



# NEPAL RASTRA BANK

*Then, Now and Ahead*

April 2016



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**Nepal Rastra Bank**

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## **Foreword (to the Second Edition)**

Nepal Rastra Bank is cognizant of the need to maintain transparency, accountability and effective communication with the general public. In this regard and in consonance with the objective, the first edition of 'Nepal Rastra Bank Then, Now and Ahead' was published in 2014. The publication was aimed at being an easily accessible and coherent account of evolution of central banking in Nepal.

Despite the devastating April 2015 earthquake and subsequent trade disruption, I am pleased that this effort is continuing with the initial publication having been updated and thus have the pleasure to announce the release of the second edition of this publication. I am confident that this publication, which summarizes the objectives of the Bank, its functions, mechanisms and actions, would contribute to promote it as an effective and credible central bank. Further, I believe that this publication will be a good read for all.

I would like to acknowledge the effort of all officers in my office and would like to highlight the contribution of Director Dr. Prakash Kumar Shrestha, Deputy Directors Mr. Bibhu Prasad Aryal, Mr. Kedar Prasad Acharya & Mr. Shubhash Chandra Ghimire and Assistant Directors Mr. Ganesh Man Maharjan, Mr. Saurav Pokhrel, Mr. Sarthak Karki & Ms. Srijana Shrestha for updating this publication in a quality manner.

Dr. Chiranjibi Nepal  
Governor

April 2016

## **Foreword (to the First Edition)**

Transparency, accountability and effective communication with the general public are indispensable characteristics for the legitimacy of a well-functioning central bank. This publication provides a compact and easily readable introduction to the Nepal Rastra Bank (NRB) from the historical and futuristic perspectives: then, now and ahead. Using the present as a reference point, the publication presents the history of NRB from its establishment to the present – this is the “then” component. The “now” component has two parts: the first part deals with the present structure of NRB and the second part discusses NRB’s major functions. The final component, which looks “ahead”, peeps into the expected challenges and the measures to be undertaken to face those challenges. This publication will serve as an accessible handbook about Nepal Rastra Bank.

This publication has come out from the hard work of our staff and senior officials. In this context, I would like to acknowledge the effort of the whole team at the Office of the Governor in bringing out this publication. I would like to thank them all for their enthusiastic involvement and valuable contribution in this work. I would also recognize the assistance of Mr. Rishikesh Bhatta, Manager; Ms. Sita Ghimire, Acting Director; Mr. Ashok Kumar Paudel, Deputy Director; Mr. Ganesh Man Maharjan, Assistant Director; and Ms. Sajana Silpakar, Assistant Director of this bank.

I hope this publication will be able to provide a greater understanding of the responsibilities of NRB and can be taken as a step to promote greater financial literacy. This should also be useful for all those who hold a keen interest in the evolution and historical development of Nepal Rastra Bank.

Dr. Yuba Raj Khatiwada  
Former Governor

April 2014

## List of Acronyms

ACU	:	Asian Clearing Union
ADB	:	Asian Development Bank
APRACA	:	Asia Pacific Rural and Agricultural Credit Association
BoP	:	Balance of Payments
BFI	:	Banks and Financial Institutions
BIMSTEC	:	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
GoN	:	Government of Nepal
IMF	:	International Monetary Fund
NBL	:	Nepal Bank Limited
NGOs	:	Non-Governmental Organizations
NRB	:	Nepal Rastra Bank
OMO	:	Open Market Operation
RSRF	:	Rural Self Reliance Fund
SAFTA	:	South Asian Free Trade Area
SEACEN	:	South East Asian Central Banks
SEANZA	:	South East Asia, New Zealand and Australia
WB	:	World Bank
WTO	:	World Trade Organization



# Table of Contents

Foreword to the second edition by Present Governor

Foreword by Former Governor

List of Acronyms

Table of Contents

<b>Part</b>	<b>Particular</b>	<b>Page</b>
<b>I</b>	<b>Establishment of Nepal Rastra Bank</b>	<b>1</b>
	Historical Background	1
	Establishment of the NRB	3
<b>II</b>	<b>Objectives, Functions and Structure of the NRB</b>	<b>17</b>
	Objectives of the NRB	17
	Functions, Duties and Powers of the NRB	18
	Structure of the NRB	19
1	Policy Level	19
	Board of Directors	19
	Management Committee	21
	Audit Committee	21

2	Operational Level	22
	A) Monetary and Foreign Exchange Policy Group	24
	B) Banking Management Group	26
	C) Regulation and Supervision Group	29
	D) Support Service Group	34

<b>III</b>	<b>Future Activities</b>	<b>38</b>
------------	--------------------------	-----------



## Part I

### Establishment of Nepal Rastra Bank

#### Historical Background

Nepal, a land locked nation in South Asia, had both Nepalese and Indian currencies circulating side by side as the legal tender at the time of establishment of Nepal Rastra Bank (NRB). The exchange rate between these two currencies was highly unstable and volatile. There was no foreign currency reserve in Nepal; it was instead managed by India. The economy was largely un-monetized and there was a low level of development of the domestic financial sector. Moreover, Nepal did not have significant external interaction other than with India to the West, South and East, and China to the north.

