



Nepal Rastra Bank



Strategic Plan

(2006 - 2010)

FOREWORD

The world economy is witnessing a structural shift with changes in trade, finance and investment regimes. Rapid globalisation and advancement in information and communication technology have greatly helped economic integration of both developed and developing economies and they have become more interdependent in the flows of goods, services, finance and investment.

Central banks are responding to these changes in the global economic scenario by redefining their roles and responsibilities and restructuring their activities. They are paying more attention to enhance their efficiency, effectiveness, accountability and transparency and improve their performance levels by pursuing best central banking norms, standards and practices with more emphasis on creativity, reliability and corporate governance.

The Nepalese economy is getting rapidly integrated with the global economy due to the adoption of liberal economic policies and the accession to the international and regional trading agreements. The country needs institutional restructuring in the spectrum of fiscal, financial, and external sectors to enhance competitiveness of the economy, promote policy credibility for attracting long-term foreign investment and maintain macroeconomic and financial stability to sustain the economic development. Policies and activities of the Nepal Rastra Bank (NRB) that practises modern central banking and strategic management principles are critical in creating sound economic environment that fosters sustainable economic growth of the economy in general and financial industry in particular.

To address the needs for timely changes in policies and activities emanated from external and internal economic forces, NRB has embarked on a major restructuring process in both policy and operational fronts. The adoption of financial sector liberalization policies by NRB has necessitated its organizational restructuring to enhance policy credibility and increase operational transparency and accountability. Policies and activities of the NRB are very critical in creating macro-economic growth environment and fostering sound health of banking and financial industry of the country.

The Strategic Plan of the NRB has been prepared to address these issues. It is regarded as the First Five Year Strategic Plan of the Bank. The mandate of the NRB, as enshrined in the NRB Act, 2002, is to maintain price, external sector, and financial sector stability. In order to be efficient and effective to accomplish these objectives, the Strategic Plan (2006-2010) has been prepared with defined vision, mission, core values, and strategic goals. The Plan has been formulated through wider consultations and participation of all Board Members, Executive Directors and other major stakeholders. Action plans with defined responsibility, operational timeframe and key performance indicators have been devised to implement the Plan.

I would like to extend my sincere thanks to Prof. Bishwa Keshar Maskay, NRB Board of Director and Coordinator, Strategic Planning Committee (SPC) for his overall guidance and support to the entire planning process. I would also like to thank Deputy Governors and Members of the SPC Mr. Krishna Bahadur Manandhar and Mr. Bir Bikram Rayamajhi, Former Deputy Governor Mr. Lekh Nath Bhusal, and Executive Director, Corporate Planning Department and Member Secretary, SPC Mr. Ganesh Kumar Shrestha, for their commendable efforts in preparing this plan. I would also like to thank Executive Directors, Directors, Chief Managers and other staffs of the Bank for their contribution in shaping the Strategic Plan. I am fully confident that through the strategic orientation of the activities as specified in the Plan, the Bank will be able to discharge its duties and responsibilities more effectively and efficiently and attain its vision, mission, values and strategic objectives.

Bijaya Nath Bhattarai
Governor

PREFACE

The dynamic growth and structural change of the world economy is shaping the economic policy and development paradigm of developing countries including Nepal. Growing economic liberalization, global financial integration, trade and investment interdependence and revolution in information and communication technology are influencing macro-economic policy decisions to address emerging challenges in the global economy.

Central banks have to respond to ‘change pressures’ arising due to changes in the global economic environment. As they are under public scrutiny, they have to become more transparent and accountable for their policy decisions and operations. In response to these changes, they have initiated restructuring of their institutional duties and responsibilities and redefined their roles to pay more attention to accomplish their vision, mission, core values, strategic goals and objectives. In this regard, many of them have formulated their medium-term strategic plans and annual action plans. They have established new performance standards, set well-defined performance measures and changed management styles.

Nepal Rastra Bank, like other central banks, has been facing the pressure for changes in its policies, operational procedures and organizational structures. The New Nepal Rastra Bank Act, 2002, has provided it more autonomy in its policy and operations. It has already initiated the restructuring and reengineering process to meet the challenges of the twenty-first century central bank. As per the legal mandate, it has to formulate and implement monetary, foreign exchange and financial sector policies, regulate and supervise banks and financial institutions, manage foreign exchange reserve, promote develop modern payments and settlement systems and build the confidence of the general public in the financial system of the country. It has to follow this best central banking practices to make its objectives clearer, activities more transparent and operations more credible and accountable.

In this context, the Strategic Plan has been formulated by specifying the Bank’s core values and strategic objectives, reordering priorities, formulating strategies, determining annual action plans and performance indicators and optimising resource use. The Plan has envisaged a new corporate culture and corporate administration that strongly believes in corporate governance and build credibility to the public through transparency and accountability. It has been prepared with wider consultations and participations of the bank management and other stakeholders. As it is based on the dynamic and flexible concept, it can be implemented as a rolling plan-that can be modified and changed as per the changed circumstances. The Plan will help the Bank to accomplish its institutional vision, mission, core values, and strategic objective and meet the burgeoning policy and management challenges for the coming five years.

The vision and mission statements and core values of the Strategic Plan are long-term perspective whereas the strategic objectives, guidelines, activities and action plans are medium-term perspective. The medium-term perspective of the Plan has to be reviewed annually because internal and external changes may call for adjustment in these areas. The NRB Board may review the Strategic Plan and play a key role in updating it by monitoring its annual progress and evaluating the outcome. It is believed that through the strategic orientations of the activities, the Bank will be able to discharge its core central banking responsibilities, enhance its credibility and work in close coordination with the government towards sound macroeconomic management for sustained high economic growth and poverty reduction and accomplish its long term vision and mission and strategic objectives as enshrined in the NRB Act, 2002.

Professor Bishwa Keshar Maskay
Coordinator, Corporate Planning Committee &
Member, Board of Directors, NRB

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Nepal Rastra Bank (NRB) has prepared its First Five Year Strategic Plan. The plan document is the product of the participative efforts of the Board of Directors, Executive Directors and Directors, Chief Managers, senior officers and the entire staff. The objective of the strategic planning is to transform it into a modern, dynamic, credible and effective central bank that can address the emerging issues and challenges of central banking of the twenty-first century. The strategic intent and orientations of the planning process is to promote and develop corporate governance, transparency and accountability in its policy and operational decisions and provide it a degree of independence and autonomy in its corporate administration. The Strategic Plan has been prepared taking a long-term vision and mission to attain strategic goals and objectives of the Bank in a medium-term.

Several persons have contributed to the preparation of the strategic planning document by providing their valuable inputs, comments and suggestions. We would like to express our sincere gratitude to Governor Mr. Bijaya Nath Bhattarai for entrusting us this important assignment and for his continuous guidance, support, encouragement and insights during the entire planning process. We are grateful to the Board Members Mr. Bhanu Prasad Acharya (former), Dr. Parasar Koirala and Mr. Pradeep Kumar Shrestha for their extended cooperation, and encouragement. We are thankful to Mr. Sukhwinder Singh, Resident Representative of the International Monetary Fund, for providing us his valuable insights and information related to the strategic planning exercises of other central banks. We are also thankful to Mr. Radhesh Pant, the President of the Nepal Bankers Association, for his valuable suggestions in the strategic planning process.

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Strategic Planning Committee

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ABBREVIATIONS AND ACRONYMS

ADBN	Agricultural Development Bank, Nepal
AMC	Assets Management Company
ATM	Automatic Teller Machine
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BIS	Bank for International Settlements
BOP	Balance of Payments
BTC	Bankers' Training Centre
CAAT	Computer Assigned Audit Technique
CBO	Community Based Organisations
CDS	Central Depository System
CDS	Central Depository System
CGE	Computable General Equilibrium
CH	Clearing House
CIC	Credit Information Center
CPD	Corporate Planning Department
CPI	Consumer Price Index
CRA	Credit Rating agency
CRR	Cash Reserve Ratio
CSD	Central Depository System
DIC	Deposit Insurance Company
E-HR	Electronic Human Resource
FEMD	Foreign Exchange Management Department
FINGOs	Financial Intermediary Non-Government Organizations
FMD	Financial Management Department
GBB	Grameen Bikas Bank (Rural Development Bank)
GDP	Gross Domestic Product
GSD	General Service Department
HR	Human Resource
HRD	Human Resource Development
HRMD	Human Resource Management Department
IAS	International Accounting Standard
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISA	International Standards of Auditing
IT	Information Technology

LAN	Local Area Network
LCD	Liquid Crystal Display
LD	Legal Division
LMFF	Liquidity Monitoring and Forecasting Framework
M ₂	Broad Money
MFD	Micro Finance Department
MFDf	Micro Finance Development Fund
MFI	Micro Finance Institutions
MIS	Management Information System
NBL	Nepal Bank Ltd.
NIDC	Nepal Industrial Development Corporation
NIFMIS	Nepal Integrated Financial Management Information System
NMFDF	National Micro Finance Development Fund
NPA	Non Performing Asset
NRB	Nepal Rastra Bank (also referred as Bank)
NSA	Nepal Standards of Auditing
OHP	Over Head Projector
OMO	Open Market Operation
PRD	Public Relation Division
PRS	Personnel Recording System
R&D	Research and Development
RBB	Rastriya Banijya Bank
REER	Real Effective Exchange Rate
RM	Reserve Money
RRBS	Regional Rural Development Banks
RSRF	Rural Self Reliance Fund
RTGS	Real Time Gross Settlement
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
SEACEN	South East Asian Central Banks
SLF	Standing Liquidity Facility
SPC	Strategic Planning Committee
SSL	Secured Sockets Layer
SSSS	Scriptless Securities Settlement System
STI	Second Tier Institution
VRS	Voluntary Retirement System
WAN	Wide Area Network
WTO	World Trade Organisation

PART - I

Approach to Strategic Planning in Nepal Rastra Bank

1.1 Background of Strategic Planning

Nepal Rastra Bank (NRB) is undergoing a major restructuring process in its policy and operational fronts. The adoption of liberal economic policies in general and financial sector policies in particular followed by changing structure of the Nepalese economy is signalling for the restructuring of the NRB for policy credibility and operational efficiency. In the changed economic scenario and changing focus of modern central banks on conducting monetary policy as the prime responsibility, NRB is giving more focus on transparency and accountability in monetary management. The strategic planning process has been initiated to address these issues.

1.2 Need for Strategic Planning

The Nepalese economy is observing a structural change due to internal and external economic shocks. In the context of rapid economic globalization, financial liberalization and integration, and advancement in information and communication technology, NRB has to address the new issues and challenges emanating from changes in global economic environment in general and financial markets in particular. It has to cope with these new changes rapidly and strategically and use its human, materials and financial resources optimally and in cost-effective ways.

The institutional mandate of the NRB, as enshrined in the Nepal Rastra Bank Act, 2002, is to maintain price, external sector, and financial sector stability. In order to be capable and efficient in accomplishing the core objectives and other objectives of the Nepal Rastra Bank Act 2002, the Bank needs to follow the strategic management principles and formulate a dynamic and operating Strategic Plan that can be implemented in a medium-term of five years.

NRB Board has already approved the vision and mission statements of the Bank. It has to orient its activities to attain them through the formulation and implementation of a medium-term Strategic Plan.

1.3 Issues in Strategic Planning in NRB

As the Nepalese economy is getting rapidly integrated with the global economy by virtue of its outward-oriented policies followed by its membership to the WTO, SAFTA, and BIMSTEC, the country needs institutional restructuring in the spectrum of fiscal, financial, and external sectors, among others. The challenge of the Nepalese economy is to enhance its competitiveness by reducing the cost of production and services, promote policy credibility for attracting foreign investment and maintain macroeconomic and financial stability for the sustainability of the economic development process.

Policies and operations of the central bank are critical in creating conducive environment for sustainable macroeconomic development. However, being the central bank of one of the least developed countries with vast poverty, high-income inequality, vulnerability to external shocks, and weak financial system, its roles and responsibilities go beyond what a central bank of a matured economy is supposed to deliver. Close integration with the Indian economy and fixed exchange rate regime with Indian currency has added challenges to the autonomous operation of its central banking functions. The strategic planning of the NRB attempts to address these issues.

1.4 Institutional Mandate

The institutional mandate to formulate the strategic planning in NRB is the NRB Act 2002, the legal base for the preparation of the strategic planning, NRB Board decision to form the Strategic Planning Committee, and the establishment of the Corporate Planning Department within the NRB's organizational structure to initiate the strategic planning process.

1.5 Corporate Vision, Mission and Core Values

- 1.5.1 The Vision of NRB is to evolve it as a modern, dynamic, credible, and effective institution capable of delivering core central banking responsibilities.
- 1.5.2 The Mission of NRB is to maintain macro-economic stability through sound and effective monetary, foreign exchange, and financial sector policies.
- 1.5.3 The core values of the NRB are credibility, responsibility efficiency, accountability, transparency and effectiveness.
- 1.5.4 The strategic objectives are to maintain price and external sector stability, promote financial sector stability, and optimise productivity and enhance operational efficiency of the Bank, among others, through effective utilization of human resource and modern information and communication technology.

Vision, Mission, Core Values, Strategic Objectives and Strategic Guidelines

Vision

"A modern, dynamic, credible, and effective Central Bank."

Mission

"Maintaining macro-economic stability through sound and effective monetary, foreign exchange, and financial sector policies".

