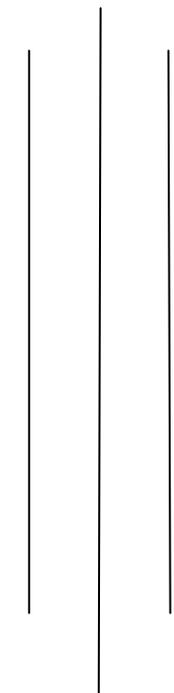


**Survey Report**  
**on**  
**Foreign Direct Investment in Nepal**  
**(2020/21)**



**Nepal Rastra Bank**  
**Economic Research Department**

**September 2022**

## FOREWORD

Foreign Direct Investment (FDI) is regarded as an important source of external financing in recent years. The role of private investment remains crucial for stimulating growth and employment. Booming merger and acquisition (M&A) markets and rapid growth in international project finance resulted in significant recovery of global flows of FDI to pre-pandemic levels in 2021.

FDI plays key role in widening the sources of financing and crowding in domestic investment in the countries like Nepal that have financing constraints. In this context, Nepal has introduced legal, institutional and regulatory reforms in recent years to attract FDI inflows. But the FDI inflow is relatively low in compared to other economies of this region. The significance of FDI has further heightened, given the declining foreign reserves position in recent years.

This survey was conducted to analyze the trend of FDI inflows and existing FDI stock in Nepal. It also updates and compiles FDI stock by counterpart economies and economic activities. I hope the sixth edition of this report will be helpful in providing valuable information and insights to all the stakeholders about the status of FDI in Nepal.

I would like to extend my sincere gratitude to companies with FDI and other stakeholders for providing necessary data and participating in the survey.

Finally, I would like to thank the study team of Economic Research Department comprising Director Dr. Dilli Ram Pokhrel, Deputy Directors Mr. Medani Prasad Pokhrel and Assistant Director Ms. Merina Shrestha for their valuable efforts for processing and analyzing data and carrying out the report in this form. I would also like to thank Deputy Directors Ms. Nabina Dhakal, Mr. Baburam Koirala, Mr. Alok Jyoti Shakya and Ms. Swechhya Shakya, Assistant Directors Mr. Ram Prasad Neupane, Mr. Anil Lama, Mr. Rolendra Bikram Jabegu and Assistants Mr. Purna Prasad Bhandari and Mr. Sharish Man Joshi for their contribution to this survey work.

September 2022

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## Table of Contents

Executive Summary .....	1
Chapter I: Introduction.....	3
Background.....	3
Objectives .....	4
Methodology.....	4
<i>FDI Compilation Method</i> .....	5
Limitations .....	6
Chapter II: Trend of Foreign Direct Investment.....	7
Global and Regional Trend in FDI Flows.....	7
FDI inflows to Nepal .....	8
Dividend Repatriation.....	9
Chapter III: Foreign Direct Investment in Nepal: Survey Results.....	10
FDI stock.....	10
FDI stock by Sectors .....	11
FDI stock by Countries .....	12
Province-wise FDI stock.....	13
Foreign Loans .....	14
Capacity Utilization .....	14
Sales from Operation and Profitability .....	15
Chapter IV: International Investment Position of Nepal .....	16
References.....	18

## **Executive Summary**

1. Foreign Direct Investment (FDI) has become a significant source of private external finance in many countries. It is more important in developing economies because it allows transfer of technology, skills and access to global markets, in addition to financial resources. Nepal has also been striving to increase FDI to promote domestic production.
2. This report presents the latest data of FDI stock in Nepal and provides the estimates of inward direct investment position or the FDI stock at book value and country-wise as well as sector-wise distribution of FDI stock at the end of 2020/21.
3. The survey provides comprehensive information on face value of foreign liabilities of Nepalese companies arising on account of FDI. These statistics are used as inputs in the compilation of Balance of Payments (BoP) and International Investment Position (IIP).
4. The survey covers 197 firms out of 604 companies that have taken FDI approvals from Nepal Rastra Bank at the end of 2020/21. The details on FDI stock are obtained from the financial statements of the surveyed companies as well as from standard questionnaire. The FDI stock is valued using the company's value appearing in the statement of financial position as shareholder's equity and debt from foreign direct investors.
5. The survey shows stock of FDI in Nepal increased by 14.8 percent to Rs.227.9 billion at the end of 2020/21. Paid-up capital is the major component in FDI stock as it accounts for 53.9 percent of total FDI stock whereas the reserves and loans in total FDI stock accounts for 31.6 percent and 14.5 percent respectively.
6. Nepal has received foreign investment from 55 different countries as of mid-July 2021. In terms of total FDI stock, India ranks top position with Rs.75.8 billion followed by China (Rs.33.0 billion), Ireland (Rs.16.5 billion), Singapore (Rs.15.5 billion) and Saint Kitts and Nevis (Rs.14.5 billion).

7. Industrial sector accounts for about 60.5 percent of total FDI stock. Of which, electricity, gas, steam and air conditioning sector constitutes 30.8 percent and manufacturing sector 29.5 percent of total FDI stock.
8. About 39.4 percent of total FDI stock is in service sector. Of which, financial and insurance services sector constitutes 26.9 percent, accommodation and food services sector 5.7 percent, and information and communication sector 4.8 percent of the total FDI stock.
9. The electricity, gas, steam and air conditioning sector, particularly hydropower sector, in Nepal has been a preferred sector for FDI in recent years. The latest survey shows that 30.8 percent of FDI stock and 40.0 percent of total paid-up capital is in this sector. Moreover, hydropower sector has also attracted other sources of external financing such as foreign loans in addition to FDI; the electricity, gas, steam and air conditioning sector accounts for 50.1 percent outstanding foreign loan at the end of 2020/21.
10. The capacity utilization of FDI based manufacturing companies stands at 64.9 percent, while the profitability of FDI companies remains at 14.7 percent in the review year.