Before establishment of the NRB, the following institutions were in operation to support domestic financial activities:

1. *Tejarath Adda* was established in 1880 A.D. to provide credit facility to the general public at a concessional rate of interest. It is regarded as a premier foundation of modern banking in Nepal. However, since it did not accept deposits from the public, it faced financial problems making

it impossible to meet the credit needs of the people.

2. *Nepal Bank Limited* (NBL), the first commercial bank of Nepal was established in November 1937. It took deposits from and provided loans to the general public. It also took over the responsibilities and functions of *Tejarath Adda*. However, its services were limited to some urban areas of Nepal resulting in a large part of the country being deprived of banking services.
3. *Sadar Muluki Khana*, the local treasury of the government was established in 1945 A.D. for management of the government accounts and for issuing Nepalese currency notes. It issued the first Nepalese currency notes of denominations: 1, 5, 10 and 100. However, it had no clearly stipulated roles with regard to economic and financial development. The heads of *Sadar Muluki Khana* were given the title of *Khajanchees*, with those whose information are available, are provided below:

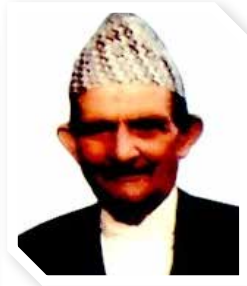
## **Khajanchees (Cashiers) of Sadar Muluki Khana & their Tenure**



Mr. Janak Raj  
(Tenure : NA)



Mr. Bharat Raj  
(...- 1952A.D.)



Mr. Narendra Raj  
(1952 - 1956 A.D.)

### **Establishment of NRB**

Because of deficiencies and inadequacies in above-mentioned institutions in terms of their roles for economic and financial development of Nepal, NRB was established on 26<sup>th</sup> April 1956 as the central bank of Nepal as per the NRB Act 1955. The act had set the following objectives:

- ❖ To ensure proper management in issuance of Nepalese currency notes and make proper arrangements for circulation of Nepalese currency,
- ❖ To stabilize exchange rates of the Nepalese currency,

- ❖ To mobilize capital for development and encourage trade and industry in the Kingdom, and
- ❖ To develop the banking system in Nepal.

NRB also took over the treasury functions of Sadar Muluki khana in 1959 and subsequently started issuing currency on behalf of the Government of Nepal (GoN).

The following section highlights decade-wise major developments of Nepalese financial sector and achievements of the NRB along with the list of Governors on the basis of their tenures.

**The first decade (1956-1966 A.D.)**

Mr. Himalaya Shumsher JBR was the first governor of NRB. After that, Mr. Laxmi Nath Gautam and Mr. Pradyumna Lal Rajbhandari led the NRB as its second and third Governors respectively.



(Mr. Himalaya Shumsher JBR  
(26 April 1956 – 8 February 1961))



Mr. Laxmi Nath Gautam  
(9 February 1961–  
17 June 1965)



Mr. Pradyumna Lal Rajbhandari  
(18 June 1965–12 August 1966)

During the first decade, the NRB focused primarily on enhancing circulation of the Nepalese currency by expanding its currency counters and establishing currency chests in commercial banks. Further,

the Nepalese Currency Circulation Act 1958 was enacted to increase circulation of Nepalese currency. The NRB then initiated efforts to manage foreign exchange and stabilize exchange rate between the Nepalese currency vis-à-vis Indian currency. Later, the Foreign Exchange Regulation Act, 1963 was enacted, which empowered the NRB as the custodian of foreign exchange reserves of the country. By the end of this decade, the Bank had succeeded in establishing the Nepalese currency as the sole legal tender, and pegged the Nepalese currency with Indian currency. Additionally, during this decade, the foundation for relationship with international financial organizations was established through the membership with the International Monetary Fund (IMF) and the World Bank (WB) in 1961.

### **The second decade (1966-1976 A.D.)**

During the second decade, Dr. Bhekh Bahadur Thapa, Dr. Yadav Prasad Pant and Mr. Kul Shekhar Sharma provided leadership to the Bank as the fourth, fifth and sixth Governors respectively.