Core Values (CREATE)

- C = Credibility*
- R = Responsibility*
- E = Efficiency*
- A = Accountability*
- T = Transparency*
- E = Effectiveness*

Strategic Objectives

- *Formulate necessary monetary and foreign exchange policies in order to maintain price and balance of payments stability for sustainable development of the economy and managing it;*
- *Promote financial stability and ensure adequate liquidity in the banking and financial system;*
- *Develop a secure, healthy, and efficient currency management and payments system;*
- *Regulate, inspect, supervise, and monitor the banking and financial system; and*
- *Promote and develop the overall banking and financial system, and enhance accessibility and its public credibility.*

Strategic Guidelines

- *Develop long-term vision of the Bank and implement it through medium-term and annual strategic plans.*
- *Formulate and implement sound and effective monetary, foreign exchange, and financial sector policies.*
- *Formulate and implement sound, efficient, and effective regulatory and supervisory system to make financial system healthy and stable.*
- *Reengineer the organizational structure of the Bank.*
- *Formulate and implement strategic human resource planning and development.*
- *Develop and implement management information system.*
- *Automate and modernize payments and settlement system of the country.*

1.6 Key Challenges

1.6.1 The NRB has to respond to ‘change pressures’ on it, emanating from both the internal and external forces, by restructuring its activities and redefining its roles. As it comes under public scrutiny, it has naturally to pay more attention to its performance. For this, standards are to be established; performance measures are to be defined; and management styles have to be changed. Efficiency and accountability have to be demonstrated to the general public. Board of Directors, government, civil society, and the media have to be assured that NRB is using resources in cost-effective ways. Satisfying these multiple objectives requires clear vision, mission, strategic goals, objectives and action plans anchored to resources and capacity to implement them. NRB has developed its Strategic Plan in order to serve this purpose.

1.6.2 The new Nepal Rastra Bank Act, 2002 has been instrumental in ensuring autonomy to NRB. The Act ensures (i) monetary policy autonomy by setting statutory limits to government borrowing from the central bank, (ii) freedom for the fixation and management of exchange rate, and (iii) clear responsibility to regulating and supervising the banks and financial institutions.

Nepal is a small open economy with free border with India. External prices have greater influences on domestic prices, implying that monetary policy cannot be assigned domestic price stability as the sole objective. Besides, a fixed exchange rate regime of the present type under capital control does not fully support exchange rate targeting as a single objective. The foreign exchange reserves or balance of payments targeting is undermined by the structural characteristics of the external sector where remittances in the current account and foreign aid and foreign direct investment in the capital account transactions, which have little bearing with monetary policy, determine the balance of payments position. And, achieving a desired output growth also cannot be the sole objective of monetary policy because of weak relationship of monetary variables with output growth.

1.6.3 The current monetary policy objectives are thus more than one—controlling inflation and attaining external sector stability. This has to be corroborated by foreign exchange and financial sector policies. Thus the strategic plan has to ensure that actions of the central bank in these aspects are mutually consistent to each other. This calls for the choice of instruments, which help attaining these multiple objectives. As the economy evolves and makes structural shift, the central bank has to gradually move towards single monetary policy objective—price or external sector stability depending on what money can better affect. If a situation comes whereby Nepal has to break the fixed exchange rate regime, the objective of monetary policy would be something specific than what it is today.

1.6.4 Inflation targeting can increase transparency of monetary policy operations by setting price stability as the overriding objective of monetary policy and setting an observable and transparent target range for evaluation of policy actions. Transparency and increased public understanding of monetary policy operations will help the public to form better judgements of future changes in monetary management. Money markets can adjust quickly, which will enhance the effectiveness of monetary policy. But inflation targeting requires autonomy of monetary policy from fiscal and external fronts. If the former has been assured by the NRB Act itself, fixed exchange rate regime with the Indian currency has constrained the operation of policy tools from the external side. Changing the exchange rate regime and evolving effective monetary policy instruments will be precondition for this. The share of non-tradable goods in the consumers' basket whose prices are taken for the measurement of inflation will also be critical in this respect. So

the strategic goal of monetary policy will be necessarily dynamic and adjustable to the changing structure of the economy.

- 1.6.5 The Nepalese financial system is marred with high Non-Performing Assets (NPAs), low capitalization, segmented market service, weak legal and institutional system, and lack of corporate culture. This demands intensive interventions of the NRB to attain financial stability and promote financial intermediation. But the ongoing conflict, which has had severe adverse impact on the economy, has not spared the financial system. New threats to the banking system are evolving due to intensification of conflict. Thus, the Strategic Plan has to ensure build-in-dynamism so that policies and actions could be adjusted if needs so arise. In essence, the formulation of the Strategic Plan at this volatile environment is both a good opportunity to learn to live with challenges and a threat to achieving the Vision and Mission set by it.
- 1.6.6 Global economic trend and Nepal's financial integration with the world financial markets will be critical in implementing the Strategic Plan. Domestic supportive environment, particularly being created by the government, will be a very critical step in implementing the Plan. Central banks do face financial resource problems at times when credible operation of monetary and exchange rate policies bear heavy financial costs. Profitability of the central banks might come at threat, and even if this does not happen to be the case, they have to optimise the resource use and pay more revenue to the government. Meanwhile, the implementation of the Strategic Plan may require additional investment. Thus, the cooperation from the government is necessary in case the central bank is not in a position to earn sufficient income during the Plan implementation period.

1.7 Approach to the Strategic Plan

The Strategic Plan has been developed for (i) determining priorities and defining core objectives for the NRB, (ii) maximizing resources use, (iii) optimising performance and setting organizational/corporate culture, (iv) strengthening internal communication, (v) applying international best practices, (vi) devising defined programmes, implementing them and monitoring and measuring performance, and (vii) building credibility to the public through having transparent and active systems of public accountability and external reporting.

The formulation and implementation of the Strategic Plan is a long process and may take time to accomplish the strategic objectives. The most important thing is to initiate the planning process, formulate the Plan, implement it and establish the milestones to attain the ultimate objective as enshrined in the NRB Act. The Plan has a medium-term of five years that is from 2006 to 2010. The Vision and Mission of the Bank are going to be achieved in the long-term. Some of the strategic objectives of the First Plan may take several other planning processes. It is a gradual and time-taking process like the construction of a multi-storied building. For the success of the Plan, there has to be a change in the management culture, working environment, availability of human, materials and financial resources, the inner-thrust of the NRB Board and top management to pursue for the implementation, the understanding of the nuts and bolts of the planning mechanism, and technical skills and knowledge management. It is envisaged that the Strategic Plan will translate the Vision, which has a long-term horizon, into concrete action in a prioritised basis. It will help for the transformation of the Bank into a modern central bank that is dynamic, credible, effective, and accountable.

1.8 Strategic Goals

The key functional and management strategies are to attain desired level of monetary expansion commensurate with fixed exchange rate regime with Indian currency, strengthen financial sector regulation and supervision, reduce financial sector vulnerabilities, adopt sound exchange rate policy, develop financial system regulatory framework compatible with international norms and standards, and accomplish public debt management and open market operations more efficiently to support the monetary policy management. The strategies also encompass gradual deregulation of foreign exchange operations and opening up of the capital account, strengthening credit information system and developing credit rating, deposit insurance, and asset management system, internalising international Human Resource (HR) practices and ensuring effective HR policy, enhancing Information Technology Capacity for operational efficiency, and gradual transformation of work-flow towards paperless environment, among others.

PART - II

Strategic Planning Framework

The strategic planning framework (SPF) is very useful in developing the strategic directions of NRB. While preparing the framework, the NRB has carried out environmental scanning to identify the external and internal trends that influence its strategic directions. In doing so, it has identified its challenges and issues, defined strategic directions and objectives, identified its priorities and initiatives, reviewed key business activities and action plans, assessed choices, and trade-offs, identified key areas of risks, assessed budgetary or financial constraints, identified key performance indicators and targets and prepared mechanism for monitoring, follow up and evaluation. Since the strategic planning is a dynamic concept and rolling planning process, the framework includes the provision of re-prioritization of strategic directions and activities. The framework that guides the NRB's strategic directions and their interrelationships is presented in the following **flow diagram**.

Taking into account, the core and support functions or activities, strategic planning framework is organized into following two broad categories:

1. Functional Strategies, and
2. Management Strategies.

Functional strategies comprise monetary policy management, domestic debt management, financial sector management, foreign exchange management and currency management. Management strategies encompass human resource management, research and statistics management, financial and internal audit management, information and communication technology management, legal affairs management, general services management and public affairs management. In addition to these two strategies, operational strategies are also included in the strategic planning.

2.1 Functional Strategies

The functional strategies of the NRB are (i) monetary policy and domestic debt management, (ii) foreign exchange management, (iii) financial sector management, and (iv) currency management. Major strategies and activities in monetary policy and public debt management are to attain desired growth of money supply and domestic credit consistent with monetary policy objective, maintain real effective exchange rate at an appropriate level and enhance the operational efficiency of the domestic debt management.

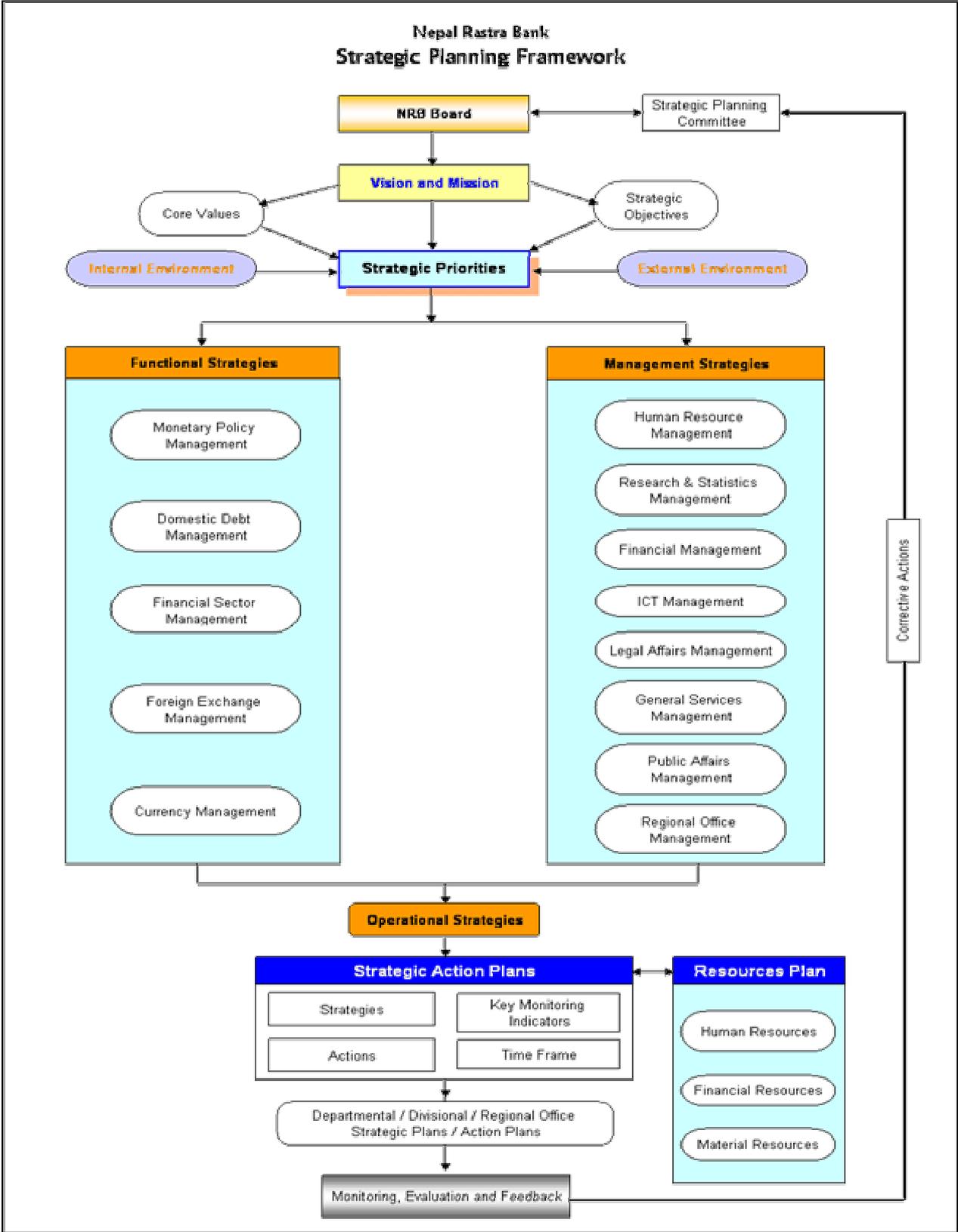
The major strategies and activities in foreign exchange management are to maintain exchange rate stability of the rupee, deregulate foreign exchange operations, gradual opening up of capital account, improve portfolio management of external reserves and strengthen monitoring and supervisory mechanism of the foreign exchange market.

The major strategies and activities in financial sector management are to diversify financial services in terms of geographic location, sectoral distribution and ownership structure through prudent and transparent licensing policy, broaden and deepen financial services including micro-finance services for optimal outreach, enhance competitiveness in the financial markets, improve legal and regulatory framework and strengthen monitoring and supervisory mechanism compatible with international norms and standards, ensure financial sector stability, and gradually modernize the payment, clearing and settlement systems.

The major strategies and activities in currency management are to formulate currency demand forecasting framework, administer efficiency in currency note management, explore cost-effective funds transfer and note chest management systems, outsource circulatory and

commemorative coins and other minting products, circulate currency notes with security features and build confidence of general public in the authenticity of notes, and formulate and implement clean currency note policy.

FLOW DIAGRAM



2.1.1 MONETARY MANAGEMENT

Monetary policy is the key component of macroeconomic management. It is used to influence the aggregate demand through policy variables such as money stock, domestic credit and interest rates. As efficient conduct of monetary policy contributes significantly to macroeconomic stability in the economy, it is pertinent that monetary policy be conducted with clear objectives and strategies. Currently monetary policy of NRB is directed towards achieving more than one objective, which at times might conflict with each other. The challenge is to rationalise the conflicting policy objectives and strategies and conduct monetary policy with the core objective of attaining price stability.

Strategic Objectives

To maintain price and external sector stability

Strategies and Activities

(i) Attain a desired growth of money supply

NRB will set the medium-term and annual targets of narrow and broad money supply (M_1 and M_2). It will monitor the growth of monetary aggregates and liquidity position in the banking/financial system. It will undertake appropriate monetary policy operation and coordinate intervention in domestic open market operations and money and foreign exchange markets. It will take initiatives for necessary changes in the legal provision on Bank's holding of government debt stock to ensure flexibility in monetary management. It will take open market operation (OMO) as a major monetary policy instrument.