# Chapter I

## Introduction

### Background

- 1.1. Foreign direct investment (FDI) is an important source of financing for many countries including Nepal. FDI facilitates the transfer of financial resources, technology, other intangible assets including technological know-how, managerial and organizational skills and access to foreign markets which help to increase production and productivity in the host economy.
- 1.2. Direct Investment is defined as a category of cross-border investment associated with a resident in one economy (direct investor) having control or a significant degree of influence on management of an enterprise (direct investment enterprises) that is resident in another economy other than that of direct investor (OECD, 2008).
- 1.3. Nepal has initiated institutional and legal reforms in recent decades with the aim of promoting FDI to complement the resource gap in capital formation. Gradual liberalization of FDI inflows in various sectors has been encouraged by creating investment friendly environment and prioritizing foreign investment related reforms. Some of them include
  - a) Foreign Investment Policy, 2015
  - b) Foreign Investment and Transfer of Technology Act, 2019 (FITTA)
  - c) Public-Private Partnership and Investment Act, 2019
  - d) Industrial Enterprises Act, 2020
  - e) Institutional reforms such as establishment of One Stop Service Center to facilitate foreign investment
  - f) Nepal Rastra Bank Foreign Investment and Foreign Loan Management by-law, 2021
- 1.4. Reliable FDI statistics is crucial for regular analysis of direct investment trends and is integral for cross-border financial analysis. The identification of sources of foreign investments (partner countries) and recipient industries is of primary interest for

policy makers to address the important issue of attracting and utilizing foreign investment and to formulate policies. In this context, this survey has been conducted to update FDI statistics in Nepal at the end of 2020/21, as in the previous fiscal years.

## **Objectives**

- 1.5. The specific objectives of the survey are:
- To update and compile FDI stock of Nepal by counterpart economies and economic activities.
  - To compile liabilities component (particularly FDI stock) of International Investment Position (IIP) statement of Nepal.

## **Methodology**

- 1.6. This study is primarily based on survey data collected from companies<sup>1</sup> that have taken FDI approvals from Nepal Rastra Bank (NRB). Structured questionnaire has been prepared and administered through field survey and email correspondence. For verification of the data and information collected, financial statements of surveyed companies have been reviewed in addition.
- 1.7. Data and information are also gathered from various governmental, non-governmental agencies and FDI related published reports. This study has adopted a descriptive approach to present the results and findings of the survey.
- 1.8. The population is classified into three distinctive groups based on the size of the capital of companies. Accordingly, the survey has been conducted across all groups. In total, 197 companies were surveyed which covers 97.9 percent of large size companies, 81.8 percent of medium size companies and 23.5 percent of small size firms.

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<sup>1</sup>The list also includes FDI companies that have recorded FDI at end of 2020/21. The list published by Department of Industry shows a large number of companies registered for foreign investment but a considerable number of such registered companies did not bring in FDI.

**Table 1: Sample Size**

Group	Number of Firms			Capital (Rs. Million)*		
	Total	Sample	Share (%)	Total	Sample	Share (%)
Large	48	47	97.9	188,218.1	187,230.1	99.5
Medium	33	27	81.8	10,567.4	8,472.8	80.2
Small	523	123	23.5	-920.4	-1,240.5	134.8
<b>Total</b>	<b>604</b>	<b>197</b>	-	<b>197,865.0</b>	<b>194,462.3</b>	-

\*For sample purpose, capital as of mid-July 2019 is taken as reference that includes total FDI stock as of mid-July 2019, new FDI inflows as well as FDI accounting done during 2019/20.

- 1.9. The FDI stock is valued using the company's value appearing in the statement of financial position as shareholder's equity and debt from foreign direct investors.

#### ***FDI Compilation Method***

- 1.10. Organization for Economic Cooperation and Development (OECD, 2008) disaggregates FDI stock or position into equity and debt. Equity positions of FDI stock cover all components of shareholders' funds (proportionate to the percentage of shares held by foreign direct investors). Therefore, it includes equity, contributed surplus, reinvestment of earnings, revaluations, as well as any reserve accounts. Debt positions of FDI stock include loans and borrowings, and debt from foreign direct investors.
- 1.11. This survey distinguishes the equity portion of FDI stock under paid-up capital and reserves headings, and the debt portion of FDI stock under loans heading<sup>2</sup> and disaggregates FDI stock by major industry sectors based on International Standard Industrial Classification (ISIC<sup>3</sup>).
- 1.12. The final FDI stock reported in this survey consists of two parts: aggregation of FDI stock as reported by the sampled units and estimation of FDI stock for other non-sampled firms. The estimation has been made based on the ratio derived from the

<sup>2</sup> Other capital (share application money, share premium) attributed to foreign direct investors are also accounted under this heading.

<sup>3</sup> Revision 4

FDI stock value reported by firms with respect to their approved amount for investment.

$$x = \frac{\sum r_i}{n}$$

where, n is the number of sampled firms and  $r_i$  is the ratio of realized capital to approved capital of individual firm which was included in the sample and x is the average ratio of realized capital to approved capital. The average ratios were calculated separately for all categories and FDI stock is estimated by multiplying this ratio with the approved FDI amount.

### **Limitations**

- 1.13. This survey is solely based on the list of industries that have taken FDI approvals from NRB which differs in number than those registered in Department of Industry, Government of Nepal.
- 1.14. As the primary focus of the survey is to collect FDI stock, it includes only the descriptive statistics.

## Chapter II

### Trend of Foreign Direct Investment

#### Global and Regional Trend in FDI Flows

- 2.1. World Investment Report 2022 published by UNCTAD shows that global FDI inflow increased by 64.3 percent to USD 1,582.3 billion in 2021 from USD 963.1 in 2020. Booming merger and acquisition (M&A) markets and rapid growth in international project finance resulted significant recovery of FDI inflows around the world.
- 2.2. FDI in developed economies increased by 133.6 percent to USD 745.7 billion in 2021 from USD 319.2 billion in 2020. Inflows to developing economies increased by 29.9 percent to USD 836.6 billion in 2021 from USD 643.9 billion in 2020 (UNCTAD, 2022).