Dr. Bhekh Bahadur Thapa  
(13 August 1966 – 27 July  
1967)



Dr. Yadav Prasad Pant  
(24 April 1968 – 28 April  
1973)



Mr. Kul Shekhar Sharma  
(29 April 1973 – 13 December  
1978)

The second decade can be characterized as a period of expansion of the domestic financial sector and beginning of the use of monetary instruments in Nepal. During this period, economic policy of the GoN focused on strengthening internal economic activities and promoting import-substituting industries. In order to diversify and promote exports, both commodity-wise as well as country-wise, an incentive based trade regime was introduced. This mechanism entitled exporters to countries other than India to have additional incentives. Furthermore, international relations were also established with Asian Development Bank, ADB (1966); South East

Asia, New Zealand and Australia (SEANZA) Central Banker's Forum (1968) and Asian Clearing Union, ACU (1975).

### ***The third decade (1976-1986 A.D.)***

During the third decade, Mr. Kalyan Bikram Adhikari and Mr. Ganesh Bahadur Thapa were the respective seventh and eighth Governors of NRB.



Mr. Kalyan Bikram Adhikari  
(12 June 1979 – 8 December  
1984)



Mr. Ganesh Bahadur Thapa  
(25 March 1985 – 22 May 1990)

The third decade was a period of massive banking expansion for which the Bank played an active role by welcoming both domestic and foreign private sector investments in the financial sector and promoting development financing. The focus in this period was on widening institutional set-up for monetary deepening and formulating directed credit programs to provide institutional facilities to targeted sectors, regions and groups of the society. In addition, to supporting the incentive



based trade policy of GoN, the NRB introduced a dual exchange rate system: an auction system with regard to convertible foreign currencies and a fixed rate with the Indian currency. Also during this period, international relations were established with Asia Pacific Rural and Agricultural Credit Association, APRACA (1977) and South East Asian Central Banks (SEACEN) Research and Training Center (1982).

### ***The fourth decade (1986-1996 A.D.)***

During the fourth decade, Mr. Hari Shankar Tripathi and Mr. Satyendra Pyara Shrestha provided leadership as the respective ninth and tenth Governors of NRB.



Mr. Hari Shankar Tripathi  
(9 August 1990–16 January 1995)



Mr. Satyendra Pyara Shrestha  
(17 January 1995–17 January  
2000)

The fourth decade was a decade of accelerated financial liberalization. It complemented the GoN's efforts of economic stabilization along with the overall national policy of economic liberalization.

Liberal economic policies were initiated in the wake of persistent balance of payment crisis that had surfaced in the early 1980s. These reforms were introduced in 1987 under the aegis of the Structural Adjustment Program with financial support of the IMF. This decade also saw major changes in policy measures such as deregulation of interest rate in 1989, shift from direct to indirect methods of monetary control, emphasis on Open Market Operations (OMO) as the major monetary policy tool, market-determined exchange rate policy of the Nepalese currency with convertible currencies and full convertibility of the Nepalese currency in the current account. This period therefore marks the transformation of the role of the NRB from merely providing financial services to that of administering prudential regulation and supervision to banks and financial institutions in a dynamic manner.

### **The fifth decade (1996-2006 A.D.)**

During the fifth decade, Dr. Tilak Bahadur Rawal, Mr. Dipendra Purush Dhakal and Mr. Bijaya Nath Bhattarai respectively provided leadership as the eleventh, twelfth and thirteenth Governors of NRB.



Dr. Tilak Bahadur Rawal  
(31 Jan. 2000–28 Aug 2000)  
(9 April 2001–28 Jan. 2005)



Mr. Dipendra Purush Dhakal  
(29 Aug. 2000–8 Apr. 2001)



Mr. Bijaya Nath Bhattarai  
(18 Jan. 2005–15 Jan. 2009)

The fifth decade can be broadly categorized into two parts. The first half of this decade is characterized by greater financial sector deregulation and liberalization along with emerging challenges, namely, growing financial sector fragility; increased

non-performing assets in the two large commercial banks of Nepal; and increasing depth and sophistication of the financial system through integration in the global economy. The second half of this decade is characterized by financial sector reform based on the Financial Sector Strategy Paper that GoN publicly announced on 22<sup>nd</sup> November 2000. The major achievements of financial sector reform are the enactment of the Nepal Rastra Bank Act, 2002, (which addresses the challenges brought by the developing financial sector, provides full autonomy to the NRB and focuses on the role of the NRB on effective monetary management and financial sector stability), and restructuring of NBL and Rastriya Banijya Bank (Box: 1 and 2 in Part II present in detail the objectives and functions of the NRB as stipulated in the NRB Act 2002). Financial sector reforms in the latter part of the fifth decade were initiated under the aegis of the IMF supported program of Poverty Reduction and Growth Facility.