(ii) Manage the growth of domestic credit consistent with the monetary policy objective/s

NRB will monitor the growth of credit to the government and the private sector. It will monitor domestic credit aggregates and their composition. It will ensure the availability of adequate level of credit to the private sector. Monetary policy instruments such as bank rate, cash reserve ratio, OMO and others will be directed to maintain the domestic credit at the desired level.

(iii) Maintain domestic and cross-border interest rate differential at an optimum level

NRB will monitor domestic and cross-border short-term interest rate differentials. In addition, it will take into account inflationary situations and fiscal developments in order to maintain an appropriate level of real interest rates.

NRB will monitor nominal as well as real interest rates to avoid undesirable repercussions in financial system, such as capital flight and unnecessary pressure on exchange rates. It will monitor international interest rates to stop large discrepancies between domestic and international interest rates. It will influence short-term interest rates through OMO and long-term interest rate through the bank rate and management of the issuance of long-term government bonds. Likewise, it will also monitor fiscal deficit and overdraft levels.

(iv) Maintain real effective exchange rate (REER) at an appropriate level

NRB will monitor REER to maintain it at an optimum level. It will manage interest rate m to obviate pressure on nominal exchange rates. Domestic credit will be maintained at an appropriate level to contain inflationary pressures. If necessary, NRB's intervention in the foreign exchange market will also be complemented by corresponding actions in the domestic market for influencing nominal exchange rate

(v) Maintain adequate level of foreign exchange reserves

NRB will maintain an appropriate level of foreign exchange reserves in relation to the required level of imports of goods and services, short-term capital flows, debt servicing, and broad money (M₂). It will maintain domestic liquidity at an appropriate level to pre-empt the pressure on foreign exchange reserves.

(vi) Explore the appropriateness of inflation targeting

NRB will explore the possibility for inflation targeting. For this, it will take necessary steps to define core inflation, develop inflation-forecasting model, set goal function of monetary policy, formulate appropriate monetary policy reaction function, and obtain independence in monetary policy instruments.

NRB will closely monitor macroeconomic and policy environment essential for inflation targeting. Developments relating to capital account convertibility, market-based exchange rate regime, sound financial system, and necessary institutional development will underpin the choice of inflation targeting.

2.1.2 DOMESTIC DEBT MANAGEMENT

A dynamic domestic debt market with a good maturity mix of debt securities is a precondition for efficient debt management as well as effective monetary management. Domestic debt management, as carried out by the NRB so far, is characterized by manual operation and excessive paperwork. Reforming the procedures and institutional arrangements through developing conducive legal and regulatory framework and improving the technical capacity by introducing modern technology and other required infrastructure are the twin pillars of government domestic debt market management.

Objectives

To accomplish efficiency in domestic debt management through open market operation as an effective instrument of monetary policy.

Strategies and Activities

(i) Enhance the operational efficiency of domestic debt management.

The speed and accuracy of the transactions processing and the account reconciliation function of the government securities will be improved through management information system and through networking in the NRB and commercial banks and other related institutions. The scripless securities settlement system (SSSS) will be established and operated to enhance the efficiency of the domestic debt management. The central depository system (CDS) will be introduced to enable the issuing and recording of transactions of scripless securities in addition to effectively connecting the primary and secondary markets.

Domestic debt instruments and their maturity mix will be deepened to cater to the liquidity needs of different financial market segments and also help evolve market determined yield curve.

To increase transparency in the management of government securities and to ensure orderly development of domestic debt and financial market, issue calendar will be developed and implemented in order to streamline domestic debt market through increased participation in the financial market.

The primary open market operation will be geared towards the efficient management of government debt and the secondary open market operation in government securities will be directed to monetary policy operations.

(ii) Conduct effective open market operations (OMO)

Open market operations will be conducted as an effective instrument of monetary management through a combination of primary and secondary market operations of government securities.

Effective statistical and information data network will be developed for monitoring and assessing the up-to-date developments, trends, interrelationships, and implications in the financial markets to arrive at an efficient policy/decision-making process in domestic debt management.

Arrangements will be made to make open market operations transparent through dissemination of all domestic debt and monetary operations-related information through NRB websites.

2.1.3 FINANCIAL SECTOR MANAGEMENT

Changes in the structure of the financial services industry in general and banks and financial institutions in particular present new challenges to those central banks that still regulate and supervise them. These changes are being driven by financial modernization, financial services industry consolidation, new trends in borrowing and lending, new financial products and services, electronic banking services, and emerging information and communication technology. The NRB and the Nepalese financial services industry are in the process of dynamic evolution. It is beset with several risks and there is a serious concern for its stability in the face of on-going process of financial sector liberalization, globalisation and gradual opening up of the economy.

Mitigating the risks in the stability of the financial sector arising from ever increasing number of banking and financial institutions and the accumulation of non-performing assets of the banking sector in general and public sector commercial banks in particular has increased the vulnerability of the financial sector.

Despite the expansion of banking and financial institutions, a large segment of the borrowing households still resort to informal financial services. Particularly, rural economic activities have remained uncovered by formal financial services. It has to expand the outreach of formal financial institutions to all over the country.

Furthermore, the establishment of a modern and efficient payment and settlement systems has also become a major challenge to NRB. In this regard, strategic objectives and activities of NRB are to be outlined in such a way that the Bank would be able to discharge its entrusted duties and responsibilities fully to make an efficient and credible financial system of the country through appropriate legal framework, prudential regulation, effective supervision and efficient national payment and settlement systems. NRB has to strengthen and enhance its regulatory and supervisory function based on international standards and norms so that banks and financial institutions can compete with international banks in future.

Objectives

To ensure sound, prudent, accessible, and efficient financial system and maintain stability in the financial sector.

Strategies and Activities

Financial sector reform program has been initiated for reengineering and restructuring of the overall financial sector for enhancing its efficiency, effectiveness and competitiveness. In order to reform the financial sector by deepening and broadening financial services and developing and strengthening payment and settlement systems, appropriate strategies have to be formulated and activities have to be undertaken. Besides, there is a need to comply with the international banking norms and standards in regulating and supervising the banks and financial institutions by moving towards the compliance of Basel Capital Accord II and WTO agreements. The existing legal

framework for banks and financial institutions should be upgraded and new laws have to be enacted. In the same way, the international best practices of the payment, clearing and settlement systems known as the Committee on Payments and Settlement Systems of the Bank for International Settlements will be gradually introduced.

(i) Diversify financial sector through prudent and transparent licensing policy.

NRB will formulate and implement prudent and transparent licensing policy to diversify the financial sector to avoid high concentration of financial institutions in terms of geographical areas, products and services. New financial intermediary institutions will be identified and introduced to meet the need of rural as well as urban customers. To encourage the coverage of formal financial services all over the country, capital requirements to set up banks and financial institutions will be differentiated for rural and urban areas.

(ii) Broaden and deepen financial services including micro-finance services for optimal outreach.

NRB will expand and diversify rural and micro finance services through appropriate licensing policy. Regulation, supervision and monitoring of the micro finance sector will be implemented through establishment of a second tier institution (STI). Resource position of the wholesale lending institutions will be strengthened to on-lend to micro finance intermediaries.

(iii) Enhance competitiveness in financial sector.

NRB will formulate an appropriate policy for creating a competitive environment in the financial sector to reduce the cost of capital as well as the cost of financial intermediation. The financial reform process will be geared towards enhancing competitiveness of the banking sector. This becomes more pertinent when Nepal will have to allow operation of foreign bank branches by January 2010.

(iv) Improve legal and regulatory framework compatible with international norms and standards.

NRB will draft new laws related to the functioning and strengthening of the financial system and amend the existing laws that do not follow international norms and standards. The Bank will also improve the existing regulatory framework compatible with international norms, standards and Basel Capital Accord. In this regard, legal issues and constraints relating to the smooth and healthy development of financial institutions will be reviewed and modified.

(v) Consolidate banks and financial institutions.

The number of banks and financial institutions has tremendously increased in the last one and a half decade especially since 1990. But the capital base of most of them is minimum and at a very low level. NRB has already initiated the consolidation process by directing them to raise their capital base and merging some of these banks and financial institutions under the Banks and Financial institutions Ordinance and the Companies Act in the last few years. The Bank will make further efforts to increase their capital base and core capital through consolidation and merger of some of these weak and vulnerable banks and financial institutions.

(vi) Formulate Financial Sector Master Plan for banking and financial sector.

The financial services industry has grown by leaps and bounds without a long-term financial sector master plan. NRB will take initiatives in this regard and formulate the Financial Sector Master Plan. In this context, it will review the implications of such financial sector master plans of the South East Asian Central Banks and formulate the appropriate plan in the Nepalese context with the collaboration of financial services industry and all other stakeholders.

(vii) Strengthen proactive supervisory mechanism compatible with international norms and standards

NRB will take appropriate actions to improve the existing process and mechanism of supervision taking core principles of supervision into consideration. Basic infrastructures and support mechanism such as credit information and rating system will be placed into practice to ensure the credibility of banking transaction. Central data warehouse and information dissemination process will be established for strengthening MIS of the financial system. Regulatory framework will be developed for promotion of E-banking. Human resource will be developed for better performance of the financial sector. Initiative will be taken to facilitate the establishment of Assets Management Company (AMC) for enhancing the quality of financial assets. Deposit insurance system will be initiated for safeguarding public depositors, particularly the small savers who cannot assess risk.

(viii) Facilitate privatization of public sector banks and financial institutions.

The privatization process of public sector banks such as RBB, NBL, NIDC and ADBN Ltd under the broad policy of financial sector reform will be further accelerated. The on-going restructuring programme of the five Regional Rural Development Banks (RRDBs) will continue. At the same time, steps will also be taken to strengthen RRDBs. Profitable RRDBs will be encouraged to be privatised.

(ix) Support to formulate and implement national micro finance policy and master plan.

NRB will take necessary initiatives to transform the National Micro Finance Policy into action by supporting the promulgation of the Micro Finance Act. Initiative will be taken for the establishment of the National Micro Finance Development Fund (NMFDF). It will help the NMFDF to formulate the National Micro Finance Master Plan. The existing fund of the Rural Self Reliance Fund will be handed over to NMFDF. Registration and licensing process of Micro Finance Institutions (MFIs) will be simplified and monitored.

The Second Tier Institution will be set up for strengthening the existing regulatory and supervisory framework regarding MFIs including Financial Intermediary Non-Government Organisations, Community-Based Organisations and other grass-root rural financial institutions.

(x) Develop the payment and settlement systems as per the international norms and standards.

NRB will take necessary initiatives to restructure the nation's payment system and establish the settlement system to minimize financial and systemic risks and promote efficiency. Modern payment system infrastructures especially automated clearing house system will be established. The Payment and Settlement Systems Master Plan will be formulated. The application of electronic payment system such as debit cards and credit cards will be promoted. The implementation process of the Real Time Gross Settlement (RTGS) system and Scripless securities Settlement System will be established and operated. The existing Negotiable Instrument Act will get amended and other necessary laws related to the payment and settlement system such as the Payment and Settlement System Act will get enacted. It will allow commercial banks and financial institutions to undertake government transactions in a phased manner.

2.1.4 FOREIGN EXCHANGE MANAGEMENT

The pace of reform in foreign exchange management system has been expedited along with the adoption of the economic liberalization policy, initiated since mid-1980s. Convertibility of the rupee in current account; introduction of open general license system for imports; freedom to determine the exchange rate of the foreign currencies, except the Indian rupee, to the market;

relaxations of rules and regulations for providing foreign exchange facilities; opening foreign currency account in local banks, amendment in foreign exchange management laws, permission to import selected goods from India in convertible currencies etc. are some of the important reform measures adopted over the period. Despite these reforms, there still remain some restrictions in current account transactions. In this context, it is pertinent to direct the foreign exchange management system towards more liberal, efficient and dynamic one.

NRB tries to manage the foreign exchange reserve of the country very efficiently and effectively. It tries to avoid risks, maintain liquidity and earn more interest income through portfolio management. It will gradually open its capital account taking into considerations its implication to the whole economy.

Objectives

To make the foreign exchange management more effective and efficient for external sector stability.

Strategies and Activities

(i) Maintain exchange rate stability of the rupee

NRB will adopt an appropriate exchange rate policy in order to maintain stability in the domestic exchange rate. For this purpose, it will undertake close monitoring and coordination with the monetary and balance of payment situations of the country. Similarly, it will also closely monitor nominal as well as real effective exchange rate (REER) and pursue appropriate policy measures to maintain it at an optimum level. It will also intervene in the foreign exchange market to maintain domestic exchange rate stability.

(ii) Deregulate foreign exchange operations

NRB will steadily move towards delegating its authority of conducting foreign exchange operations to the banks and financial institutions. While delegating these authorities, due consideration will be given to its likely impact on national economy, particularly the balance of payments position of the country.

(iii) Open up capital account in phases

Considering the expected gain through efficient allocation of capital in a liberalized foreign exchange regime, NRB will endeavour to make rupee convertible in capital account in a phased manner. While moving towards this direction, due consideration will be given to its likely impact in the overall economy and its sustainability.

The exchange control measures applicable to foreign direct investors and non-resident nationals will be further relaxed through amendment in the Foreign Investment and Technology Transfer Act. Necessary amendment in the Foreign Exchange Management Act will be initiated in the direction of permitting the Nepalese investors to invest abroad.

(iv) Improve portfolio management of external reserves

Management of external reserves will be conducted in an efficient manner with the purpose of generating optimum returns while not sacrificing the required liquidity and the safety of the reserves. For this purpose, close monitoring of the international exchange rate movements and interest rate scenario will be undertaken. The possibility of portfolio diversification into new and emerging instruments will also be constantly explored.