**Table 2: FDI Inflows by economy and region <sup>4</sup>**

(US\$ Billion)

Year	2016	2017	2018	2019	2020	2021	Percent Change
							2021
World	2,045.4	1,632.6	1,448.3	1,480.6	963.1	1,582.3	64.3
Developed economies	1,384.8	937.7	753.3	764.5	319.2	745.7	133.6
Developing economies	660.6	695.0	695.0	716.2	643.9	836.6	29.9
Asia	478.1	501.4	496.9	511.6	518.9	619.0	19.3
China	133.7	136.3	138.3	141.2	149.3	181.0	21.2
Hong Kong-China	117.4	110.7	104.2	73.7	134.7	140.7	4.4
Singapore	67.5	82.5	73.9	106.3	75.4	99.1	31.4
South Asia	50.9	46.6	49.9	57.6	69.6	51.0	-26.8

Source: UNCTAD (2022)

- 2.3. Asia is the largest FDI recipient region, accounting for 40 percent of global FDI (UNCTAD, 2022). FDI in this region increased by 19.3 percent from USD 518.9 billion in 2020 to USD 619.0 billion in 2021. However, the inflows remain highly concentrated among its largest recipients: China (USD 181.0 billion), Hong Kong-China (USD 140.7 billion) and Singapore (99.1 billion).

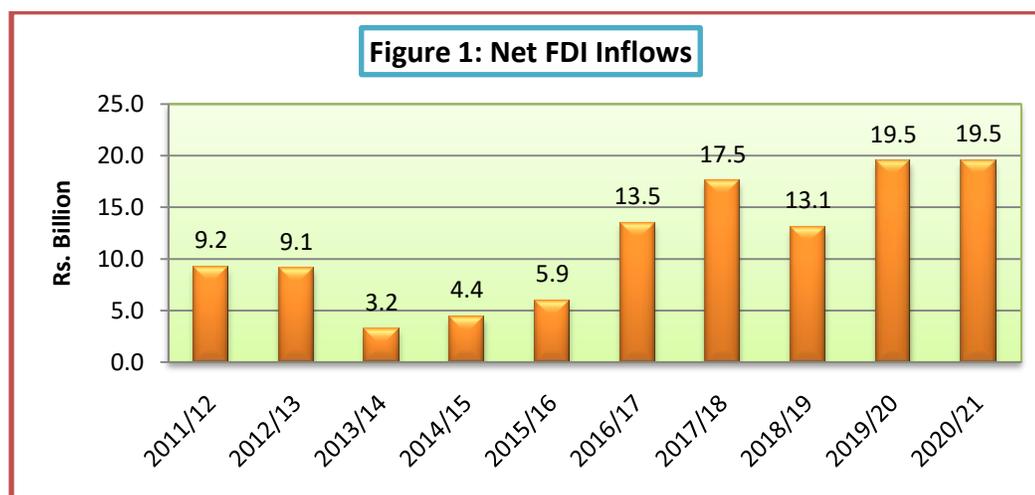
<sup>4</sup> FDI Data may differ from previous report as data are continuously updated by relevant national authorities.

2.4. FDI inflows to South Asia decreased by 26.8 percent to USD 51.0 billion in 2021. FDI in India, the largest FDI recipient of the sub-region, declined by 30.2 percent with inflows of USD 44.7 billion in 2021. The trend of FDI inflows to the sub-region are presented in *Appendix I*.

### FDI inflows to Nepal

2.5. Gross FDI inflows increased by 1.2 percent to Rs.19.9 billion in 2020/21. The divestment of foreign investment (repatriation of investment) during 2020/21 remained at Rs.396.7 million which is around 2.0 percent of gross FDI inflows (NRB, 2022).

2.6. Net FDI inflows to Nepal increased by 0.2 percent to Rs.19.5 billion in 2020/21.

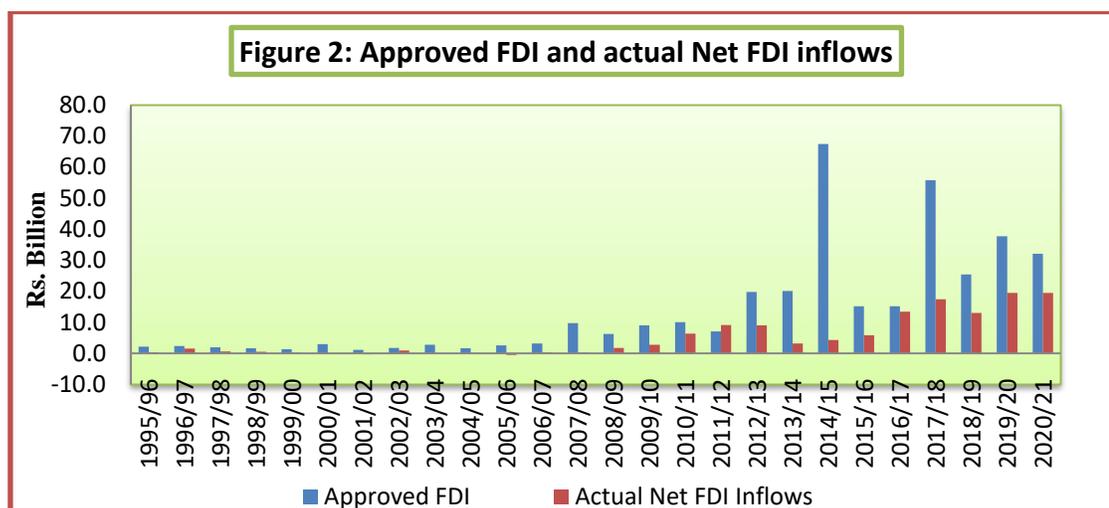


Source: NRB (2021)

2.7. The recent trend of FDI realization shows that there is a huge gap between approved FDI and actual net FDI inflows in Nepal (Figure 2).

2.8. The FDI approval may indicate an intended investment (the approved investment may not actually take place) or there may be significant time lags between approvals and actual investments. In some instances, the realization of the approved investment may take place over several years as usually seen in projects with longer gestation period. Hence, there is a gap between FDI approval and actual FDI inflows. Between

1995/96 and 2020/21, total actual net FDI inflow stood around 36.5 percent of total FDI approval (Appendix II).