In addition, a number of initiatives were taken to meet the increasing challenges pertaining to regulation and supervision of the domestic financial institutions such as promulgation of Bank and Financial Institutions Ordinance, 2004; an umbrella act governing licensed financial institutions. Also, the Debt Recovery Act was introduced, which paved the way for the establishment of a Debt

Recovery Tribunal in 2002. A new Public Debt Act was also enacted. SAARCFINANCE, a network of central bank governors and finance secretaries of the South Asian region was also established in 1998 for sharing mutual experiences and ideas related to macroeconomic policies of the region, which received formal recognition from the South Asian Association for Regional Cooperation in 2002. In 2004, Nepal became a member of the World Trade Organization (WTO) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). Furthermore, the South Asian Free Trade Area (SAFTA) agreement was signed in the same year.

### **The sixth decade (2006-2016)**

During the sixth decade, Mr. Deependra Bahadur Kshetry and Dr. Yuba Raj Khatiwada respectively provided leadership to the Bank as the fourteenth and fifteenth Governors of NRB.



Mr. Deependra Bahadur Kshetry  
(16 Jan. 2009–26 July 2009)



Dr. Yuba Raj Khatiwada  
(19 March 2010-19 March 2015)

This decade is characterized by financial sector consolidation, systematic regulation and supervision, governance reform and improvement of monetary

policy operation. The period experienced an ongoing political fluidity that exerted adverse effects on the path of domestic financial sector development. In addition, the first half of this decade also witnessed real estate bubble, stock market volatility, Balance of Payments (BoP) problem and liquidity crunch, among others. Nonetheless, these challenges were successfully handled in a mature and cautious manner by the NRB, averting any serious financial crisis and its contagion effect.



Dr. Chiranjibi Nepal  
(19 March 2015-Present)

At present and starting from 22<sup>nd</sup> March 2015, Dr. Chiranjibi Nepal, a senior economist, has been serving as the sixteenth Governor of the Bank. Dr. Nepal has given continuity to consolidation of the financial sector and has introduced several policy measures to help the general public, business community and financial sector seriously affected by the devastating earthquake of April and May 2015, as well as unrest and trade disruption in the

Southern Part (Terai) of Nepal.

With a view to strengthen the Nepalese financial sector and maintain financial stability, the NRB has increased paid up capital requirement for commercial banks by four times (with other levels of financial institutions increasing in a similar manner) to bring it to a comparable level of South Asian countries.

In addition, the NRB has started to use term deposit as a new monetary policy instrument for liquidity management. The NRB has also given due attention to increasing access to finance and inclusion as reflected in its different policy measures.



## Part II

### Objectives, Functions and Structure of the NRB

The NRB Act, 2002 replaced the 1955 Act establishing the bank as an autonomous entity. The Act has set the objectives of the NRB as shown in Box 1:

#### **Box 1: Objectives of the NRB**

*The objectives of the NRB as specified by Article 4 of NRB Act 2002 are as follows:-*

- (a) To formulate necessary monetary and foreign exchange policies in order to maintain stability in price and consolidate balance of payments for sustainable development of the economy of Nepal;*
- (b) To promote stability and liquidity required in banking and financial sector;*
- (c) To develop a secure, healthy and efficient system of payment;*
- (d) To regulate, inspect, supervise and monitor the banking and financial system; and*
- (e) To promote entire banking and financial system of the country and to enhance its public credibility.*

*The Bank shall, without any prejudice to the stated objectives, extend co-operation in the implementation of economic policies of the Government of Nepal.*

In order to achieve the objectives referred to in Article 4, functions, duties and powers of the NRB are prescribed in Article 5(Box 2):

**Box 2: Functions, Duties and Powers of the NRB**

*The functions of the NRB as specified by Article 5 of NRB Act, 2002 are as follows:-*

- (a) To issue bank notes and coins;*
- (b) To formulate necessary monetary policies in order to maintain price stability and to implement or cause to implement them;*
- (c) To formulate foreign exchange policies and to implement or cause to implement them;*
- (d) To determine the system of foreign exchange rate;*
- (e) To manage and operate foreign exchange reserve;*
- (f) To issue license to commercial banks and financial institutions to carry on banking and financial business and to regulate, inspect, supervise and monitor such transactions;*
- (g) To act as a banker, advisor and financial agent of the Government of Nepal;*
- (h) To act as the banker of commercial banks and financial institutions and to function as the lender of the last resort;*
- (i) To establish and promote the system of payment, clearing and settlement and to regulate these activities; and*
- (j) To implement or cause to implement any other necessary functions which the Bank has to carry out in order to achieve the objectives of the Bank under this Act;*

## **Structure of the NRB**

The present structure of the NRB for discharging its statutory functions, duties and powers can be broadly categorized into two levels: 1) Policy level and 2) Operational level

**1 Policy Level:** The policy level comprises decision-making and audit committees of the Bank. These committees as provisioned by the NRB Act 2002 are:

### **Board of Directors (NRB Act, 2002; Article 14)**

A Board of Directors consisting of seven members governs the NRB, which include Governor (Chairperson); Secretary to the Ministry of Finance of the GoN; Both Deputy Governors and three other board members appointed by the GoN.