(v) Strengthen supervisory and monitoring mechanism of the foreign exchange market

In view of the large and growing number of authorized foreign exchange operators, NRB will devise and implement an effective monitoring and supervisory mechanism. It will also facilitate and encourage the flow of remittance from the Nepalese nationals working abroad through foreign exchange operators. In this connection, appropriate international information and communication network will be established.

2.1.5 CURRENCY MANAGEMENT

Currency management has been one of the key activities of the NRB particularly in a low-monetized Nepalese economy. Issuing paper and metallic currencies to meet the demand for currency in the economy has been a challenging task because of the absence of road network in the remote hills and mountains. The printing and minting of currency is costly and time-taking in the absence of currency printing security press and mints domestically. In order to facilitate the availability of required currencies, the existing mechanism needs improvement to ensure circulation of clean and quality currency with adequate security measures in a cost-effective way throughout the country.

Objectives

To circulate quality and clean currency throughout the country efficiently as per demand.

Strategies and Activities

(i) Formulate currency demand forecasting framework

Following a study on national demand for notes and coins, NRB will develop and institutionalize a forecasting framework for normal, seasonal and spatial demand of currency.

(ii) Administer efficient currency management

NRB will set up an efficient currency management system through printing currencies, minting of different denomination of coins, and maintaining stocks as per national demand. Arrangements will be made to maintain sufficient stock of notes and coins.

Pre-qualification list of printing and minting agencies will be revised periodically. Current practice of maintaining currency stock will be made cost effective. New potential areas will be located to establish note chests to ensure adequate supply of notes and coins throughout the country.

NRB will review and rationalise the use of security features in higher denomination notes. The mechanization process will be initiated to ensure the circulation of quality currency, verification and sorting of notes and standardisation of currency in circulation. Since the printing of smaller denominations of currency notes is becoming costlier and their life of circulation is low as compared to the coins, NRB's currency policy will be directed to the circulation of coins of smaller denominations.

(iii) Explore cost effective funds transfer system

NRB will develop appropriate mechanism to mobilize funds available locally in areas of sufficient presence of banks and financial institutions. Fund holding limit of the note chests will be increased where financial transaction is high through periodical review of fund holding limits.

NRB will rationalize its currency chests management policy in tandem with the speed of monetisation, prevailing security situations and fund transfer costs. Appropriate measures will be adopted to minimise fund transfer costs. With a view to reduce the cost of fund transfer, currency

chests presently limited to government transactions only will be extended to cover other financial transactions also to reduce the cost of funds transfer.

(iv) Gradually outsource the minting of circulatory and commemorative coins and other minting products

NRB will gradually outsource the minting of circulatory coins, commemorative coins, gold and silver coins, medals, badges, medallions, souvenir tokens, etc.

(v) Initiate involvement of private agencies in the exchange of soiled currencies

NRB will destroy machine sorted soiled notes with the help of existing furnace for some time and through automatic machines in the later period. Private parties will be encouraged to collect soiled notes on commission basis thereby contributing to adequate supply of the quality notes. General public will be made aware, through media, on the benefits of safe and clean currency.

(vi) Provide facilities to the collectors of the Nepalese notes and coins

NRB will facilitate the collectors of the Nepalese notes and coins by making them available notes and coins easily in coordination with the concerned private agencies.

(vii) Facilitate ATM friendly notes to commercial banks and ATM companies

Commercial banks and ATM companies seeking favour from NRB for special ATM friendly notes will be facilitated with specific arrangements.

2.2 Management Strategies

In order to carry out Functional Strategies, key Management Strategies are formulated. They are human resource management, financial management, research and statistics management, information and communication technology management, legal services management, general services management, and public affairs management.

Major strategies in human resource (HR) are to internalise international HR practices, formulate effective HR policy, introduce appropriate changes in employee bylaws, develop human resource planning, and strengthen human resource development, and establish Management Development Centre.

Major strategies in research and statistics include undertaking research on monetary, financial and external sector policies, improving the quality of pre-budget report, outsourcing non-core research functions, developing one window system to collect and compile data, following internationally accepted frameworks for collecting, processing, and compiling and disseminating macroeconomic and financial data.

Major strategies under financial management include strengthening program/performance budgeting system, adopting integrated financial management/accounting system, making financial reporting system to comply with International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS), strengthening domestic portfolio management, ensuring autonomy and effectiveness of internal audit system, and enhancing transparency and accountability for the credibility of the bank.

Major ICT strategies are to formulate and Implement ICT Policy, enhance information technology capacity, and transform gradually work-flow towards paperless environment

Major legal service strategies are to develop a permanent mechanism for the development of up-to-date and advanced legal system, to create environment for effective legal compliance in the banking and financial system and to enhance and strengthen legal competence, capability and stability.

The major strategies under general services are to provide qualitative goods and services through efficient procurement and distribution system, implement efficient physical assets management system, and outsource identified support services.

2.2.1 HUMAN RESOURCE MANAGEMENT

NRB's human resource policy is guided by the philosophy of skill development as the major instrument for enhancing productivity. It has set its objective to enhance the Bank's productivity and efficiency through proper development and effective utilization of human resource. It is also oriented towards downsizing/rightsizing of the number of assistant level staff and narrowing down the existing non-proportional gap between the officer level and assistant level staff in the long run. The Bank will be directed to replace the non-officer level staff of policy departments such as research, regulation, and supervision etc in phases to enhance the output of these departments.

Objectives

To develop and manage human resource for attaining the objectives of the Bank

Strategies and Activities

NRB is facing strong challenges to formulate its monetary, external sector and financial sector policies due to emerging trend, innovations, and introduction of new information and communication technology in the financial sector. The Bank has made efforts to streamline its human resources, recruit highly skilled manpower, and enhance the skill of the existing manpower. It will implement the right man at the right job policy by placing them in the appropriate jobs.

However, recruiting and retaining quality manpower, upholding the morale of the staff, devising an appropriate succession plan, and maximizing staff productivity still remains a challenge. The Bank will be directed towards gradually replacing the non-officer level staff of policy departments such as research, regulation, supervision etc to enhance the productivity of these departments. In this respect, HR strategy of the NRB needs to set the following strategies for efficient human resource management.

(i) Internalise international HR practices

NRB will internalise best international HR practices to maintain its human resources at international standard. The Bank will review best HR practices of selected central banks of Asia and Pacific region.

NRB will adopt appropriate selection, recruitment, proper placement and transfer policy, and introduce appropriate career development policy and plans.

(ii) Formulate effective HR policy

To formulate effective HR policy, NRB will develop appropriate recruitment policy. By assessment of existing supply and future needs of human resource the bank will review the existing recruitment policy, identify the areas of improvement, formulate the appropriate policy, and implement the policy.

The Bank will develop skill and ability based placement policy through reviewing the existing placement system and its impact on staff productivity, and implement it.

The Bank will review existing transfer policy, its impact on staff productivity, impact on bank operation, formulate new transfer policy and implement an effective succession plan.

New performance evaluation system with objective indicators will be introduced to strengthen performance evaluation system of the bank.

To strengthen e-HR information system, the Bank will update computerisation of personnel records of existing and ex-staff, upgrade existing personnel recording system (PRS), and create a personnel information desk.

(iii) Introduce appropriate changes in employee bylaws

The Bank will review and update employee by-laws compatible with the prevalent NRB Act.

(iv) Strengthen HR Planning and Development System

The Bank will review the existing job description and manpower strength, define the job specification and manpower requirement, achieve officer/non-officer ratio at 1:1.5 by gradually reducing supporting staff. The Bank will continue to adopt the policy of recruiting professional, fresh and bright university graduates in officer level, promote the deserving and efficient Assistant level staffs to Officer level, introduce targeted VRS, and design the compulsory retirement scheme compatible to the related laws.

Outsourcing of non-core functions like note sorting and counting, fund transfer and transport management and other support services will be carried out.

The Bank will undertake a systematic training and development program to build the skills of current employees and help them grow to full potential with adoption of need based assessment of HR skills. The Bank will perform need-based assessment of HR skills mainly focusing on identifying training need period and number per year, facilitating study program, and arranging suitable observation tours.

Reviewing the achievement of existing training and study policy, the Bank will formulate/develop new training and study policy.

The Bank will provide gradual exposures to its staffs through exchange visits and deputation with other central banks and other relevant institutions (external / internal) through various research, programs and schemes.

(v) Establish National Institute for Banking, Finance and Insurance

The Bank will take initiative to set up a new National Institute for Banking, Finance and Insurance for catering to the needs of the entire financial industry.. The Bank, in association with other banks, financial institutions and non-bank financial institutions will initiate to build appropriate infrastructure for the establishment of such national institute. The institute will focus its activities on developing a core team of faculty/experts, conducting in-house/collaborative programs, and conducting international training, academic and research programs.

The Bank will restructure existing Bankers Training Center to meet its internal training needs.

2.2.2 RESEARCH AND STATISTICS MANAGEMENT

Formulation, implementation and monitoring of monetary, financial and external sector policies require continuous research and sound statistical database. As an economic advisor to the government, NRB is engaged in undertaking research on various issues of the Nepalese economy. Accomplishment of these tasks in the context of the fast changing economic structure warrants undertaking research activities on pertinent issues facing the Nepalese economy on a regular basis. NRB's research strategy will be to enhance its research quality, and forecasting capability of the evolving macroeconomic situation so as to facilitate the successful execution of central

banking functions. The research strategy will also include institutional collaboration/outsourcing research works on critical economic issues.

Objectives

To undertake researches related to NRB's policies and operations and develop internationally acceptable statistical database.

Strategies and Activities

NRB will pursue the following strategies and activities to attain these objectives.

(i) Undertake research on monetary, financial and external sector policies

The bank will undertake research on formulation, implementation and evaluation of monetary, financial, external sectors and fiscal policies. NRB will conduct regular research on macroeconomic and financial issues. The bank will evaluate the relevance and effectiveness of the existing monetary framework and exchange rate regime. The nature of research work will be analytical and empirical. Computable General Equilibrium (CGE) based modelling exercise will also be initiated.

Advanced and appropriate research methodologies will be applied to research topics to obtain reliable findings. Recent developments in time series econometrics will be applied. Application of modern research techniques, particularly time series analysis and recent econometric software will be the monitoring indicator for this activity.

(ii) Improve the quality of pre-budget survey and other reports

Since the establishment of Research Department, pre-budget survey report has been contributing as the major indicator of the NRB's role as advisor to the government. In the immediate future, the bank intends to enrich the analytical vigor and coverage of the pre-budget survey. It will also be made research based, which will help the government to formulate appropriate fiscal policy. In addition, relevant and important policy advice will be given through pre-budget report to be included in the government's budget.

Findings of the special studies will be disseminated to public through regular publications in economic review, occasional publications and NRB website, and through the interaction with media.

(iii) Outsourcing the research function

In addition to in-house regular research work, NRB will utilize outside experts to outsource some research work as and when necessary. In order to obtain the outsiders' perspective on pertinent macroeconomic and financial issues, the following activities on outsourcing research work will be undertaken.

NRB will undertake collaborative research work with SEACEN Centre, SAARC FINANCE, and other international agencies on macro-economic and financial issues. The Bank will outsource research work to universities and research centers within the country. It will help the Bank to seek the perspective of experts outside the Bank

(iv) Develop a macroeconomic modelling and forecasting system for various sectors of the economy

The current challenge is to make policy formulation forward looking. This requires developing a robust short-term operational model, which not only takes into account the behavioural relationship among different macroeconomic variables but also encapsulates likely occurrences of variables affecting the goal function.

For forecasting and identifying the inter-linkages between the four macroeconomic sectors, namely, monetary, real, fiscal and external, a macroeconomic model will be developed which will include money demand function, money supply function, government expenditure function, revenue function, imports function and exports function, among others. Arrangements will be made for obtaining necessary software to develop and estimate the model. Purchase of advance and recent software will be the indicator for monitoring this activity.

Forecasting techniques through the use of macroeconomic model will be put in place. Economic forecast thus derived will be used for policy-making purposes within the bank. Reliable forecast exercise and test of errors and margin of error will be the indicators for this activity.

(v) Develop integrated database system

Currently, different departments of NRB are collecting data from various sources and compiling them. As such, there are duplication of work and dispersion of data. Hence, the following activities will be undertaken to develop integrated database system.

NRB will develop one window system to collect the necessary data from banks and financial institutions, the government and the other organizations, in close coordination with all the relevant NRB departments. The collection of data will be made paperless as much as possible by using information technology.

For the reliability and credibility, special focus will be given on improving the quality of data. Trend analysis and cross checking from various sources of data will be made.

NRB will develop the integrated database from which data can be obtained from or distributed to various users. It will broaden the access of data at one place.

Timely dissemination of data is necessary for policy making and economic decision-making by economic agents. Data will be disseminated on time to increase their usefulness for economic analysis.

(vi) Follow international frameworks for collecting, processing, compiling and disseminating macroeconomic and financial data

Collecting, processing, compiling and disseminating of data should be in standard format. In this connection, NRB will follow the various manuals designed by the IMF, BIS, and other international agencies to collect and compile statistics relating to various facts of the Nepalese economy.

NRB will revise the call report forms for the collection and compilation of necessary data. The revision in call report form will be undertaken considering the changing structure of financial and economic system as well as financial innovation.

NRB will prepare a manual for call report forms to obtain consistent and reliable data from the financial institutions. Such a manual will help those who are involved in data generating process.

NRB will construct bridge tables to simplify the compilation procedure and to recast the balance sheet information in functional form with economic meaning. Bridge tables will also be refined to establish links between raw data and processed or consolidated data.

With the expansion of financial institutions, the compilation of existing monetary aggregates alone is not sufficient to analyze the evolving financial situation. NRB will identify a set of analytically useful new monetary aggregates consistent with internationally acceptable statistical frameworks. Banking survey consistent with statistical framework will be compiled on a higher frequency.

