



Nepal Investment Summit 2017

Special address by Dr. Chiranjibi Nepal, Governor, Nepal Rastra Bank

3 March 2017

Mr. Chair of the Session,
Distinguished Panelists,
Esteemed Guests,
Media Persons,
Ladies and Gentlemen,

1. It gives me an immense pleasure to be here to address this session on “Financial Institutions/Alternative Investments: Creating Value for Money.” We have organized this Summit at a time when the Nepalese economy is striving for attaining higher growth and tracing the path for sustainable development. The recent data show a rebound in economic activity. All three major sectors of the economy; agriculture, industry and services are on the mode of recovery after the lackluster performance last year. The expected rebound reflects the resilience of the Nepalese economy to major shocks that it had to bear last year.
2. Our macroeconomic fundamentals are sound. This is reflected in a low inflation and balance of payments surplus. The country has adequate level of foreign exchange reserves for meeting country's near and medium-term international obligations. The current macroeconomic and financial situation is supportive for the pursuit of Nepal's huge growth potential going forward.
3. Nepal has an immense potential in its geography and location. It has a wider scope in developing hydropower, ICT, irrigation, health, education, industrial estates, urban development, drinking water and sanitation, electricity transmission lines and agro-processing as well as herbal industries. The Nepalese financial sector has also reached a stage of its potential tapping for major investments in these areas.
4. We have national aspiration and international commitment for upgrading our status from the LDC to the developing country by 2022 and achieving the Sustainable Development Goals and graduating to the middle income country status by 2030. For this, the role of financial institutions and alternative investments could be vital for upgrading country's economic status and creating the value for money through investment.
5. The resource that the Nepalese financial system has at present is sufficient to meet the working capital need of the infrastructure projects. However, we need foreign investments for the execution and completion of the large projects.
6. The ongoing Fourteenth Development Plan has accorded higher priority to the private sector in managing investment requirement. Of the total investment requirement of Rs. 2425 billion in the Fourteenth Plan period, around 55 percent is expected from the private sector. Tapping foreign investors and the Nepalese financial system is crucially important for meeting the targeted investment by the private sector.

Ladies and Gentlemen,

7. Nepal has followed a liberal foreign investment policy, and a need for investment-friendly environment is recognized everywhere in Nepal. Recent commitments in the areas of foreign investment show the huge attraction among foreign investors. Currently, the stock of FDI stands around Rs. 114 billion (5.1 percent of GDP), which is mainly in the areas of energy, manufacturing, service, tourism, minerals, and financial services.
8. Nepal has signed the Bilateral Investment Promotion and Protection Agreement (BIPPA) with six countries including France, Germany, UK, Mauritius, Finland and India. Commitment from these countries covers more than half of the total foreign investment.
9. Legal reforms are underway in the areas of investment and exchange regulations. Amendment in the Acts relating to foreign investment and foreign exchange management will pave ways for foreign investors in

Nepal. Public Procurement Act has already been amended. New Labor Act is under discussion. We are also in the process of formulating the PPP Act. Further, Nepal Rastra Bank has been facilitating foreign investors through flexible approaches in foreign exchange regulations. These reforms will be instrumental in promoting investment friendly environment in Nepal.

Ladies and Gentlemen,

10. The number of financial institutions increased significantly after the adoption of the liberal economic policy in 1980s. Out of 28 commercial banks, we have 7 joint venture banks. This shows the trust among foreign investors on Nepal's institutional and policy framework.
11. Nepal's financial system is sound and well regulated. In addition to a low level of nonperforming loans and a wider bank-branch network, the planned hike in paid-up capital of banks is geared to supporting infrastructure financing. The banking industry, which is in the phase of consolidation, is in its capacity building process for large project financing.
12. Further, we are in the process of laying the ground work for establishing specialized entities for infrastructure development. A legal framework to establish infrastructure development bank has already been crafted. This will move ahead once the BAFIA gets the seal of affirmation from the President. The provision for infrastructure bank will also encourage private sector to participate in nation building.
13. Our financial policies are directed towards creating real economic value, promoting sustainable development and contributing to long term productivity growth. NRB has made mandatory provisions for commercial banks to invest at least one-fifth of their resources in the designated productive sectors. Of which, at least 15 percent of the loan should be extended to agriculture and energy sectors. Similarly, a provision of counting bank loans up to Rs. 1 million to small farmers and micro-enterprises towards deprived sector lending has been made.
14. Nepal has also developed institutional investors to mobilize resources through the channels other than the banking system. Resource mobilized about Rs. 500 billion by the non-bank financial institutions– Employees Provident Fund, Citizens Investment Trust and Insurance Companies – signals the investment capacity of the domestic institutional investors. However, it needs to be complemented by foreign institutional investment.
15. Our capital market is still in the developmental phase. However, an increased interest among small investors shows the sign of the long-run growth prospect. Nevertheless, increased foreign investment will be a catalyst in deepening and widening the market through the participation of institutional investors and diversification of instruments.

Ladies and Gentlemen,

16. This is not to repeat that Nepal needs to mobilize additional resources to develop much needed infrastructure for higher sustainable economic growth. The institutional framework and policy measures that we have designed provide business friendly environment and uphold the interest of the investors. I heartily welcome private sector and foreign investors to invest in Nepal. This will contribute to the development of the Nepalese economy and help investors to reap the maximum benefit on their investment.
17. Nepal Rastra Bank is committed to promoting domestic investment as well as to facilitating foreign investors to invest, operate and repatriate through institutional and procedural arrangements.
18. Last but not least, I take this opportunity to extend my sincere thanks to the organizers for organizing and distinguished guests for attending this event. I would like to thank you all for your participation in the summit and wish the foreign participants an enjoyable stay in Kathmandu.

Thank you very much.