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NEPAL VISION 2100 TRANSITIONING TO KNOWLEDGE ECONOMY

नीति दौडाहा २०८२

Event Report

Policy Discourse with CBFIN on Premature Financialization as part of IIDS's Niti Daudaha initiative.



Oct 2026

Institute for Integrated Development Studies (IIDS)

Presentation of White Paper 2026 and Nepal's Development Strategy for Vision 2100 and Policy Discourse on Premature Financialization with CBFIN as part of IIDS's Niti Daudaha initiative.

Date:
October 29, 2026

Venue:
Aloft Hotel
Thamel, Kathmandu, Nepal

Opening Remarks (CBFIN):
Mr. Dilip Kumar Munankarmi - Vice President

Opening Remarks (IIDS):
Ms. Astha Bhatta, Program Specialist - Economics

Keynote Presentation:
Dr. Biswash Gauchan, FCA - Executive Chair, IIDS

Closing Remarks:
Mr. Rajesh Upadhyay - Officiating President, CBFIN

CBFIN Delegation:
1. Executive Committee
2. CBFIN Members
3. Secretariat

IIDS Delegation:
1. Dr. Biswash Gauchan, Executive Chair
2. Dr. Bijan Bhattarai, Program Specialist - Economics and Finance
3. Ms. Astha Bhatta, Program Specialist - Economics
4. Mr. Amesh Pandey, Research Assistant
5. Mr. Subhanga Khanal, Jr. Research Assistant

About the Event

The Institute for Integrated Development Studies (IIDS) and CBFIN convened a policy discourse on "Premature Financialization" on October 29, 2026, bringing together bank chairpersons, directors, and other financial-sector representatives for a discussion of Nepal's evolving economic conditions and the role of the banking industry in national development. The event featured a keynote presentation by Dr. Biswash Gauchan, followed by a question-and-answer session focused on the implications for banks, policymakers, and productive investment.

The dialogue formed part of IIDS's Niti Daudaha initiative, which seeks to bring evidence-based development research into wider public and private-sector conversations. Rather than treating the banking system as separate from the broader economy, the discussion examined how credit expansion, land prices, remittances, investment behavior, and regulatory choices have interacted with Nepal's post-2022 slowdown.

The central question running through the event was whether rapid financial-sector expansion had been accompanied by comparable growth in productive capacity, income, and employment - and what changes are required to restore that connection. The conversation also drew on IIDS's White Paper 2026, Nepal's Economy Under the New Normal, and its Development Strategy for Vision 2100.



Opening Remarks



Welcome Remarks on behalf of CBFIN

Mr. Dilip Kumar Munankarmi
Vice President, CBFIN

In his welcome remarks, Dilip Munankarmi described a banking sector navigating a changing political environment, weak credit demand despite significant lendable resources, rising operating and compliance costs, increasing pressure from nonperforming assets, and new technological and climate-related risks. He pointed to peer-to-peer lending, neobanking, digital currencies, and cybersecurity concerns as additional challenges to conventional banking models.

Mr. Munankarmi highlighted CBFIN's work in advocacy, research, engagement with public authorities, and, where necessary, legal efforts to address issues affecting banks and their investors. He encouraged members to participate openly in the policy discussion and exchange their experiences on how the sector should respond.



Welcome Remarks on behalf of IIDS

Ms. Astha Bhatta
Program Specialist - Economics, IIDS

Astha Bhatta situated the event within IIDS's institutional history and the purpose of Niti Daudaha. She noted that IIDS has maintained its independence and relevance across changing political systems, and that the initiative is designed not only to share research but also to question accepted narratives and explore practical development choices. Under the theme "Next Nepal Under the New Normal," the current outreach series places particular emphasis on private-sector engagement.

Ms. Bhatta described the banking sector as central to savings mobilization, capital formation, and job creation, while acknowledging its current difficulties with excess liquidity and nonperforming loans. She invited participants to treat the session as an open exchange rather than a one-way presentation. She also drew attention to the limited representation of women in the gathering and encouraged reflection on that imbalance.

Keynote Presentation

Dr. Gauchan's keynote presented premature financialization as a structural feature of Nepal's economy rather than a temporary banking-cycle problem. He argued that finance, land values, and consumption have expanded much faster than the capacity of the real economy to generate income, productivity, exports, and employment. The presentation combined a diagnosis of the post-2022 slowdown with proposals for a different approach to development and financial-sector reform.