2.2.3 FINANCIAL MANAGEMENT

Financial management includes financial operations like budgeting, investing, accounting and auditing. There is a need to develop a credible financial management system, that complies with the International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS). There should be an efficient portfolio investment of financial resources, and proper keeping of books of accounts and auditing of financial records.

NRB has initiated the concept of program budgeting. It needs to further strengthen its budgetary system and develop automated and integrated accounting system to generate information in real time. The investment of domestic portfolio needs to be strengthened and diversified. The internal audit system has to be made autonomous. It needs improvement in the disclosure, accountability and transparency in its financial statements.

Internal audit system should ensure financial and managerial discipline and accountability through effective internal control mechanism. To mitigate the risk involved, it is necessary to follow risk and performance-based auditing compatible to international norms and practices.

The financial management strategy has been developed to address these issues.

Objectives

To ensure efficient, transparent, accountable and modern financial management system and enhance financial discipline and add value to the Bank's operations.

Strategies and Activities

(i) Strengthen program/performance budgeting system

NRB will strengthen its program/performance budgeting system to rationalise the planning and budgetary processes. The system of rolling plan will be introduced in the budgetary system.

(ii) Adopt integrated financial management/accounting system

NRB will update the existing accounting manual and system it will adopt fully integrated computerized accounting package and it will implement the integrated financial management system.

(iii) Make financial reporting system to comply with International Accounting Standard (IAS) / International Financial Reporting Standards (IFRS)

The existing financial reporting system of the bank will be updated to make it comply with the IAS/IFRS. The existing financial rules and regulations will be amended to achieve the Standards.

(iv) Strengthen domestic portfolio management

The domestic portfolio management of the bank will be strengthened. Efficient system will be developed to acquire market information on timely basis to achieve higher yield. Adequate analysis will be done to minimize the risks associated with domestic portfolio management.

(v) Ensure autonomy and effectiveness of internal audit system

The bank will strengthen internal audit and initiate risk-based and performance audit of its operations. Necessary arrangement will be made to make the Audit Committee more independent and autonomous through amendments in the NRB Act. The internal auditing process will be made more effective through strong enforcement mechanism.

(vi) Formulate risk assessment system and adopt professional practice of internal auditing

A risk-monitoring unit will be set up under the treasury operation. Areas and functions of higher risks will be identified and assessed to prepare a structured risk profile and risk matrix of the bank. Each auditable unit would be evaluated using the risk-based criteria rated according to the risk-rating model. Similarly, other necessary procedures will be established for an inbuilt mechanism of reviewing, monitoring, and managing the risk based auditing mechanism. The Bank will adopt professional practice of internal auditing compatible with international practices and standards.

(vii) Ensure economy, efficiency and effectiveness towards the optimum use of resources.

To ensure economy, efficiency and effectiveness of NRB operations, the Bank will initiate, in addition to the regular financial and compliance audit, the value for money (performance) audit of its selected operations. Overall performance management audit framework (financial and non-financial) shall be prepared and implemented.

Arrangements such as proper staffing, good and effective communications as well as skill enhancing activities will be introduced and strengthened to enhance the efficiency of the internal auditing.

To ensure efficiency, the Computer Assisted Audit Techniques (CAAT) will be implemented.

(viii) Increase transparency and accountability to enhance the credibility

The bank will enhance transparency and accountability for its credibility. For this, specific roles and responsibilities of the officials will be defined and implemented. It will introduce more transparent system through overall financial reporting system and adequate disclosure standards. An appropriate code of conduct for management and staff will be developed and introduced so as to ensure good corporate governance in its financial operations.

2.2.4 INFORMATION AND COMMUNICATIONS TECHNOLOGY MANAGEMENT

Evolutionary nature of financial services along with the need to formulate and implement monetary, financial and external sector policies effectively in real time demands wider use of modern information and communication technology (ICT). Being a monetary authority and regulatory/supervisory body of the banks and financial institutions, the Bank should utilize ICT optimally for its efficiency and effectiveness. The ICT strategy is geared to develop ICT capability for facilitating the Bank to carry out central banking functions effectively and efficiently and promote and encourage paperless environment.

Objectives

Utilize modern information and communication technology (ICT) to facilitate policy decisions and enhance operational efficiency

Strategies and Activities

(i) Formulate and implement ICT policy

Existing domestic ICT policies and related laws will be reviewed. Amendments to prevailing laws and policies deemed necessary to facilitate ICT policy will be recommended. ICT policies and practices of selected central banks of the Asia Pacific region will be observed.

A standard internal ICT Policy and a data integrity policy for banks and financial institutions will be formulated and implemented.

(ii) Enhance information technology capacity

A new centralized software system "Nepal Integrated Financial Management Information System" (NIFMIS) will be designed, procured and implemented. Other software requirements in addition to NIFMIS, if any, will be made available by modifying/upgrading existing system and designing, developing/procuring additional new system.

Local Area Network (LAN) inside the bank offices, Wide Area Network (WAN) between different offices of the Bank as well as between Bank and related external agencies will be strengthened.

The Bank will develop/facilitate an automated clearinghouse system and facilitate the evolution of safe, sound and efficient payment system. A "Single Window System" of collecting and disseminating data from/to various units through a centralized data server will be introduced with appropriate regulatory mechanism.

A secured data centre with automated data backup system will be developed and a reliable and secure Disaster Recovery Site will be established. Website of the Bank will be strengthened for enhancing the access of the public at large to publications of the Bank.

IT staff will be trained to better support existing/new system. Mandatory technology orientation training and refresher courses will be formulated and conducted for non-IT staff. A research and development team will be established in the Bank to explore the possibility of using improved technology.

(iii) Transform gradually work-flow towards paperless environment

The Bank will formalize the necessary procedures for acceptance of digitally signed documents. Necessary infrastructure will be set up to generate and verify digital signatures/certificates. All important paper documents will be digitized and will be used as a replica of original paper documents wherever possible. An effective mechanism of electronic communication will be developed and implemented. An e-procurement system will be introduced.

2.2.5 LEGAL AFFAIRS MANAGEMENT

Legal system related to banking and financial services has come up as a complex issue creating a challenge to the effectiveness, integrity and soundness of the both domestic and international financial system. Being an apex regulatory and supervisory authority, Nepal Rastra Bank (NRB) has been authorised and empowered to maintain, keep and manage the system up to the level of national and global standard, stability and progress. It has to perform such roles assigned to it to the satisfaction of statutory requirement.

In this situation, NRB has no alternative except to develop its competency, effectiveness and soundness in the total regime of its legal functions, services and activities covering the responsibilities of legal drafting, counselling and litigation on behalf of the Bank. Unless this assignment is duly fulfilled with expected level of performance, the statutory objectives of the Bank will be hardly achieved. Hence, it is required to enhance its competency, standard and quality of legal services comprehensively.

Objectives:

Develop an up-to-date legal regime, enhance the level of legal compliance and upgrade and strengthen legal competency.

Strategies and Activities:

(i) Develop an up-to-date legal regime in the financial and banking sector.

To have an up-to-date legal regime in place suitable to growing banking and financial sector development requirements and trends for its development and stability, NRB will coordinate with HMG and concerned stakeholders in the matters of legal drafting, reviewing and renewing the laws, rules and other legal instruments.

(ii) Enhance the level of legal compliance according to the objectives of NRB,

The NRB will work to raise awareness amongst stakeholders on good governance, banking business sensitivities and ensuing legal consequences.

(iii) Enhance and strengthen legal competence, capability and stability.

The NRB will improve its legal services by providing and organizing legal training, education, workshop, seminars and internal and external exposures in regard to banking and financial laws, rules and regulations to its employees in general and supervisory level in particular. It will help to recruit its new legal manpower decorated with good legal and banking experience.

(iv) Provide legal counselling and defend the interests of the Bank through/in litigation.

The NRB will develop a sound and self sufficient internal mechanism for effectively handling the jobs of legal counselling and safeguarding the interest of the Bank through/in litigation by developing qualified and trained legal manpower with updated knowledge and skill.

2.2.6 GENERAL SERVICES MANAGEMENT

The smooth functioning of the bank requires necessary logistic support and physical infrastructure. This entails procurement and distribution of the quality goods and services, maintenance and management of the machineries and equipments, vehicles and bank buildings. To accomplish these responsibilities, various internal rules and regulations need to be further strengthened.

Objectives

To provide effective general services and strengthen the management of bank's physical assets.

Strategies and Activities

(i) Provide qualitative goods and services through efficient procurement and distribution system.

The best practices of central banks for procurement and distribution of goods and services will be adopted. In this process, prevailing procurement policies and distribution system will be improved and made transparent and related rules and regulations will be amended. E-procurement system will be introduced.

(ii) Implement efficient physical assets management system

A system for maintaining and updating the record of physical assets in electronic format will be introduced. Modern inventory management system, including periodic physical verification and auctioning of non-required physical assets, will be implemented effectively. Physical assets (land and buildings, vehicles, machineries, computers and accessories, other physical infrastructures etc.) will be utilized optimally.

(iii) Outsource identified support services.

Support services for outsourcing, based on quality and price, will be identified and implemented gradually. System for monitoring the quality of such outsourced services will be ensured.

2.2.7 PUBLIC AFFAIRS MANAGEMENT

NRB should have an appropriate mechanism to disseminate pro-active, counteractive and situational information both in strategic and regular basis. Therefore, the strategic planning of NRB should incorporate an appropriate structure to carry-out the public affairs functions effectively in the interest of the central bank in particular and of the entire financial system of the country in general.

Objectives

To ensure effective and efficient dissemination of information on policies and activities of the Bank

Strategies and Activities

(i) Disseminate information efficiently, effectively, and timely

Regular press releases will be brought out. Proactive and counteractive publicity strategy will be adopted. Regular update of the electronic notice board will be done. Frequent press meets and interaction with media and capacity enhancement of media persons will be done. Relevant information will be timely updated. Logistics related to electronic devices will be enhanced.

(ii) Publish and co-ordinate news bulletins and NRB publications

Electronic audiovisual archive will be developed. NRB will make bulletin theme-based, academic/ improve look. English bulletin will be published and all NRB publications will be brought under a single purview. A display, distribution and sales centre of all NRB publication will be arranged. All information to media will be channelised through a single point of contact.

(iii) Co-ordinate international relations of the bank

NRB will track and respond to international correspondence on behalf of and for the Governor and the bank, maintain record of all international correspondence as central resource, and work as main contact point of the bank for media and international relations.

2.2.8 REGIONAL OFFICE MANAGEMENT

NRB's existing seven regional offices will formulate their specific strategic action plans based on the Strategic Plan. In doing so, they will coordinate with the related central office departments/divisions for devising and implementing their strategic plans. Their strategic action plans will be backed up with resource plans (human, materials and financial resources).

NRB will strengthen its regional offices to enable them to provide prompt and efficient services. The Bank will delegate necessary authority to make these offices more independent and accountable in administrative and financial operations. They will be delegated power to monitor and supervise local financial institutions.

NRB will modernize its regional offices and equip them with modern information and technology. The Bank will computerize its operations and use computerized note counting and sorting machines that can detect the counterfeited currency notes. The Bank will provide them training to recognize counterfeited notes and they will provide such trainings to banks and financial institutions, moneychangers and public entities.

PART - II: Strategic Planning Framework

They will outsource some of their existing functions like collection of price and payment related functions to banks and financial institutions and other appropriate agencies. The capacity of the manpower will be enhanced through placement of qualified staff and providing them appropriate training exposure. Unnecessary staff at the lower level will be curtailed

Regional offices will be further strengthened to assist the central office for collecting information and data related to the economy and the financial sector of their geographical working area. They will be interlinked with the central office with the wide area networking services. Appropriate security measures such as disaster recovery measures and business continuity plan will be established with the help of the related departments of the central office.

PART - III

Operational Strategies

Operational strategies comprise the basic framework to implement the functional and management strategies within the specified time-frame. The quality, strength and viability of the operational strategies determine the success of the functional and management strategies. For this, the capability of the central bank in realizing the strategies needs to be sufficiently enhanced. The major ingredients of the operational strategies; human resource, finance, technology, organizational structure and management process need to be respectively augmented, restructured and strengthened. The operations of these strategies in the institutional functioning are crucial to improve the overall capacity and the level of performance in the Bank. The continued process of planning, implementing, monitoring, evaluating and reviewing the operational strategies by taking into consideration the evolving dynamics both in the internal and external environmental factors will be a necessary pre-condition for the success of the Bank's Strategic Plan.

3.1 Institutional arrangements for implementation, monitoring, and evaluation of the Strategic Plan

- The annual plans of the Bank will be formulated and implemented based on the Five Year Strategic Plan (2006-2010).
- The implementation of the Strategic Plan as reflected also in annual programs will be monitored by the Executive Director of the Corporate Planning Department. The department will monitor the implementation of the Strategic Plan annually and discuss with the concerned departments and divisions if necessary and present the annual report to the Strategic Planning Committee.
- The input, output, and outcome monitoring indicators or key performance indicators for each of the functional and management strategies will be devised and monitored by the Department.
- The Strategic Plan will be reviewed every year so as to make the planning process a dynamic one. Program and activities will be fine tuned as per the changing internal and external environment of central banking functions.
- The organizational structure of the Bank will be set in a way that serves the functional and management strategies in a more efficient and coordinated manner. Necessary restructuring of the responsibilities will be made to implement the Strategic Plan in a more delegated manner.
- Each department/division/regional office will make their detailed strategic plan, determine output indicators and implementation modality including that of outsourcing and implementing them. The evaluation report of the Strategic Plan will be presented to the NRB Board on an annual basis.

3.2 Resource Planning

NRB has to formulate its resource plan to translate the strategic plan into strategic action plans. It has to find adequate resources to implement its strategic plan. The resource necessary for the implementation of the strategic plan can be divided into human, materials and financial resources. Under the human resource planning, the concerned Human Resource Management Department will formulate its five-year human resource plan. Likewise, the General Services Department will

formulate plans for materials to be procured in the five years. It is directly related to capital budgeting that takes care of infrastructure development, repairing and maintenance of materials.