All these members are appointed for a five-year term except for finance secretary whose tenure, as board member, is ex-officio.

The Board of Directors formulates necessary and relevant policies, by-laws, rules, regulation, and guidelines for NRB and takes necessary decisions pertaining to the overall organizational management and policy matters of the Bank. Presently, officiating members of the Board of Directors are as follows:



**Chairman, Governor**  
Dr. Chiranjibi Nepal  
Appointed on 2015/03/19

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**Member, Secretary, Ministry of Finance**  
Mr. Lok Darshan Regmi  
Appointed on 2015/11/23

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**Member, Deputy Governor**  
Mr. Chinta Mani Siwakoti  
Appointed on 2016/03/02

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**Member, Deputy Governor**  
Mr. Shiba Raj Shrestha  
Appointed on 2016/03/02

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**Member**  
Prof. Dr. Sri Ram Poudyal  
Appointed on 2012/03/29

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**Member**  
Dr. Ramhari Aryal  
Appointed on 2012/03/29

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**Member**  
Mr. Bal Krishna Man Singh  
Appointed on 2013/02/15

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### **Management Committee (NRB Act, 2002; Article 33)**

The Governor, with both Deputy Governors as its members, chairs the Management Committee. A senior officer is appointed as the Member Secretary of the Management Committee. The Secretariat of the Management Committee is at the Office of the Governor with a designated contact officer. The main functions of the management committee constitute carrying out periodic review of country's monetary and financial conditions, subsequently reporting to the Board of Directors on matters related to the Bank's administration and operation, implementation of the Bank's monetary and regulatory policies and giving recommendations for further strengthening the financial system, among others.

### **Audit Committee (NRB Act, 2002; Article 34)**

The Audit Committee under the NRB's Board of Directors is headed by one of the board members in a non-executive capacity. The main functions of the Audit Committee constitute overseeing and reporting to NRB's Board of Directors on accounts, budget, audit procedure and control system of the Bank. In addition, the committee also drafts by-laws for auditing of the NRB in accordance with the prevailing laws and international auditing standards. Furthermore, the Internal Audit Department

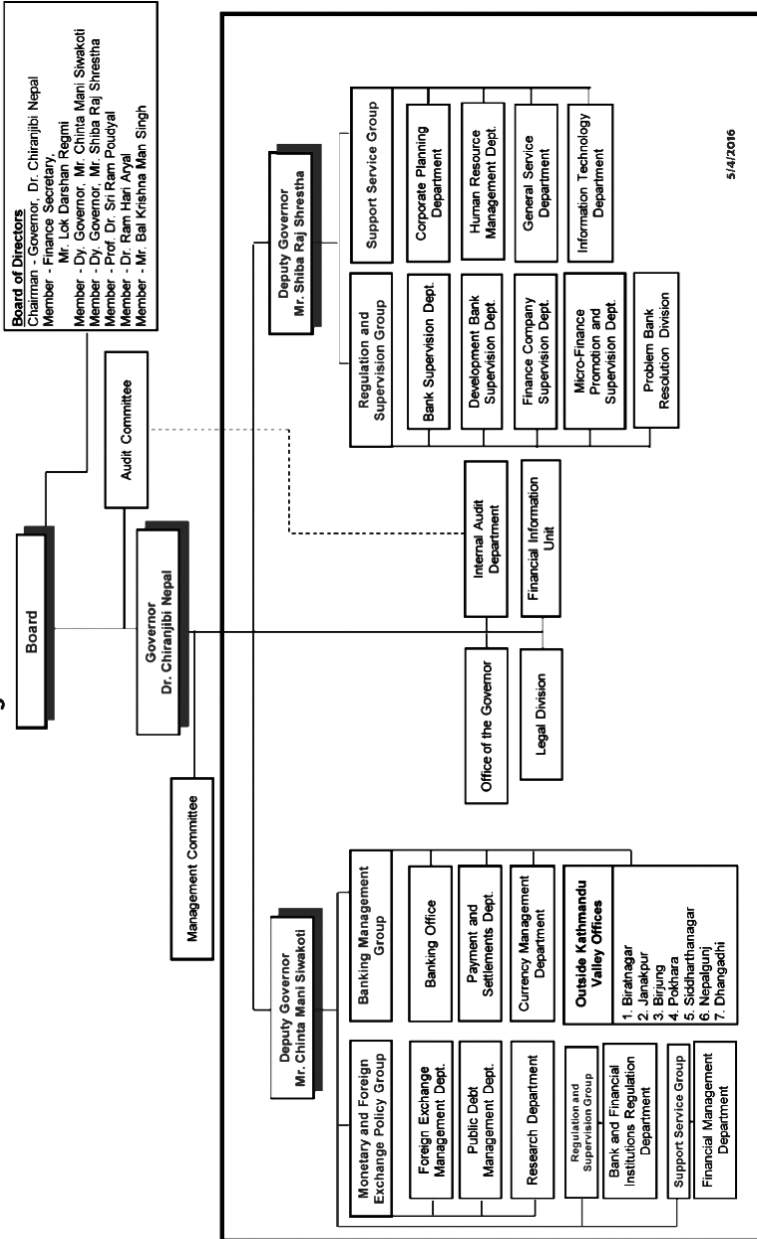
reports to the Board of Directors through the Audit Committee.