01 Financialization ahead of productive growth

Dr. Gauchan situated premature financialization within what he termed Nepal's "premature tetrad": welfarism, financialization, deindustrialization, and depopulation. In his account, years of rapid credit expansion supported consumption, land transactions, and asset valuations without a commensurate increase in productive output. Meanwhile, outward migration and remittances provided a degree of external stability that concealed deeper domestic weaknesses.

The size of private-sector credit, he noted, rose from roughly 46 percent of GDP in 2011/12 to more than 95 percent in 2020/21, before moderating to about 91 percent in 2025/26. By contrast, Nepal's per capita income remained near US$1,500. He contrasted this with higher-income economies where similar credit-to-GDP ratios coexist with substantially stronger earning capacity. He estimated combined sovereign debt and private credit at approximately 136 percent of GDP in 2025/26, arguing that Nepal's particularly heavy private-sector leverage has narrowed its room to respond to economic stress.

The contrast extends to sectoral output. The presentation showed financial and insurance activities growing from around 2.7 percent of GDP in 2000/01 to 6.7 percent in 2025/26, while manufacturing fell from about 9.0 percent to 5.7 percent. For Dr. Gauchan, these trends raised a question about the quality and allocation of credit, not merely the total volume intermediated by banks.

02 The 2015 capital increase and land monetization

A central argument concerned the 2015 increase in banks' paid-up capital requirements. Dr. Gauchan acknowledged the objective of consolidation but argued that the policy placed disproportionate weight on a capital hike as the instrument for mergers and acquisitions. According to the figures presented, average return on equity fell from roughly 28 percent before the increase to around 14 percent afterward. Pressure to expand balance sheets then contributed to rapid lending, with private credit rising from approximately 56.7 percent to 84.3 percent of GDP over the following five years.

He characterized the relationship between credit and land as one of the most damaging features of Nepal's economic model. The monetization of land through borrowing helped push property values far beyond what prevailing incomes could comfortably support, raised the cost of investment and housing, and reinforced the belief that owning and trading land was a more reliable path to returns than building productive businesses. He referred to excessive land monetization as the "mother of all evils," while emphasizing that meaningful correction of land prices is essential to a sustainable recovery.

Dr. Gauchan linked the fall in credit growth, land transactions, and stock-market turnover to the contraction in aggregate demand after 2022. The slide estimates suggested that the combined reduction in these sources of financial activity outweighed the support provided by remittance growth and public spending, producing a net liquidity and demand shock exceeding NPR 1.7 trillion. The estimate illustrated his wider argument that the economy had become unusually reliant on financial and asset-market turnover.

03 A new normal: weak demand and rising financial risks

The presentation treated the post-2022 slowdown as part of a medium- to long-term "new normal," unlikely to be reversed by a small number of incentives or short-lived policy adjustments. Dr. Gauchan also highlighted the loss of output relative to an earlier growth trajectory following COVID-19. He warned of a low-income trap, continued outmigration, declining demographic opportunity, and the possibility of Nepal "growing old before getting rich."

For the banking industry, a significant concern is the deterioration of asset quality as credit growth slows. Dr. Gauchan noted that reported nonperforming loan (NPL) ratios had remained below 2 percent for much of the earlier high-credit-growth period but had subsequently risen toward 6 percent. He argued that delaying recognition of distressed assets could prolong the crisis, and urged the sector and its regulator to confront underlying losses and collateral valuations promptly.

He referred to India's earlier experience of rapid credit growth followed by a sharp deterioration in NPLs, and to the subsequent use of insolvency reform, bank recapitalization, and bad-asset resolution mechanisms. His broader message to bank leaders was that sound balance sheets and careful credit allocation matter more than a return to the previous pace of lending.

Reform Agenda and Development Strategy

04 Monetary policy, credit governance, and the cost of capital

Addressing the banking audience directly, Dr. Gauchan questioned how effectively Nepal's conventional policy rate transmits to market interest rates and inflation. He argued that

macroprudential tools, lending rules, capital requirements, and supervisory discipline often matter more in Nepal's institutional setting. He also described an unusual factor-cost structure in which capital is comparatively cheap but land and labor are expensive, undermining the competitiveness of productive enterprises.

