality
- Rising Operating Cost
- Liquidity

Key Opportunities



NBA Key

Focus Areas



Potential **Collaboration Areas**

Capacity
Building



AML &
Compliance



Technology &
Research



Sustainable
Financing



Corporate
Governance




Thank You



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