**2 Operational Level:** To facilitate the execution of decisions taken by the Board of Directors and the Management Committee, the operational level of the NRB has been organized into four functional groups namely:

- (A) Monetary and Foreign Exchange Policy Group;
- (B) Banking Management Group;
- (C) Regulation and Supervision Group and;
- (D) Support Service Group

The two Deputy Governors undertake the responsibility of overseeing the four groups while the Governor directly supervises Office of the Governor, Internal audit department, Legal Division and Financial Information Unit. The Present structure of the NRB is presented in the organogram given below:

# Nepal Rastra Bank Organization Chart



5/4/2016

Based on this organogram, the functional classification of NRB's activities and responsibilities as discharged by respective Departments, divisions, offices, units and district offices is as follows:

### **A) Monetary and Foreign Exchange Policy Group**

Following three Departments discharge the related functions of this group:

- I. **Research Department:** This department monitors domestic and international macroeconomic and financial situation, analyses them and makes projections pertaining to the real, fiscal, monetary and external sectors of the economy. The department is responsible for collection, compilation, analysis and dissemination of various statistics, such as trade and BoP statistics, monetary statistics, and price related statistics. It also conducts different special studies, which contribute to formulating economic policies and macroeconomic forecasts for the Government and the NRB itself. The department manages the NRB's Central Library and hosts the IMF Resident Representative Office. As envisaged by the NRB Act, 2002, this department coordinates with other departments and divisions to draft annual monetary policy. It also publishes



subsequent mid-term review of the monetary policy and coordinates to publish NRB Annual Report, which includes its financial statements. In addition, the department publishes the Current Macroeconomic Situation (monthly report), Quarterly Economic Bulletin and the *NRB Economic Review*, all of which are accessible through the NRB website: [www.nrb.org.np](http://www.nrb.org.np).

## II. Foreign Exchange Management

**Department:** This department is responsible for the management of foreign exchange transactions and foreign exchange reserves. It is responsible for taking decisions regarding foreign exchange rate and foreign exchange interventions in order to balance the demand and supply of foreign currency in the market. The department also issues license to different entities to carry out foreign exchange transactions and supervises the activities of these entities. It has a primary responsibility of facilitating ACU related transactions.

The NRB follows prudent mechanism to manage its foreign exchange reserves in an effective and efficient manner.

## III. Public Debt Management Department:

This department carries out internal debt

management on behalf of the GoN. It includes preparing issue calendar, distributing debt, and accounting as registrar to the debt.

In addition to being the secretariat of the OMO committee, the department implements decisions regarding OMO in order to manage liquidity in the money market through instruments such as repo, reverse-repo, outright sale, outright purchase and term deposit, among others.

## **(B) Banking Operation Group**

The following offices and departments discharge the functions of this group:

- I. **Banking Office:** The Banking Office manages government account including transactions related to government revenue collection and public expenditure management through Treasury Single Account. It deals with foreign exchange payments and settlement transactions. The Banking Office also oversees the management of money museum and manages Indian currency chests in NRB Offices and selected commercial bank branches.

### **Exchange Rate System**

Nepal has adopted a pegged exchange rate system with the Indian currency since 1960. The NRB assures unlimited convertibility of the Nepalese currency against the Indian currency. Since 1960, there have been seven changes in the level of peg with the Indian currency. The last change was made on 12 February 1993 where presently one unit of Indian currency is equivalent to 1.6 units of Nepalese currency.