On bank governance, he proposed a phased response to overlapping business and banking interests rather than an abrupt separation that could destabilize a small financial market. Possible reforms included gradual dilution of concentrated promoter holdings, tighter restrictions on cross-holdings and debt-financed investments in bank equity, and stronger self-regulation of conflicts of interest. He suggested that promoter holdings could progressively decline from traditional majority levels toward roughly 30 percent over a 10–15-year period, subject to careful implementation.

05 Moving beyond familiar development assumptions

Dr. Gauchan challenged what he considered unrealistic expectations that Nepal could rely on spillovers from India and China, or on hydropower and tourism alone, to reach upper-middle-income status. His illustrative scenario suggested that even three million annual tourists and large-scale hydropower exports would make a relatively modest direct contribution to per capita income compared with the distance to higher-income thresholds. He was careful to acknowledge indirect effects, but argued that the country requires several engines of growth operating together.

He summarized the necessary change in three linked strategic shifts: "India, China, and beyond"; "Tourism, Hydropower, and beyond"; and "ODA and beyond." These themes called for broader markets, a more diversified export base, and a stronger move from aid dependence to productive investment. The speaker cited Nepal's exceptionally low historic foreign direct investment inflows—around 0.22 percent of GDP compared with a global average near 2.4 percent—as evidence of missed opportunities in capital, technology transfer, and market access.

He introduced "Nepalbaad" as a practical, Nepal-specific way of approaching development: not the adoption of a fixed ideological model, but the selection of approaches appropriate to Nepal's geography, economic structure, resources, and institutions. The emphasis, he argued, should be on credible priorities, attainable milestones, and honest recognition of the country's constraints, rather than expansive promises unsupported by implementation capacity.

06 An export- and knowledge-led development path

Dr. Gauchan proposed a growth strategy centered on agricultural transformation, the productive use of natural resources, endowment-based industries, and a much stronger services economy. He defined the test of agricultural transformation in practical terms: reducing Nepal's agricultural trade deficit—estimated in the presentation at around NPR 200 billion—toward balance. Industrial policy, he argued, should focus on meaningful domestic value addition and sectors suited to Nepal's own resources rather than imitating the manufacturing scale of larger neighboring economies.

For services, the strategic shift is from primarily exporting labor to exporting knowledge, skills, and digital services. He referred to IIDS's 2023 research estimating that Nepal exported approximately US$515 million in IT services in 2022, involving about 65,000 young people working from Nepal. He presented this as evidence that globally competitive service exports can provide domestic employment when skills, infrastructure, and market access align. Such a transition, he stressed, requires much stronger public education, human capital, and digital capacity.

07 Flagship initiatives and financing productive investment

Four proposed flagship initiatives illustrated this strategy: a regional medical education and health care hub; a global knowledge and innovation hub bringing together centers of excellence and digital enterprises; Kathmandu as a heritage capital of South Asia; and Mustang as a Himalayan destination combining spirituality, sustainability, and high-altitude innovation. He suggested, for example, that attracting 10,000 foreign medical students could generate revenue comparable to current tourism receipts, while also supporting health-sector capacity.

To finance the initial transition, he proposed a Sovereign Investment Fund (SIF) and a model of public–public partnership involving financially autonomous institutions such as the Employees Provident Fund (EPF), Citizen Investment Trust (CIT), and Social Security Fund (SSF). These institutions could help initiate economically viable projects at a time when private investment remains hesitant, with the explicit objective of crowding in—not replacing—private capital. He discussed beginning with a carefully managed US$1 billion allocation from foreign exchange reserves, alongside other institutional funds, rather than attempting to deploy the entire reserve stock.

For banks, the immediate issue is how far existing capital buffers can accommodate additional lending. The presentation put excess banking-system liquidity at around NPR 1.6 trillion and suggested that prevailing capital adequacy headroom could support additional credit creation of roughly NPR 800 billion. Beyond that, Dr. Gauchan argued, new financing structures and productive investment opportunities will be necessary. His conclusion was that sustainable growth requires changes in both where capital is invested and how opportunities are created.



Discussion and Engagement

The question-and-answer session shifted the discussion from broad economic diagnosis to issues directly affecting bank management, regulatory practice, development finance, and national strategy. Participants challenged the feasibility of the proposed reforms, tested the relevance of international experiences, and asked how the banking sector could contribute to a recovery. The exchanges below have been edited for clarity while retaining the substance and order of the questions and responses.