Source: MOICS (2021), and NRB (2021)

## Dividend Repatriation

- 2.9. In 2020/21, for dividend repatriation by companies with foreign investment, approval equivalent to Rs.26.1 billion was provided. The highest dividend repatriation approval was for information and communication sector followed by the manufacturing sector.

**Table 3: Dividend Repatriation**

		Rs. Million		
	Sectors	2018/19	2019/20	2020/21
1	Agriculture, Forestry and Fishing	-	-	-
2	Construction	161.7	50.0	-
3	Electricity, gas, steam and air conditioning	2,762.2	32.3	3,816.2
4	Manufacturing	9,779.7	7,527.1	6,747.7
5	Mining and Quarrying	-	-	-
6	Accommodation and food services	11.4	42.9	-
7	Education	347.7	347.7	303.0
8	Financial and Insurance Services	2,167.5	4,799.6	868.3
9	Human Health and Social Work	-	2.3	-
10	Information and Communication	12,541.7	-	13,984.1
11	Transport and Storage	-	4.1	-
12	Other	11.1	97.1	357.3
	<b>Total</b>	<b>27,783.0</b>	<b>12,903.1</b>	<b>26,076.6</b>

Source: NRB (2021)

## Chapter III

### Foreign Direct Investment in Nepal: Survey Results

- 3.1. This chapter summarizes results of the survey related to FDI stock in Nepal as of mid-July 2021. The comparison across the previous survey reports needs to take into account the change in coverage due to addition and removal of companies that have received FDI.

#### FDI stock

- 3.2. The stock of FDI in Nepal increased by 14.8 percent during 2020/21 and stood at Rs.227.9 billion as of mid-July 2021 (Table 4). The paid-up capital, reserves and loans increased by 13.7 percent, 7.3 percent and 41.5 percent respectively. The foreign liability of Nepal in terms of direct investment stands at Rs.227.9 billion as of mid-July 2021.

**Table 4: FDI Stock**

Rs. Million

S.N.	Components	As of Mid-July				Percent Change	
		2018	2019	2020	2021	2019/20	2020/21
1.	Paid-up Capital	76,850.3	88,158.3	108,072.3	122,885.5	22.6	13.7
2.	Reserves	107,392.0	78,381.9	67,071.9	71,982.1	-14.4	7.3
3.	Loans <sup>5</sup>	16,305.1	16,379.4	23,376.6	33,079.3	42.7	41.5
	<b>Total FDI stock</b>	<b>200,547.4</b>	<b>182,919.6</b>	<b>198,520.8</b>	<b>227,946.9</b>	<b>8.5</b>	<b>14.8</b>

Source: NRB's Previous Survey Reports in FDI, and Field Survey, 2022

- 3.3. Paid-up capital is the major component in FDI stock accounting for 53.9 percent of total FDI stock (Table 5). The share of reserves and loans in total FDI stock stood at 31.6 percent and 14.5 percent respectively. In 2019/20, paid-up capital, reserves, and loans accounted for 54.4 percent, 33.8 percent and 11.8 percent of total FDI stock respectively.

<sup>5</sup>Only direct loan from foreign direct investment and other capital (share application money, share premium) attributed to foreign direct investors are accounted.

**Table 5: FDI Stock by components (Share in Total)**

S.N.	Components	As of Mid-July			
		2018	2019	2020	2021
1.	Paid-up Capital	38.3	48.2	54.4	53.9
2.	Reserves	53.5	42.8	33.8	31.6
3.	Loans	8.2	9.0	11.8	14.5
	<b>Total FDI stock</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: NRB's Previous Survey Reports in FDI, and Field Survey, 2022

### FDI stock by Sectors

- 3.4. Electricity, gas, steam and air conditioning sector has the highest FDI stock of Rs.70.1 billion (30.8 percent of total) followed by manufacturing sector (Rs.67.4 billion) and financial and insurance services sector (Rs.61.4 billion) (Table 6).

**Table 6: FDI Stock by Major Sectors<sup>6</sup>**

Rs. Million

S.N.	Sectors	As of Mid-July				Percent change (%)	
		2019	2020	2021		2019/20	2020/21
				Amount	Share in Total (%)		
1.	Electricity, gas, steam and air conditioning	36,662.2	54,660.9	70,147.3	30.8	49.1	28.3
2.	Manufacturing	52,188.9	56,066.8	67,352.0	29.5	7.4	20.1
3.	Financial and Insurance Services	50,230.1	54,288.4	61,399.5	26.9	8.1	13.1
4.	Accommodation and food services	7,944.6	11,846.4	12,975.9	5.7	49.1	9.5
5.	Information and Communication	28,262.9	12,618.5	10,858.2	4.8	-55.4	-14.0
6.	Education	1,687.2	1,877.0	1,926.4	0.8	11.2	2.6
7.	Construction	414.1	470.1	492.0	0.2	13.5	4.7
8.	Human Health and Social Work	350.8	365.2	338.9	0.1	4.1	-7.2
9.	Agriculture, Forestry and Fishing	114.2	220.5	240.9	0.1	93.1	9.2
10.	Mining and Quarrying	69.1	-1.2	-2.9	-0.001	-101.7	141.9
11.	Transport and Storage	-1,678.2	-2,772.2	-6,515.9	-2.9	65.2	135.0
12.	Other	6,673.6	8,880.4	8,734.7	3.8	33.1	-1.6
	<b>Total</b>	<b>182,919.6</b>	<b>198,520.8</b>	<b>227,946.9</b>	<b>100.0</b>	<b>8.5</b>	<b>14.8</b>

Source: Field Survey, 2022

<sup>6</sup> The classification of major sectors differ from that of earlier reports because the current classification is based on International Standard Industry Classification, Fourth Revision (ISIC Rev. 4).

3.5. FDI stock of transport and storage decreased as a result of significant decline in reserve position of the companies within the sector. The sector-wise composition of FDI stock in further detail is presented in *Appendix III*.

### **FDI stock by Countries**

3.6. Countrywise, India remained in top position with Rs.75.8 billion FDI followed by China (Rs.33.0 billion), Ireland (Rs.16.5 billion), Singapore (Rs.15.5 billion), and Saint Kitts and Nevis (Rs. 14.5 billion) (Table 7).

