

Flash Alert

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Amendment in NRB's FDI and Loan Management Byelaws

Nepal Rastra Bank's Foreign Exchange Management Department has made the third amendment to the NRB Foreign Investment and Foreign Loan Management Byelaws, 2078 (hereafter referred to as "byelaws") as per the decision of the Board Meeting of NRB held on 10 Magh 2080. The major amendments are summarized as follows:

A. Amendments related to NRB's approval for Foreign Investment

- 1) The requirement for NRB's prior approval has been waived for the following additional foreign investments made as a result of the change in shareholding structure or additional share capital injection in the existing company:
 - a) Foreign investments that do not decrease the ratio of existing shareholding of Nepali shareholders.
 - b) Foreign investment in shares of the companies listed on the NEPSE.
 - c) Foreign Investments in industries categorized as sick industries as per the Industrial Enterprises Act, 2076.
- 2) In cases where foreign investment is not brought within a specified timeframe as prescribed by FITTA Rules 2079 (first amendment), the foreign investors must submit a time extension approval document obtained from the foreign investment approving authority ("FIAA") to the Foreign Exchange Facilitation Unit, NRB before bringing foreign investment in Nepal along with the written information to be submitted in the format specified in Schedule-2 of byelaws.
- 3) For foreign investment brought in Nepal and missed out on recording with NRB, the time limit for filing applications for recording such foreign investment has been extended till **Poush end 2081 (13 January 2025)**.
- 4) It has been clarified through an amendment that it is not mandatory to refund excess FDI amounts received due to fluctuations in the foreign exchange rates. Such excess amount can be recorded as a foreign investment with NRB after obtaining approval from FIAA. Additionally, excess FDI amount than the initial approved FDI amount can be recorded as a foreign investment with NRB after obtaining necessary approval from FIAA.
- 5) It has been clarified in schedule 4 of the Byelaws that in case of FDI in the form of a change in shareholding in an existing Company not listed with NEPSE, a share valuation report shall be obtained from a licensed auditor registered with ICAN or from the licensed investment bank registered with SEBON.

B. Amendments related to NRB's approval for Foreign loans

A foreign loan, under terms permitting borrowers to convert a portion or the entire outstanding principal into foreign investment, may be converted and documented as a foreign investment with the NRB upon meeting specified conditions.

- 1) The ceiling for the foreign loan from foreign investors of companies/industries (Parent Companies/Group of Companies) has been revised to 2 times of paid-up capital of related foreign investors. However, in the following cases, the limit can be extended to 5 times the paid-up capital of the related foreign investor:
 - a) If additional loans are disbursed from the parent company/group company, maintaining the average existing interest rates on such loans.
 - b) Notwithstanding anything written in clause (a), the annual interest rate must not exceed the rate obtained by adding 50% of the premium rate to the benchmark interest rate specified in point (a) of the interest rate.

- 2) Foreign loans availed from foreign financial institutions, government/inter-government owned development finance institutions, with conditions outlined in SN 4 of the table in Schedule 10, incur an interest rate as follows:
 - a) Maximum 1 Year Benchmark Interest Rate* + 6% p.a.
 - b) In case of borrowing from India in Indian Rupees:
 - If Borrower is according to (a): Upto 1 Year Marginal Cost of Funds based Lending Rate (MCLR) + 2% p.a.
 - If Borrower is according to (b): Upto Average MCLR as per previous return published by Reserve Bank of India or up to 1 Year Marginal Cost of Funds based Lending Rate (MCLR) + 2% p.a.
 - c) In case of borrowing from China in Chinese Yuan: Maximum 1 Year Loan Prime Rate (LPR) + 2 % p.a.
- 3) For foreign loans in commercial agriculture, manufacturing industry, infrastructure industry, tourism industry, and energy industry, a maximum of 2% may be added to the prescribed interest rate.
- 4) The maximum period of 2 years for the foreign loan application with a fixed interest rate shall not apply to loans with a fixed interest rate not exceeding the interest rate calculated by adding 25 basis points to the premium rate, in addition to the prescribed benchmark interest rate for various loans mentioned in this byelaw.
- 5) For foreign loans with fixed interest rates denominated in NPR, the period for application approval can be up to a maximum of 10 years at a time.

For NRB Foreign Investment and Foreign Loan Management Byelaws, 2078 (including the 3rd amendment) [click here](#).

PKF Comment

The amendment to the Foreign Direct Investment and Loan Management Bylaws of 2078 issued by the NRB represents a concerted effort to streamline the administrative procedures associated with FDI approval and to provide an extended timeline for entities that have yet to record their foreign direct investment with the NRB.

By doing so, the NRB aims to promote economic growth, attract foreign capital, and support the development goals of the country.

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