- II. Currency Management Department:** This department is responsible for management of paper currency notes and coins. The department also manages currency chests in NRB and commercial bank branches where notes are stored to fulfill local demand. The NRB has been adopting clean note policy to enhance the management of existing notes, to upgrade their life span and to facilitate the destruction of soiled notes. To prevent possession of counterfeit notes, the Bank has initiated regular campaign that includes interaction programs, seminars and workshops with various stakeholders.
- III. Payment and Settlement Department** - This department is primarily responsible for carrying

out activities pertaining to development of payment and settlement system, its regulation, supervision and oversight as directed by the National Payment Board, Payment System Oversight Committee, NRB's management committee and Board of Directors. The department is responsible for issuing license to institutions for carrying out payment and settlement activities and also supervising them regularly. Furthermore, this department is mandated by Payment and Settlement By-law 2072 to establish and provide oversight to Real Time Gross Settlement, National Financial Switch, Payment Gateway and Securities Settlement System. In addition, the department is required to carry out annual studies on the status of payment and settlement systems in Nepal and to publish payment settlement oversight report.

- IV. Outside Kathmandu Valley Offices:** There are seven NRB offices outside the Kathmandu Valley. In general, these offices have three main functions: (1) circulation of currency (in coordination with Currency Management Department); (2) managing government transactions (in coordination with Banking Office); and (3) monitoring and reporting of local economic activities (in coordination with

the Research Department). In addition, these offices also prepare yearly and half yearly economic activities study report pertaining to the local economic activities at the district level. NRB offices operating outside the valley are mirror images of various central level units operating in the Kathmandu Valley. These seven NRB offices are located in Biratnagar, Janakpur, Birgunj, Pokhara, Siddharthanagar, Nepalgunj, and Dhangadhi. The location of each of these offices reflects geographical spread of the NRB and is shown in figure below:



### **(C) Regulation and Supervision Group**

The following five departments discharge the functions related to this group:

#### **I. Banks and Financial Institutions Regulation**

**Department:** The department is responsible for policy-related and regulatory matters

regarding banks and financial institutions (BFIs), which are categorized as 'A', 'B', 'C' and 'D' class for commercial banks, development banks, finance companies and micro finance development banks respectively. It issues licenses to the BFIs according to their category. The NRB is responsible for regulating BFIs licensed by it. The focus of the Bank is on issuing prudential regulations for BFIs, regularly analyzing the overall financial system as well as monitoring the overall growth of banking business. The directions are based on international prudential norms and national need.

The Nepal Rastra Bank Act, 2002 stipulates that financial stability is one of its main objectives. To address challenges arising out of complexity and diversity in the financial business environment, the NRB has established a Financial Stability Oversight Committee chaired by the senior Deputy Governor. The members include other Deputy Governor and heads of relevant Departments and invitee members from stakeholders in the domestic financial sector, such as the Insurance Board and Securities Board of Nepal. To support the Financial Stability Oversight Committee, a dedicated Financial Stability Unit was

established in 2012 within this department. The unit has been given the responsibility of conducting macro prudential surveillance of the financial system, preparing financial stability report, developing and preparing core and encouraged set of financial soundness indicators, and conducting stress test to assess resilience to various shocks. This department also monitors domestic financial stability and prepares *Financial Stability Report* on bi-annual basis.

- II. Bank Supervision Department, Development Bank Supervision Department and Finance Company Supervision Department:** These three departments are in charge of on-site and off-site inspection and supervision of 'A', 'B' and 'C' class financial institutions respectively. In addition, these departments are also responsible for studying and implementing international best practices of supervision modalities such as stress testing and risk management based on Basel guidelines; developing the guidelines for risk-based supervision reflected in the Unified Directive and implementing them. In addition to the risk-based supervision of the BFIs, these departments also overlook the financial institutions' compliance to the specified

policies of the NRB, such as productive sector lending provision which mandates the 'A', 'B' and 'C' class BFIs to direct 20%, 15% and 10% of their respective total loan portfolios to specified productive sector. Furthermore, these departments are also responsible for providing feedback for continuous improvement in both regulatory and supervisory frameworks and implementation of "Prompt Corrective Action".

### III. **Micro Finance Promotion and Supervision**

**Department:** This department, in addition to on-site and off-site inspection of Micro Finance Institutions licensed by the NRB, is also responsible for micro finance promotion activities such as financial literacy and microcredit in the areas where people are deprived of access to formal financial services. The NRB is dedicated to increase access to finance and is pursuing this in three ways:

**a. Directed Credit:** Under 'deprived sector credit', the NRB has directed 'A', 'B' and 'C' class financial institutions to lend 5%, 4.5% and 4% of their total loan portfolios to the specified underprivileged sector of the society. Since such credit flow is mainly directed through the NRB licensed microfinance institutions, the department



contributes to ensuring its proper utilization of such lending through its supervisory role.

**b. Supervision of Microfinance Institutions:** This department is responsible for supervision of NRB licensed microfinance institutions such as micro finance development banks, saving and credit cooperatives, and non-governmental organizations.