3.7. In terms of paid-up capital, India also ranked top position with Rs.42.9 billion followed by China (Rs.23.2 billion), South Korea (Rs.10.3 billion), and Ireland (Rs.6.7 billion) (Table 7). Further detail of country-wise FDI stock is presented in *Appendix IV*.

**Table 7: FDI Stock by Major Countries**

S. N.	Country	As of Mid-July 2021				Rs.Million
		Paid-up Capital	Reserves	Loan	FDI Stock	Share in Total FDI Stock (%)
1.	India	42,856.0	25,899.3	7,058.8	75,814.2	33.3
2.	China	23,208.5	-4,482.1	14,274.5	33,001.0	14.5
3.	Ireland	6,739.5	9,665.4	77.3	16,482.1	7.2
4.	Singapore	5,988.4	9,191.6	301.7	15,481.7	6.8
5.	Saint Kitts and Nevis	80.0	14,432.0	1.1	14,513.1	6.4
6.	Australia	6,072.7	3,682.8	2,407.9	12,163.4	5.3
7.	South Korea	10,297.4	-1,125.9	178.1	9,349.5	4.1
8.	United Arab Emirates	424.9	7,925.7	-0.1	8,350.5	3.7
9.	United States of America	2,246.8	2,983.7	1,479.1	6,709.7	2.9
10.	Bangladesh	3,713.6	2,669.8	-	6,383.5	2.8
11.	Others	21,257.7	1,139.8	7,300.8	29,698.4	13.0
	<b>Total</b>	<b>122,885.5</b>	<b>71,982.1</b>	<b>33,079.3</b>	<b>227,946.9</b>	<b>100.0</b>

Source: Field Survey, 2022

3.8. Majority of India's FDI stock (97.1 percent) is concentrated in three sectors – electricity, gas, steam and air conditioning (41.6 percent), manufacturing (35.9 percent) and financial and insurance services (19.6 percent). In terms of paid-up capital, the investment in electricity, gas, steam and air conditioning (primarily

hydropower sector) remains the highest (Table 8).

**Table 8: FDI Stock by Major Sectors (India)**

Rs. Million

Component	Paid-up Capital	Reserves	Loan	FDI Stock	Share in India's FDI Stock (%)
Electricity, gas, steam and air conditioning	26,727.5	394.1	4,422.2	31,543.8	41.6
Manufacturing	4,001.9	21,006.1	2,244.6	27,252.5	35.9
Financial and Insurance Services	8,295.1	6,491.7	56.7	14,843.4	19.6
Accommodation and food services	782.4	2,932.3	111.4	3,826.1	5.0
Others	3,049.1	-4,924.9	224.0	-1,651.7	-2.2
<b>Total</b>	<b>42,856.0</b>	<b>25,899.3</b>	<b>7,058.8</b>	<b>75,814.2</b>	<b>100.0</b>

Source: Field Survey, 2022

3.9. China's FDI stock is mostly concentrated in hydropower projects and manufacturing sector (especially cement industries) (Table 9).

**Table 9: FDI Stock by Major Sectors (China)**

Rs. Million

Component	Paid-up Capital	Reserves	Loan	FDI Stock	Share in China's FDI stock (%)
Electricity, gas, steam and air conditioning	7,944.6	-676.3	13,824.2	21,092.6	63.9
Manufacturing	11,876.4	2,816.1	53.0	14,745.5	44.7
Information and Communication	1,062.3	851.6	361.6	2,275.6	6.9
Accommodation and food services	955.5	-3.3	-	952.2	2.9
Others	1,369.7	-7,470.2	35.6	-6,064.8	-18.4
<b>Total</b>	<b>23,208.5</b>	<b>-4,482.1</b>	<b>14,274.5</b>	<b>33,001.0</b>	<b>100.0</b>

Source: Field Survey, 2022

### Province-wise FDI stock<sup>7</sup>

3.10. Bagmati province constitutes the highest share of FDI stock (56.1 percent) whereas Karnali and Sudur Paschim Province account for less than 1.0 percent of total FDI stock (Table 10).

<sup>7</sup> Province-wise FDI are classified based on location of projects, production units and head offices.

**Table 10: Province-wise FDI stock**

Rs. Million		
Province	FDI Stock	Share in Total (%)
Province 1	36,755.9	16.1
Madhesh	20,321.2	8.9
Bagmati <sup>8</sup>	127,977.3	56.1
Gandaki	26,824.3	11.8
Lumbini	14,282.2	6.3
Karnali	45.0	0.0
Sudur Paschim	1,741.0	0.8
<b>Total</b>	<b>227,946.9</b>	<b>100.0</b>

Source: Field Survey, 2022

## Foreign Loans

3.11. As of mid-July 2021, the outstanding foreign loan (excluding direct loans from foreign direct investors) of FDI companies stood at Rs.40.7 billion. Such loans was Rs. 29.6 billion a year ago (Table 11). The companies in hydropower sector have utilized more foreign loans as the outstanding loan of this sector stood at Rs.20.4 billion in mid-July 2021.

**Table 11: Outstanding Foreign Loan**

Rs. Million			
Sectors	2019	2020	2021
Electricity, gas, steam and air conditioning	19,572.1	20,921.2	20,427.3
Manufacturing	52.4	4,891.2	10,265.8
Financial and Insurance Services	3,526.3	3,497.5	7,508.5
Transport and Storage	-	-	1,866.4
Information and Communication	-	-	530.6
Accommodation and food services	-	-	139.4
Other	220	242.1	0.0
<b>Total</b>	<b>23,370.8</b>	<b>29,552.0</b>	<b>40,737.9</b>

Source: Field Survey, 2022

## Capacity Utilization

3.12. The survey also captures the capacity utilization of manufacturing companies with FDI. The capacity utilization stood at 64.9 percent on average<sup>9</sup> during 2020/21 which was 44.1 percent a year ago.

<sup>8</sup> Companies with foreign direct investment under service sector along with BFIs having corporate and head offices in Bagmati province are included in Bagmati Province.

