



NEPAL RASTRA BANK



THIRD STRATEGIC PLAN 2017-2021

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(2017-2021)



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MESSAGE FROM THE GOVERNOR



Nepal Rastra Bank (NRB), the central bank of the Federal Democratic Republic of Nepal, has already implemented two five-year strategic plans which have helped to guide the Bank activities in a systematic and planned manner as well as to deliver its services effectively to the stakeholders. For giving continuity to this process, the Third Strategic Plan for the period of 2017-2021 has now been formulated. In this regard, I am extremely delighted to release the Third Strategic Plan aimed at addressing the issues and problems pertaining to NRB through appropriate policies and strategic actions. Through the same Plan, I would also like to declare NRB's vision as ***"A Modern, Dynamic, Credible and Effective Central Bank"*** and the mission as ***"Maintaining Macroeconomic and Financial Stability for Sustainable and Inclusive Economic Growth through Proactive and Effective Monetary and Financial Policies"***.

Nepal is currently witnessing significant changes in the political environment and with the promulgation of Constitution of Nepal 2015, federal structure is gradually being institutionalized. This will not only impact on functioning of the financial system but also subsequently require restructuring of organizational set up and functioning of NRB.

Besides, the massive earthquake in 2015 and repeated aftershocks destroyed major buildings of the Bank, thereby, severely affecting the internal working environment. This has urgently necessitated the reconstruction of two major buildings in Kathmandu as well as other physical infrastructures.

The domestic financial sector has also become increasingly complex and it is necessary for NRB to address the ramifications through dynamic and proactive policies and strategic actions. Besides, the increasing mechanization and automation in the banking and financial system will provide opportunities for smoothening payment and settlement system and also pose challenges in maintaining financial stability. In order to tackle such bottlenecks and rigidities, the Strategic Plan has laid four core pillars which have been identified as (i) macroeconomic stability, (ii)



financial stability and financial sector development, (iii) external sector stability, and (iv) sound and effective payment system.

At this juncture, I would like to extend appreciation to the Strategic Plan Formulation Committee (SPFC) for preparing this important document with utmost dedication and perseverance. I am pleased to acknowledge the contribution of Dr. Sri Ram Poudyal, Member of NRB Board of Directors and the Coordinator of the Committee. I would also like to extend my deepest gratitude to other Committee members Mr. Ramjee Regmi, Member of NRB Board of Directors, Mr. Chinta Mani Siwakoti, Deputy Governor, Mr. Shiba Raj Shrestha, Deputy Governor and Mr. Bhisma Raj Dhungana, Executive Director and Member Secretary, SPFC. Likewise, I would also like to thank Dr. Ram Hari Aryal former Member of NRB Board of Directors and Dr. Shankar Prasad Acharya, former Executive Director of CPD. The officials of the CPD also deserve special thanks for their continuous efforts in the process of formulating the Plan.

I expect that all the Departments and Offices will put their sincere efforts in making this Plan a reality. I am fully confident that the Plan will be instrumental in achieving NRB's objectives by ensuring effective service delivery and thereby enhance its corporate image.

Dr. Chiranjibi Nepal
Governor



ACKNOWLEDGEMENT

The importance of strategic plan as a roadmap to steer and direct the activities of a corporate entity towards achieving its goals and objectives within a specified time period hardly needs emphasis. It was with this perspective, Nepal Rastra Bank initiated the practice of strategic planning a decade ago with the launching of its first strategic plan in 2006 for a five year period. This was followed by the second strategic plan that covered the period of 2012-2016. Building on the experience of first two strategic plans and keeping in view the NRB's organizational requirements and the growing global financial interdependencies and revolution in information and communication technologies, the Third Strategic Plan (2017-2021) is formulated to effectively respond to these changes and achieve organizational objectives.

We would like to express our sincere gratitude to Governor Dr. Chiranjibi Nepal for his full-fledged support and professional advice which played an instrumental role in bringing this plan to this form. We would also like to express our gratitude to Mr. Shankar Prasad Adhikari, Secretary, Ministry of Finance and Member, NRB Board of Directors; Mr. Shanta Raj Subedi, former Secretary, Ministry of Finance and former Member, NRB Board of Directors for their support and encouragement to the Strategic Plan Formulation Committee (SPFC). Our sincere gratitude is also due to Dr. Ramhari Aryal, former Member, NRB Board of Directors, who served as a member of the SPFC in the initial stage. We would like to offer our sincere thanks to Dr. Shankar Prasad Acharya, Executive Director for his valuable efforts in the initial stage. We would also like to take this opportunity to extend our heartfelt thanks to Executive Directors, Directors and Officials of NRB for their views, comments and suggestions on the content and text of the Plan.