**c. Rural Self-Reliance Fund:** In 1991, GoN established the Rural Self-Reliance Fund (RSRF) with the objective of providing wholesale loans to NGOs, Co-operatives and other financial intermediaries, engaged in lending to the poor in order to improve their standard of living through income generating activities. The RSRF credit has now been widely spread throughout the country. The department hosts the secretariat of the RSRF.

This department is also actively involved in projects that are related to microfinance in partnership with international organizations such as the WB and the United Nations, among others. Furthermore, the department is responsible for studying international best practices to promote microfinance activities in the country.

## (D) Support Service Group

Following five departments discharge the functions of this group:

- I. **Corporate Planning Department:** This department is in-charge of formulating NRB Strategic Plan and monitoring and evaluating progress related to its implementation. This department is involved in formulating internal budget, evaluating fund release and monitoring it. This department is also responsible for undertaking risk analysis, which includes continuously monitoring possible risks and periodically reviewing and analyzing mitigating techniques. Additionally, the department assesses and evaluates the Bank's technical cooperation with international partners.
- II. **Human Resources Management Department:** This department is responsible for staff recruitment, appointment, training, placement, transfers, deputation, monitoring, promotion and development. It also maintains an inventory of existing and retired personnel. Recommendation on salary and perks also fall within the domain of this department.
- III. **Financial Management Department:** This department handles payments and

expenditures of the Bank, manages staff pension/retirement fund and prepares the Profit and Loss account as well as the balance sheet of the bank.

**IV. General Services Department:** This department handles procurement, construction of physical facility and maintenance of existing property; and overall management of office vehicles, among others. This department is also responsible for activities related to overall NRB staff welfare, such as management of clinic, cafeteria and vehicle parkings, among others. The department also handles reconstruction of NRB building that has been destroyed by earthquake.

**V. Information Technology Department:** This department is responsible for managing Information Communication Technology related hardware and software to ensure smooth, prompt and quality services at the NRB. The department also prepares necessary software and provides advice to the NRB on Information Communication Technology related matters.

The following office, department, division and unit are under the direct supervision of the Governor:

**I. Office of the Governor:** The office includes

personal secretariat of the Governor, secretariats of both Deputy Governors, board of directors and the management committee.

The Office also has two divisions – Public Relations and International Relations.

The Public Relations Division (PRD) works as an information desk to disseminate information pertaining to NRB activities to the public through website and local media. It also functions as a unit for dissemination of materials published by the NRB. Furthermore, the PRD also functions as the communication section of the NRB as per the Right to Information Act, 2064 and assists the designated communication officer. The division publishes *Mirmire* bi-monthly and Nepal Rastra Bank Samachar - a monthly staff journal. It also organizes financial awareness programs on a regular basis.

The International Relations Division (IRD) manages both bilateral and multilateral relations with different international financial institutions and international organizations. It also hosts the SAARCFINANCE cell and liaison & protocol unit. Furthermore, it is also responsible for organizing Governor level international programs in Nepal.

**II. Internal Audit Department:** This department monitors and verifies compliance of rules and regulations of all departments, divisions

and offices within the NRB, as per prescribed guidelines. This department acts as a secretariat to the Audit Committee, which is headed by a non-executive member of the Bank's Board of Directors as stated in Article 34 of the NRB Act, 2002.

**III. Legal Division:** This division is responsible for giving legal advice to the NRB as well as representing the Bank in courts, whenever necessary. It is also responsible for all legal matters, such as providing assistance to formulate new acts, by-laws, rules and regulations and to make subsequent necessary amendments.

**IV. Financial Information Unit:** This unit compiles and records financial transactions, which include suspicious transaction reports provided by BFIs and transactions that exceed pre-determined threshold provided for reporting, and analyzes them. If deemed necessary, the unit disseminates the information to law enforcement authorities (such as Department of Money Laundering Investigation, Department of Revenue Investigation, Central Bureau of Investigation, Commission for Investigation of Abuse of Authority, etc.) for further action. The department functions as a secretariat to Anti-Money Laundering/Combating the Financing of Terrorism.

## **Part III**

### **Future Activities**

NRB's work has been guided by its vision of becoming "a modern, dynamic, credible and effective Central Bank" with its mission of "maintaining macro-economic stability through sound and effective monetary, foreign exchange and financial sector policies".

The Bank has completed one five-year strategic plan, is in the process of completing the implementation of the second five-year strategic plan and is presently preparing its third strategic plan (2017-2021) to contribute to shaping its future course. In coming days, maintaining macroeconomic and financial stability are challenging tasks for the NRB given the changing economic and financial landscape of the country.

With promulgation of new constitution in 2015, which has made Nepal a federal democratic republic, it can be expected that internal disturbances on economic activities will subside. In addition, with the institutionalization of the federal system, the NRB may have to adjust its structure to meet the needs of the federal system of the country.



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