<sup>9</sup> Weighted average is taken as reference where weights are based on sales of individual companies compared to the total sales of surveyed companies.

### **Sales from Operation and Profitability**

- 3.13. The survey also captures data on sales from operation of FDI companies. The total sales of surveyed companies during 2020/21 stood at Rs.381.5 billion which was Rs. 347.7 billion a year ago. Similarly, the average<sup>10</sup> return on equity (ROE) of surveyed FDI companies stood at about 14.7 percent for 2020/21, which was around 15.6 percent a year ago.

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<sup>10</sup> Weighted average is taken as reference where weights are based on equity of individual companies compared to the total equity of surveyed companies.

## Chapter IV

### International Investment Position of Nepal

- 4.1. IIP is the statement that shows at a point in time the value and composition of financial assets of residents that are claims on nonresidents and liabilities of residents of an economy to non-residents.
- 4.2. As of mid-July 2021, the foreign assets increased 0.9 percent to Rs.1481.1 billion compared to an increase of 35.9 percent in the previous year. The foreign liabilities increased 15.4 percent to Rs.1401.0 billion compared to an increase of 36.2 percent in the previous year (Table 12). Consequently, net IIP remained positive at Rs 80.1 billion, which was Rs.253.5 billion in the previous year.

**Table 12: Foreign Assets and Liabilities of Nepal**

Rs. Million

Description	As of Mid-July			Percent Change	
	2019	2020	2021 <sup>11</sup>	2019/20	2020/21
Assets	1,080,102.9	1,467,785.6	1,481,123.9	35.9	0.9
Liabilities	891,246.5	1,214,285.6	1,401,003.4	36.2	15.4
o/w Direct Investment	182,919.6	198,520.8	227,946.9	8.5	14.8
Net International Investment Position (IIP)	<b>188,856.4</b>	<b>253,499.9</b>	<b>80,120.5</b>	<b>34.2</b>	<b>-68.4</b>

Source: NRB (2022)

- 4.3. The foreign assets is comprised of direct investment, portfolio investment, official reserve assets and other investments, which includes other equity, currency and deposits, loans, trade credit and advances and other account receivables. Official reserve assets constitute the highest share of foreign assets (87.7 percent) followed by other account receivables (5.2 percent) and currency and deposits (5.1 percent) (Appendix VI).
- 4.4. As of mid-July 2021, the official reserve assets increased 1.9 percent to Rs.1298.9 billion compared to an increase of 36.0 percent in the previous year. Other account receivables, and currency and deposits under foreign assets decreased 12.1 percent and 14.0 percent respectively in the review year (Appendix VI).

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<sup>11</sup>Revised

- 4.5. The foreign liabilities cover direct investment, portfolio investment and other investments, which includes other equity, currency and deposits, loans, trade credit and advances, other account payables and special drawing rights. Loans constitute the highest share of foreign liabilities (70.6 percent) followed by direct investment (16.3 percent) and trade credit and advances (8.3 percent) (Appendix VI).
- 4.6. As of mid-July 2021, foreign loan liabilities increased 16.0 percent to Rs.988.8 billion compared to an increase of 38.4 percent in the previous year. Direct investment and trade credit and advances under foreign liabilities increased 14.8 percent and 42.1 percent respectively in the review year (Appendix VI).

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**Appendix I**  
**FDI Inflows in South Asia**

(US\$ Billion)

Year	2016	2017	2018	2019	2020	2021	% Change (2021)
<b>South Asia</b>	50.9	46.6	49.9	57.6	69.6	51.0	-26.8
Afghanistan	0.1	0.1	0.1	0.02	0.01	0.02	58.8
Bangladesh	2.3	2.2	3.6	2.9	2.6	2.9	12.9
Bhutan	-0.03	-0.01	0.01	0.0	0.0	0.0	157.7
India	44.5	39.9	42.2	50.6	64.1	44.7	-30.2
Maldives	0.5	0.5	0.6	1.0	0.3	0.4	27.3
Nepal	0.1	0.2	0.1	0.2	0.1	0.2	54.9
Pakistan	2.6	2.5	1.7	2.2	2.1	2.1	2.2
Sri Lanka	0.9	1.4	1.6	0.7	0.4	0.6	37.7

Source: UNCTAD (2022)

**Appendix II**  
**Foreign Investment Approval and Realization in Nepal**

(Rs. Million)

<b>Fiscal Year</b>	<b>Approved FDI*</b>	<b>Actual Net FDI**</b>	<b>Actual Net FDI as a percentage of Approved FDI</b>
1995/96	2,219.9	388.0	17.5
1996/97	2,395.5	1,621.0	67.7
1997/98	2,000.3	685.0	34.2
1998/99	1,666.4	578.0	34.7
1999/00	1,417.6	233.0	16.4
2000/01	3,002.6	-33.0	-1.1
2001/02	1,209.7	-282.3	-23.3
2002/03	1,793.8	961.4	53.6
2003/04	2,764.8	-	-
2004/05	1,635.8	136.0	8.3
2005/06	2,606.3	-469.7	-18.0
2006/07	3,186.0	362.3	11.4
2007/08	9,812.6	293.9	3.0
2008/09	6,255.1	1,829.2	29.2
2009/10	9,100.0	2,852.0	31.3
2010/11	10,053.2	6,437.1	64.0
2011/12	7,138.3	9,195.4	128.8
2012/13	19,818.7	9,081.9	45.8
2013/14	20,132.4	3,194.6	15.9
2014/15	67,455.0	4,382.6	6.5
2015/16	15,254.3	5,920.9	38.8
2016/17	15,206.5	13,503.9	88.8
2017/18	55,760.5	17,504.6	31.4
2018/19	25,484.4	13,065.2	51.3
2019/20	37,805.8	19,478.7	51.1
2020/21	32,172.8	19,512.7	60.6
<b>Total</b>	<b>357,348.4</b>	<b>130,432.4</b>	<b>36.5</b>

Source: \*MOICS (2021)

\*\*NRB (2021)

**Appendix III**  
**Sector-wise Stock of FDI**

(Rs. Million)