We highly appreciate all the stakeholders who contributed towards enriching the report through their valuable feedbacks. Last but not the least; we would like to record our sincere thanks to all Officials of the Corporate Planning Department for their dedicated work in the preparation of the Plan.

Strategic Plan Formulation Committee:

Dr. Sri Ram Poudyal, Coordinator and Member, NRB Board of Directors

Mr. Ramjee Regmi, Member, NRB Board of Directors

Mr. Chinta Mani Siwakoti, Deputy Governor

Mr. Shiba Raj Shrestha, Deputy Governor

Mr. Bhisma Raj Dhungana, Member Secretary and Executive Director,
Corporate Planning Department



BOARD OF DIRECTORS



Chairman: Dr. Chiranjibi Nepal
Governor



Mr. Shankar Prasad Adhikari
Secretary,
Ministry of Finance
Member



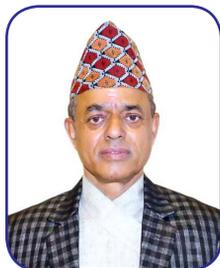
Mr. Chinta Mani Siwakoti
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Dr. Sri Ram Poudyal
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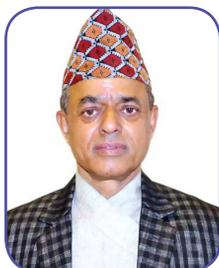
(As of January 10, 2018)



Third Strategic Plan (2017-2021) Formulation Committee



Dr. Sri Ram Poudyal
Coordinator



Mr. Ramjee Regmi
Member



Mr. Chinta Mani Siwakoti
Deputy Governor
Member



Mr. Shiba Raj Shrestha
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Mr. Bhisma Raj Dhungana
Executive Director
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Table of Contents

CHAPTER ONE: INTRODUCTION

1.1 Background	1-2
1.2 Practice of Strategic Planning	2-3
1.3 Strategic Planning in Nepal Rastra Bank	3-8
1.4 The Third Strategic Plan	8-9
1.5 Factors Taken into Consideration in Plan Formulation	9-10

CHAPTER TWO: VISION, MISSION, CORE VALUES AND STRATEGIC OBJECTIVES

2.1 Vision	13
2.2 Mission	13-14
2.3 Core Values	14-15
2.4 Objectives	15

CHAPTER THREE: STRATEGIC PLANNING FRAMEWORK

3.1 Conceptual Framework	17-18
3.2 Strategic Pillars	19
3.2.1 Core Pillars	19-21
3.2.2 Supporting Pillars	21-24

ANNEXURE

Annex 1: Guiding Framework of the Third Strategic Plan	25
Annex 2: SWOT Matrix	26
Annex 3: List of Principal Officers of Nepal Rastra Bank	27-28

PHOTO GALLERY



ABBREVIATIONS

AMC	Asset Management Company
AML	Anti-Money Laundering
ARM	Active Reserve Management
BAFIA	Bank and Financial Institutions Act
BCP	Business Continuity Plan
BFI	Banks and Financial Institutions
BFIRD	Banks and Financial Institutions Regulation Department
BIA	Business Impact Analysis
BOP	Balance of Payment
BPM	Balance of Payments Manual
BSD	Bank Supervision Department
BTC	Bankers' Training Center
CDGS	Central Depository for Government Securities
CFT	Combating the Financing of Terrorism
CMD	Currency Management Department
CMS	Content Management System
COBIT	Control Objectives for Information and Related Technologies
CoC	Code of Conduct
CPD	Corporate Planning Department
CVPS	Currency Verification and Processing System
DBSD	Development Bank Supervision Department
DC	Data Center
DCGF	Deposit and Credit Guarantee Fund
DRS	Disaster Recovery Site
FCSD	Finance Company Supervision Department
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act
FinTech	Financial Technology
FIU	Financial Information Unit
FMD	Financial Management Department
FOREX	Foreign Exchange



FSIs	Financial Soundness Indicators
FXMD	Foreign Exchange Management Department
GL	General Ledger
GON	Government of Nepal
GSD	General Services Department
HR	Human Resources
HRMD	Human Resources Management Department
HRM	Human Resources Management
HRMISS	Human Resources Management Information System Software
IAD	Internal Audit Department
ICAAP	Internal Capital Adequacy Assessment Process
ICT	Information and Communication Technology
IIP	International Investment Position
IMF	International Monetary Fund
IRC	Interest Rate Corridor
IRD	International Relations Division
IRMF	Integrated Risk Management Framework
ISO	International Organization for Standardization
IT	Information and Technology
ITD	Information Technology Department
ITIL	Information Technology Infrastructure Library
KBO	Banking Office, Kathmandu
LC	Letter of Credit
LD	Legal Division
LMFF	Liquidity Monitoring and Forecasting Framework
MFI	Microfinance Financial Institutions
MFPD	Microfinance Promotion and Supervision Department
MIS	Management Information System
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MOV	Means of Verification
NFRS	Nepal Financial Reporting Standard
NMDF	National Microfinance Development Fund