Like other central banks and monetary authorities, there are no constraints of financial resources in the NRB. The Bank will prepare the budget for the operationalization of the strategic plan. After the approval of the strategic plan by the NRB Board of Directors, each department and division, and seven external offices will prepare their specific resource plans. These departmental/divisional/external office level resource plans will formulate their detailed specific plans. The resource planning will also cover the following areas:

- Resource requirement for the specific programs and infrastructure development will be broken down into human, financial, and material resources.
- The resource requirement in terms of financial investment plan will be worked out.
- The financial investment requirement will be reflected in annual budgets of the Bank. The concept of two to three year rolling plan will be put into practice for those projects and programs that will take more than one year for completion or execution.
- Technical support from the key donor institutions will be solicited to build human resource capacity and strengthen institutional aspects.
- The NRB Board will be responsible to ensure allocation of sufficient financial resources for the operationalization of the Annual Action Plans.
- The Strategic Planning Committee will be responsible for the monitoring of the resource plan and presenting the monitoring report to the Board.

Part IV
Strategic Action Plan
(2006-2010)

Functional Strategies	Actions	Time Frame	Key Monitoring Indicators
MONETARY MANAGEMENT			
1. Attain a desired growth of money supply	1.1 Monitor the structure and growth of net domestic assets	Ongoing	<ul style="list-style-type: none"> Changes in claims on government, claims on government (non-financial) enterprises and claims on private sector
	1.2 Monitor the liquidity positions of banks and financial institutions	Ongoing	<ul style="list-style-type: none"> Excess reserves of banks and financial institutions
	1.3 Undertake open market operations (OMO) to mop up/inject liquidity from/in the economy	Ongoing	<ul style="list-style-type: none"> Excess/ deficient liquidity of the economy monitored through reserve money (RM) programming, government domestic borrowings, and interventions in the money and foreign exchange markets
	1.4 Coordinate intervention in domestic money and foreign exchange markets	Ongoing	<ul style="list-style-type: none"> Liquidity in local currency, short-term interest rates, exchange rates, reserve of commercial banks with NRB, and RM growth
	1.5 Initiate necessary amendment in the legal provision on NRB's holdings of government's debt	2007 - 2008	<ul style="list-style-type: none"> Amendment of the NRB Act to introduce flexibility in Bank's holding of government papers
2. Manage the growth of domestic credit consistent with the monetary policy objective/s	2.1 Monitor the growth of credit to the private and the public sectors in relation to economic growth, inflation, current account and balance of payments (BOP) situations	Ongoing	<ul style="list-style-type: none"> Economic growth rate, inflation, current account and BOP situations, growth rate of credit to private and public sectors
	2.2 Adjust bank rate and cash reserve ratio (CRR), and undertake OMO to contain growth of domestic credit	Ongoing	<ul style="list-style-type: none"> Growth of credit to private and public sectors Changes in bank rate and CRR, and amount of liquidity absorbed/ injected from/ in the domestic

Functional Strategies	Actions	Time Frame	Key Monitoring Indicators
3. <i>Maintain domestic and cross-border interest rate differentials at an optimum level</i>	3.1 Monitor the interest rates in India and Nepal	Ongoing	credit market
	3.2 Influence the short-term and long-term interest rate movements through OMO	Ongoing	<ul style="list-style-type: none"> • Deviation of Nepal's interest rate from cross-border rates on 91- day treasury bills discount rate, interest rates on saving, one-year and 2 – 5 years' fixed deposits, 5-10 years bonds' discount rates • Monitoring reports on short-term and long-term interest rates in India and Nepal • Short term interest rates, overall liquidity (M2 & M3), and excess reserve with commercial banks and financial institutions
4. <i>Maintain real effective exchange rate (REER) at an appropriate level</i>	4.1 Monitor the movement of domestic prices and nominal exchange rates	Ongoing	<ul style="list-style-type: none"> • Trends of domestic prices and nominal exchange rates and inflation, and exchange rates in India and other major trading partners
	4.2 Adopt appropriate interest rate policy for further liberalization of capital account	Ongoing	<ul style="list-style-type: none"> • Trend of short term capital flows • Movement of bank rate, repo rate, reverse repo rate, and other short-term interest rates
5. <i>Maintain adequate level of foreign exchange reserve</i>	5.1 Maintain domestic liquidity at an appropriate level	Ongoing	<ul style="list-style-type: none"> • Level of foreign exchange reserve with NRB, foreign exchange reserve in term of months of imports, foreign debt, M2, RM and GDP. • M2, M3 and excess reserves of banks and financial institutions
6. <i>Explore the appropriateness of inflation targeting</i>	6.1 Observe the experience of countries following the inflation targeting regime	2006 - 2007	<ul style="list-style-type: none"> • Empirical relationship between monetary aggregates and prices, developments in capital accounts, financial sector conditions and exchange rate regime
	6.2 Develop inflation forecasting model	2007 - 2008	<ul style="list-style-type: none"> • Trend and experience of inflation targeting countries
	6.3 Compute core inflation	2008 - 2010	<ul style="list-style-type: none"> • Inflation forecasting system in place • Progress in defining core inflation, compiling price statistics, and computing new CPI

Functional Strategies	Actions	Time Frame	Key Monitoring Indicators
7. <i>Develop macro-econometric model of the economy</i>	7.1 Construct sectoral models	2007-2008	<ul style="list-style-type: none"> Models for money demand, inflation, BOP, export and import and exchange rate
DOMESTIC DEBT MANAGEMENT			
1. <i>Enhance operational efficiency of domestic debt management</i>	1.1 Adopt international domestic debt management practices	2006 - 2008	<ul style="list-style-type: none"> Progress in dealing office restructuring, automation, and real time settlements of domestic debt transactions Debt indicators as ratios of GDP and other macroeconomic aggregates
	1.2 Introduce scripless securities settlement system (SSSS) and central depository system (CDS) in government securities	2006-2008	<ul style="list-style-type: none"> Progress in creating necessary infrastructure by Securities Exchange Board Establishment of Scripless Securities Settlement System (SSSS) Operationalization of Central Depository System (CDS) and SSSS Volume of mechanized operations, growth of online operations Real time settlements of govt. securities under CDS and Real Time Gross Settlement System (RTGS)
	1.3 Issue government bonds through auction	2006 - 2007	<ul style="list-style-type: none"> Share of auctioned bonds at the ratio of the total outstanding bonds Frequency of auctions
	1.4 Conduct secondary market transactions of government bonds through the stock exchange	2006 - 2008	<ul style="list-style-type: none"> Transactions indicators (volume value, trend and maturities) of the government bonds listed in the stock exchange Number of participants in the stock exchange Frequency of secondary market operations
	1.5 Develop an effective issue calendar of domestic debt instruments.	2006 - 2007	<ul style="list-style-type: none"> Publication of aggregate and instrument-wise debt issue calendar

Functional Strategies	Actions	Time Frame	Key Monitoring Indicators
2. <i>Conduct effective open market operations (OMO)</i>	1.6 Diversify and deepen the domestic debt instruments.	2006 - 2008	<ul style="list-style-type: none"> ▪ Introduction of new debt instruments ▪ Introduction of the debt instruments with different maturity periods
	2.1 Develop effective statistical and informational network	2006 - 2007	<ul style="list-style-type: none"> ▪ Availability of information about financial markets and macroeconomic aggregates to facilitate decision making ▪ Volume, growth and volatility of the excess liquidity ▪ Reduced divergence between ex-ante and ex-post excess liquidity for the concerned period
	2.2 Enhance the transparency of the OMO.	2006 - 2007	<ul style="list-style-type: none"> ▪ Posting in the website information including tables about the domestic debt and monetary operations ▪ Extent of participation in the open market operations ▪ Frequency of auctions

FINANCIAL SECTOR MANAGEMENT

1. <i>Diversify financial sector and expand its outreach</i>	1.1 Diversify financial sector and expand the services of banks and financial institutions	Ongoing	<ul style="list-style-type: none"> • Number of banks and financial institutions and their services • Growth and coverage of banks & financial institutions • Ratio of financial assets to GDP • Sectoral concentration • Deposit Mix and market share • Credit Growth and market share • Implementation of updated licensing policy
	1.1.1 Make licensing policy more prudent and transparent	2007 - 2008	<ul style="list-style-type: none"> • Implementation of updated licensing policy
	1.1.2 Adopt differential licensing policy for rural and urban areas	2007 - 2008	<ul style="list-style-type: none"> • Implementation of differential licensing policy
	1.1.3 Initiate steps towards universal banking	2008 - 2009	<ul style="list-style-type: none"> • Studies and legal framework in place

Functional Strategies	Actions	Time Frame	Key Monitoring Indicators
	system		
2. Broaden and deepen financial services including micro-finance services for optimal outreach	1.1.4 Strengthen existing legal framework for the financial system	2008 - 2010	<ul style="list-style-type: none"> • Proposal for amendments in the relevant laws
	2.1 Expand financial institutions	Ongoing	<ul style="list-style-type: none"> • Number of financial institutions per '000 population
	2.2 Promote micro-finance institutions (MFIs) and expand their outreach		<ul style="list-style-type: none"> • Proportion of households covered by micro-finance institutions, number of new micro finance institutions • Sectoral distribution of credit
	2.3 Formalize informal financing institutions/agencies		<ul style="list-style-type: none"> • Coverage of financial services in different geographical regions
3. Enhance competitiveness in the financial sector.	2.4 Set incentive mechanism for outreach of MFIs to remote areas and poor people		<ul style="list-style-type: none"> • Distribution of credit by income deciles / quintile of households
	3.1 Facilitate liberalized regulatory framework for banks and financial institutions	2007 - 2009	<ul style="list-style-type: none"> • Improved regulatory framework • Cost of capital, interest spread
3.2 Create conducive financial environment to reduce NPA	<ul style="list-style-type: none"> • Level of NPA 		
4. Improve legal and regulatory framework compatible with international norms and standards.	4.1 Reform the legal and regulatory framework	2007 - 2008	<ul style="list-style-type: none"> • Revised prudential regulations in place
	4.1.1 Identify legal issues and constraints	2007 - 2009	<ul style="list-style-type: none"> • Proposal for new acts and amendment of existing Acts
	4.1.2 Review the existing laws and by-laws	2007 - 2008	<ul style="list-style-type: none"> • Existing legal issues and constraints identified
	4.1.3 Finalize and submit the draft laws and by-laws for amendment	2008 - 2009	<ul style="list-style-type: none"> • Amendments forwarded to concerned authorities
	4.2 Formulate appropriate regulatory framework	2008 - 2009	<ul style="list-style-type: none"> • Directives to banks and financial institutions revised/ updated
	4.2.1 Prepare and issue directives and	2007 - 2008	<ul style="list-style-type: none"> • Issuance of revised regulatory framework

Functional Strategies	Actions	Time Frame	Key Monitoring Indicators
	circulars		
5 <i>Consolidate banks and financial institutions.</i>	4.2.2 Enforce and monitor revised regulatory framework	2008 – 2010	<ul style="list-style-type: none"> Revised monitoring report implemented
	5.1 Consolidate banks and financial institutions for their strengthening	2008-2010	<ul style="list-style-type: none"> Banks and financial institutions consolidated
	5.2 Raise the capital base of banks and financial institutions	2009-2010	<ul style="list-style-type: none"> Capital base of banks and financial institutions raised
6. <i>Formulate and implement the Financial Sector Master Plan for banking and financial sector.</i>	5.3 Merge banks and financial institutions	2006-2010	<ul style="list-style-type: none"> Financially weak banks and financial institutions merged
	6.1 Formulate the Financial Sector Master Plan	2007-2008	<ul style="list-style-type: none"> The Financial Sector Master Plan formulated
7. <i>Strengthen proactive supervisory mechanism compatible with international norms and standards</i>	6.2 Implement the Financial Sector Master Plan	2009-2010	<ul style="list-style-type: none"> The Financial Sector Master Plan implemented
	5.1 Strengthen Credit Information Mechanisms	2006 - 2007	<ul style="list-style-type: none"> Credit Information Company (CIC) strengthened by upgrading IT system for database
	5.1.1 Establish Central data warehouse and develop data dissemination Process	2007 - 2010	<ul style="list-style-type: none"> Operationalisation of on-line information system Establishment of data warehouse.
	5.2 Develop credit rating system	2007 - 2010	<ul style="list-style-type: none"> Draft of Credit Rating Agency (CRA) Act prepared CRA established CRA by-laws & regulations prepared
	5.3 Facilitate establishment of Asset Management Company (AMC)	2007 - 2009	<ul style="list-style-type: none"> Draft of AMC Act prepared. AMC established AMC by-laws and regulation prepared
5.4 Strengthen supervisory capacity	2007 - 2009	<ul style="list-style-type: none"> Revised supervisory by-laws and manual in place Number of supervision trainings and counseling 	
5.5. Develop the deposit insurance system.	2007 - 2010	<ul style="list-style-type: none"> Deposit Insurance Company (DIC) Act drafted 	