Sectors	Mid-July 2020					Mid-July 2021				
	Paid-up	Reserves	Loan	Total	Share in Total FDI (%)	Paid-up	Reserves	Loan	Total	Share in Total FDI (%)
<b>1. Agriculture</b>	<b>228.7</b>	<b>-8.2</b>	<b>-</b>	<b>220.5</b>	<b>0.1</b>	<b>243.2</b>	<b>-2.3</b>	<b>-</b>	<b>240.9</b>	<b>0.1</b>
<i>Agriculture, Forestry and Fishing</i>	228.7	-8.2	-	220.5	0.1	243.2	-2.3	-	240.9	0.1
<b>2. Industry</b>	<b>61,290.7</b>	<b>36,193.3</b>	<b>13,712.6</b>	<b>111,196.6</b>	<b>56</b>	<b>71,306.1</b>	<b>43,489.2</b>	<b>23,193.1</b>	<b>137,988.4</b>	<b>60.5</b>
<i>Construction</i>	569	-103.7	4.8	470.1	0.2	605.5	-113.5	-	492	0.2
<i>Electricity, gas, steam and air conditioning</i>	39,592.7	2,021.0	13,047.2	54,660.9	27.5	49,167.9	752.8	20,226.6	70,147.3	30.8
<i>Manufacturing</i>	21,109.0	34,297.2	660.6	56,066.8	28.2	21,512.7	42,872.8	2,966.5	67,352	29.5
<i>Mining and Quarrying</i>	20.0	-21.2	-	-1.2	-	20.0	-22.9	-	-2.9	-
<b>3. Services</b>	<b>46,552.9</b>	<b>30,886.8</b>	<b>9,664.0</b>	<b>87,103.7</b>	<b>43.9</b>	<b>51,336.2</b>	<b>28,495.2</b>	<b>9,886.2</b>	<b>89,717.6</b>	<b>39.4</b>
<i>Accommodation and food services</i>	7,364.1	2,404.7	2,077.6	11,846.4	6.0	7,436.4	1,817.4	3,722.1	12,975.9	5.7
<i>Education</i>	1,028.7	333.5	514.8	1877.0	0.9	937.3	415.5	573.6	1,926.4	0.8
<i>Financial and Insurance Services</i>	27,104.4	27,036.1	147.9	54,288.4	27.3	30,445.2	30,160.4	794	61,399.5	26.9
<i>Human Health and Social Work</i>	313.3	8.2	43.7	365.2	0.2	385	-62.4	16.2	338.9	0.1
<i>Information and Communication</i>	3,342.0	4,870.8	4,405.7	12,618.5	6.4	3,642.4	2,792.3	4,423.5	10,858.2	4.8
<i>Transport and Storage</i>	433.8	-5,083.7	1,877.8	-2,772.2	-1.4	783.6	-7,299.6	-	-6,515.9	-2.9
<i>Other service</i>	6,966.6	1,317.3	596.5	8,880.4	4.5	7,706.3	671.6	356.8	8,734.7	3.8
<b>Total</b>	<b>108,072.3</b>	<b>67,071.9</b>	<b>23,376.6</b>	<b>198,520.8</b>	<b>100</b>	<b>122,885.5</b>	<b>71,982.1</b>	<b>33,079.3</b>	<b>227,946.9</b>	<b>100.0</b>

Source: Field Survey, 2022

**Appendix IV**  
**Country-wise FDI stock in Nepal**  
**As of mid-July 2021**

(Rs. Million)

S.N.	Countries	Paid Up	Reserves	Loans	Total	Share in Total (%)
1	India	42,856.0	25,899.3	7,058.8	75,814.2	33.3
2	China	23,208.5	-4,482.1	14,274.5	33,001.0	14.5
3	Ireland	6,739.5	9,665.4	77.3	16,482.1	7.2
4	Singapore	5,988.4	9,191.6	301.7	15,481.7	6.8
5	Saint Kitts and Nevis	80.0	14,432.0	1.1	14,513.1	6.4
6	Australia	6,072.7	3,682.8	2,407.9	12,163.4	5.3
7	South Korea	10,297.4	-1,125.9	178.1	9,349.5	4.1
8	United Arab Emirates	424.9	7,925.7	-0.1	8,350.5	3.7
9	United States of America*	2,246.8	2,983.7	1,479.1	6,709.7	2.9
10	Bangladesh	3,713.6	2,669.8	-	6,383.5	2.8
11	Netherlands	2,630.9	2,690.7	48.5	5,370.0	2.4
12	United Kingdom	2,692.9	1,940.8	166.5	4,800.3	2.1
13	Pakistan	2,143.5	1,889.7	-	4,033.1	1.8
14	British Virgin Island	4,178.9	-1,125.0	616.1	3,670.0	1.6
15	Mauritius	1,207.3	196.2	1,457.1	2,860.6	1.3
16	Japan	2,202.0	-760.3	1,362.1	2,803.8	1.2
17	Bermuda	300.3	1,739.2	-	2,039.5	0.9
18	Hong Kong-China	2,095.3	-237.5	160.9	2,018.6	0.9
19	Norway	591.0	821.3	34.5	1,446.8	0.6
20	Sri Lanka	973.8	203.6	-	1,177.4	0.5
21	Malaysia	716.4	327.3	-	1,043.6	0.5
22	Cayman Islands	97.0	187.7	-	284.7	0.1
23	Switzerland	208.3	-19.0	36.2	225.6	0.1
24	Thailand	19.0	170.4	-	189.4	0.1
25	Brunei	165.2	-	-	165.2	0.1
26	Denmark	18.3	107.9	-	126.2	0.1
27	Italy	94.8	28.0	-	122.8	0.1
28	Canada	127.4	-12.3	-	115.1	0.1
29	Russia	129.8	-41.8	18.7	106.7	-
30	Sweden	97.5	3.2	-	100.8	-
31	Germany	67.7	-11.5	4.0	60.1	-
32	France	58.6	0.3	-	58.8	-
33	Belgium	51.4	-8.3	-	43.1	-
34	Bhutan	7.1	32.2	-	39.3	-
35	Poland	59.3	-23.5	2.8	38.6	-
36	Turkey	19.4	8.6	7.6	35.6	-
37	New Zealand	33.0	0.2	-	33.3	-
38	Taiwan	31.0	-6.1	-	24.9	-
39	Samoa	145.0	-122.0	-	23.0	-
40	Tajikistan	13.2	-	-	13.2	-
41	South Sudan	10.2	-0.2	-	10.0	-
42	Bahrain	5.2	1.9	-	7.1	-
43	Azerbaijan	5.2	-	-	5.2	-
44	Finland	5.0	-	-	5.0	-
45	Cook Islands	4.6	-0.4	-	4.3	-
46	Israel	3.3	-	-	3.3	-
47	Kazakhstan	3.3	-	-	3.3	-
48	Philippines	3.3	-	-	3.3	-
49	Spain	4.3	-1.3	-	3.0	-
50	Austria	2.3	-	-	2.3	-
51	Belarus	2.3	-	-	2.3	-
52	Cyprus	4.6	-2.8	-	1.9	-
53	Belize	1.7	-	-	1.7	-
54	Brazil	1.6	-0.8	-	0.8	-