01 Bank ownership, excess liquidity, and national projects

Question:

CBFIN has long raised concerns about the ownership structure of banks and the balance between state, promoter, and public ownership. Banks have also invested extensively in sectors such as hydropower, sometimes without a clear view of the wider economic impact. With so much liquidity remaining idle in the banking system while Nepal struggles to finance priority infrastructure, could Nepal Rastra Bank absorb part of that liquidity—perhaps half—and channel it into national projects for several years before returning the funds?

Dr. Gauchan's Response:

Dr. Gauchan welcomed the question but distinguished the central bank's regulatory mandate from the role of an investment institution. Nepal Rastra Bank is responsible primarily for price and external-sector stability, and has responsibilities in advising and supporting government public finance. Directly absorbing commercial-bank liquidity to invest in selected projects is not ordinarily within that mandate.

He argued that the available financing capacity must be considered in stages. The sector had excess liquidity of roughly NPR 1.6 trillion, but capital-adequacy headroom would, by his estimate, allow additional lending of around NPR 800 billion—approximately half the excess. Beyond this, he said, relying on conventional bank credit alone would be inadequate. Instead, he proposed mobilizing autonomous public institutions with their own balance sheets and investment mandates, including the EPF, CIT, SSF, and potentially a Sovereign Investment Fund. Their role would be to provide early project financing and confidence, enabling private capital to enter as projects mature.

02 What explains India's sharp reduction in nonperforming loans?

Question:

India's banking-sector NPL ratio declined from around 11 percent in 2018 to approximately 2 percent in recent years, despite the intervening COVID-19 shock. What specific policies or operational reforms made this possible? India's stressed lending was heavily concentrated in large corporate and infrastructure projects, whereas Nepal now faces substantial problems in SME and retail portfolios. Which lessons are genuinely transferable?

Dr. Gauchan's Response:

Dr. Gauchan traced India's earlier bad-loan cycle partly to the rapid growth in bank credit for large

greenfield and corporate projects, especially through public-sector banks. When projects failed to deliver expected returns, stress accumulated on bank and corporate balance sheets.

He identified three important elements of the response: the Insolvency and Bankruptcy Code, which strengthened creditor-led resolution and accelerated cases; substantial recapitalization of banks, which rebuilt their ability to absorb losses and lend; and dedicated asset-resolution arrangements, often described as bad banks or asset management companies, that helped clear distressed assets. He stressed that the mechanisms worked together rather than through a single regulatory measure.

For Nepal, the immediate priority was to recognize the full extent of problem loans, address overvalued real estate collateral, and resolve bad assets more decisively. Deferring loss recognition, in his view, would delay the necessary correction and make subsequent recovery more difficult. The precise institutional design should reflect Nepal's own loan composition and legal framework.

03 Foreign exchange reserves, exporting skills, and agricultural transformation

Question:

How practical is it to mobilize part of Nepal's foreign exchange reserves for development without jeopardizing external stability? Does the recommendation to export knowledge and professional talent risk encouraging more skilled Nepalis to leave after families have invested heavily in their education? And what should a realistic agricultural transformation look like across the Tarai, hills, and Himalayan regions?

Dr. Gauchan's Response:

Dr. Gauchan explained that the Sovereign Investment Fund proposal was deliberately limited in scale: an initial US$1 billion would represent only a small proportion—approximately 4 percent—of the roughly US$25–26 billion in reserves under discussion. The intent was not to use reserves for recurrent spending or unfunded public goods, but to invest through financially accountable structures in projects capable of generating economic and, where possible, financial returns. He described two strategic benefits: import substitution to reduce foreign exchange outflows and new export earnings to diversify sources of foreign currency beyond remittances.

On talent, he distinguished sending skilled people abroad from building industries that sell skilled services internationally while keeping jobs in Nepal. He referred again to the IIDS estimate of US$515 million in IT-service exports in 2022 and roughly 65,000 people involved. A knowledge-based export strategy, he said, should give more young professionals the opportunity to work for global markets from Nepal. He also warned that the current quality of public education is a serious constraint and requires sustained reform.

Agriculture, he argued, must be differentiated by ecological region. In the Terai, fragmented holdings and low productivity require commercialization and better scale. In the hills, migration has left substantial land underused, creating opportunities for selected high-value crops and vegetables. In Himalayan areas, niche products associated with unique altitude and geography should be identified through technical research and linked to markets able to pay for them. A single national agricultural model would be less effective than region-specific strategies.