Functional Strategies	Actions	Time Frame	Key Monitoring Indicators
8. Facilitate privatization of public sector banks and financial institutions.	6.1 Restructure and privatize RBB, NBL, and ADBN Ltd	2009 - 2010	<ul style="list-style-type: none"> • DIC established • DIC by-laws and regulation prepared • Evaluation report of financial and operational position completed • Strategic investor identified • Handover of management to the investor completed
	6.2 Restructure/ Privatize NIDC and Grameen Bikas Banks	2009 - 2010	<ul style="list-style-type: none"> • Evaluation report of financial and operational position completed • Strategic investor Identified • Handover of management to the investor done
9. Support to formulate and implement national micro-finance policy and master plan	7.1 Implement National Micro Finance Policy	2006 - 2008	<ul style="list-style-type: none"> • Micro-finance policy announced • Micro-finance Act enacted • STI Act drafted and enacted • NMFDF created • Transformation of Rural Self-Reliance fund into NMFDF completed
	7.2 Enact Micro Finance Act	2006 - 2008	
	7.3 Establish second tier institution (STI) for regulation and supervision of MFIs	2006 - 2008	
	7.4 Facilitate the set-up of National Level Micro Finance Development Fund (NMFDF)	2006 - 2008	
10. Develop the payment and settlement system as per international norms and standard	8.1 Address risk vulnerability in the payment system	2007 - 2009	<ul style="list-style-type: none"> • Risk vulnerability identified and electronic safeguard measures introduced
	8.2 Restructure the payment system as per international Standard/ practices.	2007 - 2009	<ul style="list-style-type: none"> • Automation of clearing House completed and E-payments introduced
	8.3 Gradually implement the Real Time Gross Settlement (RTGS) system	2007 - 2009	<ul style="list-style-type: none"> • Preparatory work to introduce RTGS completed and RTGS operationalized
FOREIGN EXCHANGE MANAGEMENT			
1. Maintain exchange rate stability of the rupee	1.1 Regularly monitor the movement of exchange rate of key currencies	Ongoing	<ul style="list-style-type: none"> • Exchange rate movements of USD, EURO and INR

Functional Strategies	Actions	Time Frame	Key Monitoring Indicators
2. Deregulate foreign exchange operations	1.2 Assess the impact of the exchange rate movements on the overall economic activities, including the Balance of Payments	Ongoing	<ul style="list-style-type: none"> • Movement of foreign exchange reserve: Weekly, Monthly, Quarterly, Half-Yearly and Yearly
	1.3 Intervene in the foreign exchange market as necessary	Ongoing	<ul style="list-style-type: none"> • Frequency and size of intervention
	2.1 Lift the requirements of NRB permission for education expenses, medical expenses etc.	2006 - 2009	<ul style="list-style-type: none"> • Policy decisions on foreign exchange deregulation announced
	2.2 Delegate the authority to authorized foreign exchange dealers for repatriation.	2008 - 2010	<ul style="list-style-type: none"> • Policy decisions on foreign exchange deregulation announced
	2.3 Constantly reform payment regulations in foreign trade transactions.	Ongoing	<ul style="list-style-type: none"> • Policy decisions on foreign exchange deregulation announced
3. Open up capital account in phases	2.4 Relax foreign currency account operations norms and procedures.	2007 - 2009	<ul style="list-style-type: none"> • Policy decisions on foreign exchange deregulation announced
	3.1 Simplify the procedures to bring in and repatriate foreign capital.	2008 - 2010	<ul style="list-style-type: none"> • Procedures simplified
	3.2 Initiate policy to open more areas for foreign investment	2007 - 2010	<ul style="list-style-type: none"> • Amendment in the act and policy decisions
	3.3 Gradually open up Nepalese investment abroad	2007 - 2010	<ul style="list-style-type: none"> • Formulation and enactment of necessary Act
4. Improve portfolio management of external reserve	4.1 Set up of the Front and the Back offices to conduct the investment as per international norm	2006	<ul style="list-style-type: none"> • Back and front offices established
	4.2 Diversify portfolio-Currency wise and instrument wise	Ongoing	<ul style="list-style-type: none"> • Composition of investment portfolio
	4.4 Manage risks and return optimally	2007 - 2010	<ul style="list-style-type: none"> • Benchmarking established

Functional Strategies	Actions	Time Frame	Key Monitoring Indicators
5. Strengthen supervisory and monitoring mechanism of the foreign exchange market	4.5 Enhance reserve management capability	Ongoing	<ul style="list-style-type: none"> Modern equipments and sufficient number of skilled manpower in place
	5.1 Devise appropriate inspection and supervision mechanism	Ongoing	<ul style="list-style-type: none"> Amendment and consolidation of moneychanger directives and formulation of a directive for money remitting firms/companies and frequency of monitoring and supervising the concerned entities.
	5.2 Develop supportive MIS	Ongoing	<ul style="list-style-type: none"> Appropriate software for data receiving, storing, etc. in place
	5.3 Adopt international guidelines and practices	Ongoing	<ul style="list-style-type: none"> Review of international practices, observation, training, etc. completed

CURRENCY MANAGEMENT

1. Formulation of demand forecasting framework of currency	1.1 Develop a framework for seasonal and spatial demand forecasting of currency	2006 - 2007	<ul style="list-style-type: none"> Preparation of the forecasting model/framework completed
	1.2 Study national demand for notes and coins	2007	<ul style="list-style-type: none"> Practical Application of the model/framework in place
2. Administering efficient effective currency management	2.1 Arrange note printing to suffice for 3.25 years in case of paper notes and 4 years for coins	2007	<ul style="list-style-type: none"> Plan of action of printing and minting of paper notes and coins into annual program of the department implemented
	2.2 Revise pre-qualification list of note printers and mints to occur healthy competition among printers and mints	2006	<ul style="list-style-type: none"> Revision of PQ List on regular basis in place
	2.3 Maintain required stock of currencies	2006	<ul style="list-style-type: none"> Printing and minting of currencies on schedule
	2.4 Ensure circulation of currencies sufficient to meet the demand	2006	<ul style="list-style-type: none"> Currency to GDP ratio in track
	2.5 Review security features of currency notes	Ongoing	<ul style="list-style-type: none"> Review of security features on regular basis

Functional Strategies	Actions	Time Frame	Key Monitoring Indicators
3 <i>Exploring cost effective funds transfer system by reviewing the existing policy</i>	2.6 Mechanize counting, sorting and verification of notes	Ongoing	<ul style="list-style-type: none"> Procurement and use of modern counting, sorting and verification machines
	3.1 Adopt appropriate fund mobilization policy	Ongoing	<ul style="list-style-type: none"> Fund mobilization policy prepared and implemented Amount covered by insurance revised depending on current demand
	3.2 Rationalize the currency chest management as per the speed of magnetization	Ongoing	<ul style="list-style-type: none"> Number and size of currency chests
	3.3 Review funds transfer cost	Ongoing	<ul style="list-style-type: none"> Per unit fund transfer cost reduced significantly
4. <i>Gradual outsourcing of circulatory, commemorative coins and other minting products</i>	3.4 Rationalize number of staff deputed in funds	2006 - 2007	<ul style="list-style-type: none"> Number of staff deputed in funds transfer reduced substantially
	4.1 Gradual outsource of commemorative coins and other minting products through maintaining the pre-qualification list of foreign mints	Ongoing	<ul style="list-style-type: none"> Update the needs and procure accordingly
	4.2 Make procurement of required quantity of commemorative coins and other minting products more efficient and cost effective	Ongoing	<ul style="list-style-type: none"> Demand for commemorative coins and other minting products met by the supplies Floating tenders for such products in place
	4.4 Create awareness among public regarding the safe use of currencies	2006 - 2007	<ul style="list-style-type: none"> Existing regulations are revised
5 <i>Initiating private agencies in the exchange of soiled currencies,</i>	5.1 Destroy machine sorted notes fit for destruction with the help of existing furnace	Ongoing	<ul style="list-style-type: none"> Mechanization of sorting and destroying soiled currency introduced
	5.2 Encourage private sector to collect soiled notes on commission basis	2006 - 2007	<ul style="list-style-type: none"> Regulation regarding soiled notes in place

Management Strategies	Actions	Time Frame	Key Monitoring Indicators
HUMAN RESOURCE MANAGEMENT			
1. Internalize international human resource management (HRM) practices.	1.1 Review HRM practices of other central banks	2006 – 2007	<ul style="list-style-type: none"> Identify best HRM practices of central banks
	1.2 Adopt appropriate HRM practices	2007 – 2008	<ul style="list-style-type: none"> Apply appropriate HRM policy
2. Formulate effective HRD policy	2.1 Develop appropriate recruitment policy.	2007 – 2008	<ul style="list-style-type: none"> Introduced new recruitment policy
	2.2 Develop skill and ability based placement policy	2007 – 2008	<ul style="list-style-type: none"> Newly introduced skill and ability based placement policy
	2.3 Develop internal transfer policy.	2007 – 2008	<ul style="list-style-type: none"> Adoption of new internal transfer policy
	2.4 Strengthen performance evaluation systems	2007 – 2008	<ul style="list-style-type: none"> New performance evaluation system developed and implemented
	2.5 Develop/Procure an electronic-human resource (e-HR) information system	2007- 2008	<ul style="list-style-type: none"> e-HR information system developed or procured
3. Introduce appropriate changes in personnel bylaws	3.1 Prepare personnel by-laws for amendment	2006 - 2007	<ul style="list-style-type: none"> By-laws updated & amended
4. Strengthen human resource planning system	4.1 Adopt medium-term and long-term HRD plan	2006 - 2007	<ul style="list-style-type: none"> Medium-term HRD plan prepared
		2007 - 2008	<ul style="list-style-type: none"> Long-term HRD plan prepared
5. Strengthen human resource development	5.1 Formulate skill development plan/program	2008 - 2010	<ul style="list-style-type: none"> Competency based training programs introduced
6. Establish of Management Development Center (MDC)	6.1 Build infrastructure for the MDC	2008 - 2010	<ul style="list-style-type: none"> Establishment of Management Development Centre
	6.2 Restructure Bankers Training Centre	2008 - 2010	<ul style="list-style-type: none"> New structure of BTC completed

Management Strategies	Actions	Time Frame	Key Monitoring Indicators
RESEARCH & STATISTICS MANAGEMENT			
1. Undertake research on monetary, financial and external sector policies	1.1 Conduct research on macroeconomic and financial issues	Ongoing	• Number of research studies on pertinent issues
	1.2 Evaluate the relevance and effectiveness of the existing monetary framework, exchange rate regime and financial sector policy	Ongoing	• Number of evaluation reports
	1.3 Use latest tools/techniques of research (including Computable General Equilibrium model)	2007 - 2010	• Application of modern research tools/techniques and econometric software
	1.4 Apply research findings to policy reforms	Ongoing	• Implementation of policy reforms
2. <i>Improve the quality of pre-budget survey</i>	2.1 Apply analytical tools in pre-budget survey	2006 - 2010	• Application of case studies, econometric and other analytical tools
3. <i>Collaborate/ Outsource research studies</i>	3.1 Undertake collaborative research studies with National and International agencies and institutions	2007 – 2010	• Number of research works undertaken
	3.2 Obtain assistance from IMF, World Bank and ADB	2007 – 2010	• Number of technical assistance
	3.3 Outsource research work to institutions and professionals	2007 - 2010	• Number of research outsourced
4. <i>Develop macroeconomic modeling and forecasting system for various sectors of the economy</i>	4.1 Develop macroeconomic model	2006 - 2009	• Preparation of macroeconomic model
	4.2 Obtain appropriate software for macroeconomic models	2007 - 2010	• Application of appropriate software
	4.3 Develop the forecasting techniques for macroeconomic variables	2007 - 2010	• Application of various forecasting techniques

Management Strategies	Actions	Time Frame	Key Monitoring Indicators
5. Develop integrated database system	5.1 Develop one window data compiling system	2007 - 2010	<ul style="list-style-type: none"> Establishment and operationalisation of one window data compiling system
	5.2 Improve the quality of data	2007 - 2010	<ul style="list-style-type: none"> Coverage and consistency in data
	5.3 Develop the integrated database	2008 - 2010	<ul style="list-style-type: none"> Establish intensive database system
	5.4 Improve the timeliness of data dissemination	2007 - 2010	<ul style="list-style-type: none"> Data dissemination on time
6. Develop reliable and internationally acceptable integrated database system	6.1 Adopt an appropriate statistical framework that conforms to international standards	Ongoing	<ul style="list-style-type: none"> Classification, consolidation, aggregation, netting and presentation as per the international statistical frameworks
	6.2 Design call report forms	Ongoing	<ul style="list-style-type: none"> Updating call report forms to collect data as per the changing situation
	6.3 Prepare manual for call report forms	Ongoing	<ul style="list-style-type: none"> Publication of manual for recording and compiling data in accordance with the call report forms
	6.4 Construct the bridge tables for compilation of data	Ongoing	<ul style="list-style-type: none"> Preparation of bridge table
	6.5 Develop analytically useful new monetary aggregates by compiling banking survey on a higher frequency	2007 - 2010	<ul style="list-style-type: none"> Compilation and publication of banking survey

FINANCIAL MANAGEMENT

1. Strengthen Program/performance budgetary System	1.1 Develop program for accounting system	2006 - 2007	<ul style="list-style-type: none"> Program accounting system in place
	1.2 Identify and project long term costs and relate them to benefits of each program for its total life	2006-2008	<ul style="list-style-type: none"> Selected programs and their cost benefit analysis report

Management Strategies	Actions	Time Frame	Key Monitoring Indicators
2. Adopt integrated financial management system/Accounting System	1.3 To strengthen control over programs and performance budgets through improved measurement and analysis of program/ performance in relation to cost of the programs	2006-2007	<ul style="list-style-type: none"> Program performance measurement system in place
	1.4 Selection of the programs for performance budgeting	2007-2010	<ul style="list-style-type: none"> Selected programs
	1.5 Preparation and execution of the program/performance budget	2007-2010	<ul style="list-style-type: none"> Budget preparation and allocation
	1.6 Performance appraisal of program/performance budget	2008-2010	<ul style="list-style-type: none"> Performance appraisal report
	2.1 Review and update existing Accounting Manual (As Accounting By-laws) in conformity with IFRS	2006-2007	<ul style="list-style-type: none"> IAS/IFRS Complied accounting manual
	2.2 Identify appropriate package of accounting system	2007-2008	<ul style="list-style-type: none"> Appropriate accounting package
3. Ensure compliance with International Financial Reporting Standards (IFRS)	2.3 Install identified accounting package	2008	<ul style="list-style-type: none"> Implementation of New Accounting Package.
	2.4 Conduct periodic appraisal to ensure effective implementation of the system	2009-2010	<ul style="list-style-type: none"> Regular and reliable accounting information
	3.1 Examine relevant IFRS	2006-20007	<ul style="list-style-type: none"> Identification of applicable IFRS.
	3.2 Review prevailing accounting practices in NRB	2006-2007	<ul style="list-style-type: none"> Understanding of existing accounting practices and policies.
	3.3 Adopt International Financial Reporting Standards	2007-2008	<ul style="list-style-type: none"> Preparation of financial statements in accordance with IFRS.