55	Seychelles	25.6	-6,836.6	3,385.7	-3,425.3	-1.5
	<b>Total</b>	<b>122,885.5</b>	<b>71,982.1</b>	<b>33,079.3</b>	<b>227,946.9</b>	<b>100.0</b>

Source: Field Survey, 2022

\* FDI from IFC has also been included into United States of America

**Appendix V**  
**Country-wise and Sector-wise composition of FDI stock**  
**As of mid-July 2021**

Rs. Million

S.N	Countries	Agriculture	Industry	Services	Total	Share in Total (%)
1	India	22.0	58,966.5	16,825.7	75,814.2	33.3
2	China	-	35,985.9	-2,984.9	33,001.0	14.5
3	Ireland	-	-	16,482.1	16,482.1	7.2
4	Singapore	-	14,445.7	1,036.0	15,481.7	6.8
5	Saint Kitts and Nevis	-	-	14,513.1	14,513.1	6.4
6	Australia	-	631.4	11,532.0	12,163.4	5.3
7	South Korea	41.0	8,852.0	456.6	9,349.5	4.1
8	United Arab Emirates	-	8,334.7	15.8	8,350.5	3.7
9	United States of America	47.8	1,199.7	5,462.1	6,709.7	2.9
10	Bangladesh	-	-	6,383.5	6,383.5	2.8
11	Netherlands	85.0	97.3	5,187.7	5,370.0	2.4
12	United Kingdom	6.7	351.1	4,442.4	4,800.3	2.1
13	Pakistan	-	6.6	4,026.5	4,033.1	1.8
14	British Virgin Island	-	-	3,670.0	3,670.0	1.6
15	Mauritius	-	1,901.4	959.2	2,860.6	1.3
16	Japan	23.2	800.7	1,979.9	2,803.8	1.2
17	Bermuda	-	2,039.5	-	2,039.5	0.9
18	Hong Kong-China	-	1,333.5	685.1	2,018.6	0.9
19	Norway	5.0	1,433.2	8.6	1,446.8	0.6
20	Sri Lanka	-	515.1	662.3	1,177.4	0.5
21	Others	10.1	1,094.3	-1,626.2	-521.8	-0.2
	<b>Total</b>	<b>240.9</b>	<b>137,988.4</b>	<b>89,717.6</b>	<b>227,946.9</b>	<b>100.0</b>

Source: Field Survey, 2022

**Appendix VI**  
**International Investment Position (IIP)\* of Nepal**  
**As of mid-July**

(Rs.Million)

Description	2019	2020 <sup>R</sup>	2021 <sup>R</sup>	Share in Total (%)	Percent Change	
					2019/20	2020/21
<b>Assets</b>	<b>1,080,102.9</b>	<b>1,467,785.6</b>	<b>1,481,123.9</b>	<b>100.0</b>	<b>35.9</b>	<b>0.9</b>
Direct Investment	-	-	-	-	-	-
Portfolio Investment	-	-	-	-	-	-
Other Investments	143,051.3	193,571.9	182,220.7	12.3	35.3	-5.9
<i>Other Equity</i>	11,685.3	11,529.9	13,193.7	0.9	-1.3	14.4
<i>Currency and Deposits</i>	48,371.2	87,628.2	75,391.7	5.1	81.2	-14.0
<i>Loans</i>	879.6	869.0	861.7	0.1	-1.2	-0.8
<i>Trade credit and advances</i>	10,570.3	6,083.4	15,881.7	1.1	-42.4	161.1
<i>Other Account Receivables</i>	71,544.9	87,461.5	76,891.8	5.2	22.2	-12.1
Official Reserve Assets	937,051.6	1,274,213.7	1,298,903.2	87.7	36.0	1.9
<b>Liabilities</b>	<b>891,246.5</b>	<b>1,214,285.6</b>	<b>1,401,003.4</b>	<b>100.0</b>	<b>36.2</b>	<b>15.4</b>
Direct Investment**	182,919.6	198,520.8	227,946.9	16.3	8.5	14.8
Portfolio Investment	-	-	-	-	-	-
Other Investments	708,326.9	1,015,764.9	1,173,056.5	83.7	43.4	15.5
<i>Other Equity</i>	-	-	-	-	-	-
<i>Currency and Deposits</i>	44,586.6	69,764.7	55,851.2	4.0	56.5	-19.9
<i>Loans</i>	616,043.9	852,518.2	988,754.0	70.6	38.4	16.0
<i>Trade credit and advances</i>	37,107.4	82,238.3	116,853.4	8.3	121.6	42.1
<i>Other Account Payables</i>	120.7	44.6	35.3	0.0	-63.0	-20.9
<i>Special Drawing Rights</i>	10,468.3	11,199.0	11,562.6	0.8	7.0	3.2
<b>Net IIP</b>	<b>188,856.4</b>	<b>253,499.9</b>	<b>80,120.5</b>		<b>34.2</b>	<b>-68.4</b>

Source: NRB (2022)

\* Based on residents and non-residents

\*\*Direct Investment based on survey.

<sup>R</sup>: Revised