04 Clarifying Nepalbaad and the public–public partnership model

Question:

The presentation introduced "Nepalbaad" and repeatedly referred to "public–public partnership." What does Nepalbaad mean in practice, and how could CBFIN participate in shaping or implementing it? Is public–public partnership being proposed as a substitute for the public–private partnership model? The participant also noted the influence that international financial institutions can exert over national policy choices, citing CBFIN's own experience of discussions around tariff proposals and domestic industries.

Dr. Gauchan's Response:

Dr. Gauchan acknowledged that a single slide could not adequately explain Nepalbaad and that the term could be misunderstood. He described it as a development approach grounded in Nepal's actual circumstances and designed to question narratives that may obscure economic opportunities. As one example, he pointed to the open border with India: while it is commonly framed as a liability or risk, he asked what additional economic benefits Nepal might secure from a reality that cannot simply be reversed. He noted that IIDS planned fuller discussions of Nepalbaad at its annual policy conference.

He invited the financial sector to undertake critical self-assessment of the last three decades, asking where financial deepening contributed to wider development and where lending decisions had fallen short. IIDS, he said, could serve as a research partner for such a discussion, and collaboration with organizations such as CBFIN could help broaden the sources of policy ideas and strengthen policy independence.

He clarified that public–public partnership was not intended to replace public–private partnership. The idea addresses a temporary structural problem: private firms are currently cautious about initiating large new investments, even when those investments may be needed for growth and jobs. Financially autonomous public entities could initiate well-chosen projects, establish their viability, and attract private capital once confidence returns. The ultimate objective remains private-sector-led investment, market competition, and employment creation, not permanent public control.

05 The Indian rupee peg and Nepal's exchange-rate choices

Question:

Does the fixed exchange-rate relationship between the Nepali and Indian rupees help or disadvantage the Nepali economy today? What would happen if Nepal instead established its exchange rate against the US dollar independently, according to domestic economic conditions?

Dr. Gauchan's Response:

Dr. Gauchan described this as a difficult question without a simple answer. He observed that Nepal faces conflicting signals: its currency may be overvalued against the Indian rupee from a competitiveness perspective while appearing undervalued against the US dollar under current foreign-exchange market conditions. Strong remittance inflows and large reserves have altered Nepal's external position, and a hypothetical independent float might yield a different market rate. He cautioned, however, that such estimates do not themselves establish the best policy choice.

Given the open border and the large share of trade with India, he placed particular value on macroeconomic stability. A change in the peg would have wide consequences and cannot be assessed solely in terms of the immediate dollar exchange rate. He also stressed the vulnerability associated with depending heavily on a small number of external markets. For example, very large hydropower investments tied to electricity exports to India could create risks for banks if a buyer

hydropower investments tied to electricity exports to India could create risks for banks if a buyer suddenly reduced purchases. The priority, in his view, is to strengthen competitiveness and diversify export markets and sources of foreign exchange rather than assume that an exchange-rate adjustment alone can produce structural growth.



Concluding Remarks



Mr. Rajesh Upadhyay
Officiating President, CBFIN

Mr. Upadhyay closed the event by thanking Dr. Gauchan, Ms. Bhatta, and the IIDS team for a substantive discussion. He said the central lesson was that sound banking requires a strong understanding of the wider economy: banks cannot operate successfully if their expectations about economic growth, assets, and risk diverge from underlying realities.

Reflecting on CBFIN's establishment and the changes over the intervening years, Mr. Upadhyay described the present environment as more difficult and less predictable than the one in which the organization began. He emphasized that the new political and economic context demands greater strategic discipline. Traditional assumptions that borrowers will remain secure because they hold land collateral, have a good reputation, or operate a currently profitable business can no longer be taken for granted. Land prices can correct, and economic, political, technological, or public-health shocks can occur suddenly.

He also highlighted the growing responsibilities of bank boards, which must take ultimate accountability for decisions rather than assume that management recommendations remove their responsibility. He drew attention to concerns about the increasingly punitive treatment of banking-related offenses, alongside new technological and climate risks. Mr. Upadhyay welcomed the first collaboration between CBFIN and IIDS and expressed interest in further exchanges, including a possible future discussion of artificial intelligence and its implications for banking.

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