Management Strategies	Actions	Time Frame	Key Monitoring Indicators
4. Strengthen domestic portfolio management	3.4 Establish in-built reviewing and monitoring mechanism of accounting practices	2008-2009	<ul style="list-style-type: none"> • Continuous implementation of IFRS.
	4.1 Develop/Adopt efficient system to acquire market information	2006-2007	<ul style="list-style-type: none"> • Instant access to market information.
	4.2 Develop & adopt domestic portfolio risk management system	2004-2007	<ul style="list-style-type: none"> • Updated & effective portfolio management system
5. Ensure autonomy and effectiveness of internal audit system	5.1 Develop risk- based/performance audit system	2006-2007	<ul style="list-style-type: none"> • Develop risk- based/performance audit system developed
	5.2 Initiate risk- based/performance audit system	2007-2010	<ul style="list-style-type: none"> • Risk- based/performance audit system prepared
	5.3 Propose amendment in NRB Act for making audit committee more independent and autonomous	2007-2008	<ul style="list-style-type: none"> • Laws amended
	5.4 Develop strong enforcement mechanism for making internal audit more effective	2006-2010	<ul style="list-style-type: none"> • Enforcement mechanism developed
6. Enhance transparency and accountability for the credibility of the bank	6.1 Specific roles and responsibility of the banks' officials will be defined and implemented	2006-2007	<ul style="list-style-type: none"> • Roles and responsibilities
	6.2 Adequate disclosure standard for making banks' operation more transparent	2006-2007	<ul style="list-style-type: none"> • Disclosure standard prepared and implemented
	6.3 Develop appropriate code of conduct to ensure financial discipline	2007-2008	<ul style="list-style-type: none"> • Code of Conduct prepared and implemented

Management Strategies	Actions	Time Frame	Key Monitoring Indicators
INFORMATION AND COMMUNICATION TECHNOLOGY MANAGEMENT			
1. Formulate and implement information and communication technology (ICT) policy	1.1 Review prevailing ICT policies and laws	2006-2007	<ul style="list-style-type: none"> Review report prepared.
	1.2 Recommend necessary amendments in the prevailing laws	2007-2008	<ul style="list-style-type: none"> Recommendation prepared for the necessary amendment in relevant laws.
	1.3 Formulate and implement appropriate ICT policy	2006-2007	<ul style="list-style-type: none"> Standard ICT policy in place.
2. Enhance information technology capacity	2.1 Implement modern software system	2007-2008	<ul style="list-style-type: none"> Use of integrated, centralized, modern central banking system with industry standard database management system. Reduced redundant data entry and reduced delays in data aggregation, analysis and reporting. Incorporated Audit Trail features. Properly documented system. Automated transactions reconciliation system.
		2007-2008	<ul style="list-style-type: none"> Collection & dissemination of data from a single channel. Improved data collection and dissemination process. Improved in-house Local Area Network.
	2.2 Develop and implement a single window data management system	2007-2008	<ul style="list-style-type: none"> Establishment of a Wide Area Network connecting all the NRB offices.
	2.3 Develop a secure and reliable communication mechanism within bank and with other related institutions	2007 - 2010	<ul style="list-style-type: none"> Establishment of secure and efficient data communication mechanism with related institutions.

Management Strategies	Actions	Time Frame	Key Monitoring Indicators
3. Transform work-flow towards paperless environment	2.4 Design and Implement data center and establish a disaster recovery site along with Business Continuity Plan	2006-2007	<ul style="list-style-type: none"> Centralized data center readily accessible to authorized personnel. Introduction of robust data backup & recovery system. Establishment of Disaster Recovery Site outside Kathmandu Valley with necessary D.R. infrastructure. Well-defined Disaster Recovery and Business Continuity Plan prepared.
	2.5 Enhance capacity of IT and non-IT staff	2006-2010	<ul style="list-style-type: none"> Availability of periodic internal / external trainings. Increased ICT uses in the bank. Increased working efficiency.
	2.6 Promote R& D in IT applicable to financial system	2007-2008	<ul style="list-style-type: none"> Establishment of R&D center with appropriate personnel. Research reports on recent technology applicable to financial system.
	3.1 Develop a secure and reliable communication networking system within the Bank	2007-2008	<ul style="list-style-type: none"> Better information flow in digital form. Well-monitored network access. Establishment of network attack prevention mechanism.
	3.2 Formulate a policy and setup a mechanism to validate digital signatures on official documents	2008-2010	<ul style="list-style-type: none"> Establishment of digital certificate server. Increased user awareness on digital signature. Official acknowledgement of digital signature.
	3.3 Establish digital document management system	2008-2010	<ul style="list-style-type: none"> Implement digital document management system. Easy access to any required documents. Reduced dependencies on the manual documents. Enhanced working efficiency.

Management Strategies	Actions	Time Frame	Key Monitoring Indicators
	3.4 Develop an effective mechanism of email communication	2006-2007	<ul style="list-style-type: none"> • Reduced physical movement of documents. • Implementation of digital signature mechanism in emails.
	3.5 Develop an Electronic Notice Board	2006-2007	<ul style="list-style-type: none"> • Implementation of encryption mechanism. • Establish a web based notice board for staff.
	3.6 Facilitate E-procurement system	2006-2007	<ul style="list-style-type: none"> • Policies on E-Procurement process • Development of procurement web-site • Reduced cost
	3.7 Introduce e-attendance System	2006-2007	<ul style="list-style-type: none"> • Establishment of attendance system based on newer technology such as RFID Card, Magnetic Card, Biometric Devices etc.

LEGAL AFFAIRS MANAGEMENT

1. <i>Develop proper mechanism for amendment of laws and drafting of new laws related to banking and financial sector.</i>	1.1 Develop an integrated and permanent mechanism for amending laws and drafting new laws	On-going	<ul style="list-style-type: none"> • Laws updated
	1.2 Coordinate with Nepal Government and stakeholders for amending laws and drafting new laws	On-going	<ul style="list-style-type: none"> • A permanent committee formed and operationalized
2. <i>Create environment for effective legal compliance in the banking and financial sector.</i>	2.1 Examine the banking and financial sector laws of the SAARC/SEACEN countries	On-going	<ul style="list-style-type: none"> • Comparative legal framework prepared.
	2.2 Raise awareness on corporate governance in the banking and financial sector	On-going	<ul style="list-style-type: none"> • Number of events taken place in awareness creation
	2.3 Raise awareness on legal compliance in the banking and financial sector	On-going	<ul style="list-style-type: none"> • Number of events taken place in awareness creation

Management Strategies	Actions	Time Frame	Key Monitoring Indicators
3. <i>Enhance and strengthen legal competence and capability</i>	3.1 Organize legal training, workshops and seminars related to banking and financial laws in coordination with Bankers' Training Center	On-going	<ul style="list-style-type: none"> Number of trainings, workshops and seminars organized
	3.2 Enhance the capacity and expertise of legal manpower of the Bank	2006-2008	<ul style="list-style-type: none"> Number of staff in the legal division and trainings imparted to them
4. <i>Provide legal counseling and defend the interests of the Bank in litigation</i>	4.1 Provide counseling to the Bank on legal matters	On-going	<ul style="list-style-type: none"> Number of cases counseled
	4.2 Defend the interests of the bank in litigation	On-going	<ul style="list-style-type: none"> Number of cases defended
GENERAL SERVICES MANAGEMENT			<ul style="list-style-type: none">
1. <i>Procure qualitative goods, works and services at competitive prices</i>	1.1 Examine the best practices of central banks' procurement by-laws/regulations.	2006 - 2008	<ul style="list-style-type: none"> Task force formation, observation tour and report submission
	1.2 Review prevailing policies and by-laws of HMG and NRB	2006 - 2008	<ul style="list-style-type: none"> Committee formation, review meetings and report submission
	1.3 Formulate appropriate and transparent policy and make necessary amendment in the prevailing by-laws	2008 - 2009	<ul style="list-style-type: none"> Policy report and revised/amended by-laws
	1.4 Implement revised/updated/amended procurement by-laws	2009 - 2010	<ul style="list-style-type: none"> Newly revised by-laws implemented
	1.5 Delegate authorities to departments and offices appropriately	2007 - 2010	<ul style="list-style-type: none"> Authorities delegated

Management Strategies	Actions	Time Frame	Key Monitoring Indicators
2. <i>Implement efficient physical assets management system</i>	1.6 Gradually introduce of e-procurement system.	2008 - 2010	<ul style="list-style-type: none"> • Development/ procurement of appropriate software
	2.1 Update and maintain the record of physical assets.	2006 - 2007	<ul style="list-style-type: none"> • Software developed/ procured, records updated
	2.2 Gradually mechanize all the records of physical assets.	2007 - 2009	<ul style="list-style-type: none"> • Updated records
	2.3 Introduce modern inventory management system.	2009 - 2010	<ul style="list-style-type: none"> • Automation of records
	2.4 Optimally utilize physical assets (land and buildings, vehicles, machineries, computers and accessories, other physical infrastructures etc.)	2007 - 2010	<ul style="list-style-type: none"> • Formation of policy for utilization of physical assets, implementation of the policy
	2.5 Ensure proper maintenance and repairing of physical assets	Ongoing	<ul style="list-style-type: none"> • Formation of policy for proper maintenance of physical assets, implementation of the policy
	2.6 Implement effective and periodic physical verification system.	2007 - 2010	<ul style="list-style-type: none"> • Formulation of a responsible and accountable committee with necessary power delegation
3. <i>Outsource identified support services</i>	2.7 Implement efficient and periodic auction system.	2007 - 2010	<ul style="list-style-type: none"> • Clean book of records
	3.1 Formulate outsourcing policy for support services	2006 - 2009	<ul style="list-style-type: none"> • Policy formulation
	3.2 Identify the areas of support services for outsourcing	2007 - 2009	<ul style="list-style-type: none"> • Area identification
	3.3 Gradually outsource support services based on quality and price	2007 - 2010	<ul style="list-style-type: none"> • Number of support services outsourced

Management Strategies	Actions	Time Frame	Key Monitoring Indicators
	3.4 Monitor and ensure the quality of outsourced services	Ongoing	<ul style="list-style-type: none"> Committee formation and review meetings held
PUBLIC AFFAIRS MANAGEMENT			
1. Disseminate information efficiently and effectively.	1.1 Bring out regular press releases	Ongoing	<ul style="list-style-type: none"> Number and quality of news items published and broadcast
	1.2 Adopt proactive and counteractive publicity strategy	Ongoing	<ul style="list-style-type: none"> Timeliness of updated information
	1.3 Update the electronic notice board regularly.	Ongoing	<ul style="list-style-type: none"> Electronic notice board updated
	1.4 Interact with the press and media frequently	Ongoing	<ul style="list-style-type: none"> Number of press meets organized
	1.5 Enhance capacity of media persons for news related to economic activities.	Ongoing	<ul style="list-style-type: none"> Number of trainings arranged
2. Update electronic information timely.	2.1 Update electronic information timely.	Ongoing	<ul style="list-style-type: none"> Electronic information uploaded in the web
	2.2 Enhance logistics related to electronic devices.	2006-2007	<ul style="list-style-type: none"> Logistics related to electronic devices procured and installed.
3. Publish and co-ordinate news bulletins and NRB publications.	3.1 Develop electronic audiovisual archive	Ongoing	<ul style="list-style-type: none"> Functionality of record system
	3.2 Make existing NRB news bulletin theme-based and informative and improve its look.	Ongoing	<ul style="list-style-type: none"> Timely publication of the bulletin
	3.3 Publish NRB news bulletin in English.	2006 - 2007	<ul style="list-style-type: none"> Regular publication of the bulletin

Management Strategies	Actions	Time Frame	Key Monitoring Indicators
4. <i>Adopt one window information dissemination system.</i>	3.4 Bring all NRB publications under a single purview.	2006 - 2007	<ul style="list-style-type: none"> Structural change in Public Relations Division (PRD)
	4.1 Arrange for a display, distribution and sales centre for all NRB publications.	2006 - 2007	<ul style="list-style-type: none"> Display center set-up
	4.2 Channel all information to media through a single point of contact.	2006	<ul style="list-style-type: none"> A single point of contact established and operationalized
5. <i>Work as spokesperson of the Bank.</i>	4.3 Prepare and distribute daily press clippings to senior executives of the Bank	Ongoing	<ul style="list-style-type: none"> Clippings received by senior executives, e-distribution of news clippings in place
	5.1 Arrange placement of appropriate news in print and electronic media.	Ongoing	<ul style="list-style-type: none"> Placement of news in the media arranged properly
6. <i>Co-ordinate for international relations of the Bank.</i>	5.2 Arrange press meets and media interviews for senior executives.	Ongoing	<ul style="list-style-type: none"> Number of press meets and media interviews
	6.1 Track-record the official visits to and response of central banks and international institutions.	Ongoing	<ul style="list-style-type: none"> Number of correspondence and contacts
	6.2 Maintain record of all international correspondence as central resource.	2006-2007	<ul style="list-style-type: none"> Functional record keeping
	6.3 Work as main contact point of the bank for media and international relations and keep records of meetings.	2006-2007	<ul style="list-style-type: none"> Institutionalization of the structure of function on permanent basis

REGIONAL OFFICE MANAGEMENT

1. <i>Formulate regional level strategic plan in coordination with the related departments / divisions of central office</i>	1.1 Formulate the strategic plan	2006	<ul style="list-style-type: none"> Strategic plan formulated
2. <i>Implement the strategic plan</i>	2.1 Implement the strategic plan	2006-2010	<ul style="list-style-type: none"> Strategic plan implemented

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