NPS	National Payment Switch
NRA	National Risk Assessment
NRB	Nepal Rastra Bank
NRPS	National Retail Payment System
OFG	Office of the Governor
OKVOs	Outside Kathmandu Valley Offices
OMO	Open Market Operation
OVI	Objectively Verifiable Indicator
OKVOs	Outside Kathmandu Valley Offices
PBRD	Problem Bank Resolution Division
PDMD	Public Debt Management Department
PSD	Payment System Department
RAMP	Reserve Advisory Management Program
RBS	Risk Based Supervision
RD	Research Department
RegTech	Regulatory Technology
RTGS	Real Time Gross Settlement
SAARC	South Asian Association for Regional Cooperation
SBS	Shredding and Briquetting System
SIBs	Systematically Important Banks
SIS	Supervisory Information System
SPFC	Strategic Plan Formulation Committee
SPMEC	Strategic Planning Monitoring and Evaluation Committee
SSSS	Scripless Securities Settlement System
STI	Second Tier Institution
SWIFT	Society for Worldwide Interbank Financial Telecommunication
SWOT	Strengths, Weaknesses, Opportunities and Threats
SWRI	Salary and Wage Rate Index
TCU	Technical Cooperation Unit
TPT	Task Performance Test
WPI	Wholesale Price Index



CHAPTER 1

INTRODUCTION

1.1 Background

Nepal Rastra Bank (NRB) was established as the central bank of Nepal on April 26, 1956 in accordance with the provisions of Nepal Rastra Bank Act 1955. The Act was replaced by the new Act in 2002. The preamble of NRB Act 2002 describes the role of NRB as: to formulate monetary and foreign exchange policies, to maintain price stability, to consolidate Balance of Payments (BOP) for sustainable development of the economy, to develop a secure, healthy and efficient payment system, to regulate, inspect and supervise Banks and Financial Institutions (BFIs); and to enhance public credibility towards the entire banking and financial system of the country.” The NRB Act was further amended in 2016 with objectives and functions as follows:

Objectives:

1. To formulate monetary and foreign exchange policies and manage them in order to maintain price and balance of payments stability for overall economic stability and sustainable economic development ;
2. To broaden access to financial services and maintain banking and financial sector stability in order to enhance public confidence on, and credibility of the banking and financial system;
3. To develop a secure, healthy and efficient payment system.

Functions, Duties and Powers:

1. To issue bank notes and coins;
2. To formulate and implement monetary policy to maintain price stability;
3. To formulate and implement foreign exchange policy;
4. To determine foreign exchange rate system;
5. To manage and operate foreign exchange reserve;
6. To issue license and regulate, inspect, supervise and monitor Banks and Financial Institutions;
7. To act as the banker, advisor and financial agent of the Government of Nepal (GON);



8. To act as the banker and as the lender of the last resort for BFIs;
9. To establish, promote and regulate payment system including clearing and settlement;
10. To conduct Open Market Operation(OMO)s for liquidity management;
11. To implement any other necessary functions to achieve the objectives of the Bank.

NRB has been focusing its activities towards the achievement of aforementioned objectives. Nevertheless, NRB is facing increasingly difficult circumstances in accomplishing the above mentioned objectives and functions owing to complex and fast changing set of challenges and risks in the financial sector. The increasing openness, growing economic interdependence and deepening economic integration between countries of the world imply that financial waves and shocks emanating in the major industrialized countries spill over across national boundaries. The effects of such waves and shocks occurring in the global financial markets present challenges and opportunities to the policy makers of developing countries like Nepal. So it is important that NRB should enhance its capability to face and manage the increased financial volatility and crises by improving supervisory oversight techniques, maintaining market discipline through good governance and greater transparency, improving risk management practices at the BFIs, and adopting robust regulatory policies. Moreover, the fast changing developments in information and communication technologies in the financial markets have also posed challenges to the NRB to adapt to these for lowering transactions and information costs and promoting efficient operation of market-based financial system. All these reiterate the need to move in a planned way with vision and systematic and disciplined approach.

1.2 Practice of Strategic Planning

Strategic planning has its roots in warfare. The word 'strategy' is derived from an ancient Greek word "strategos" which was used to mean "the General's art" in the context of warfare. The Generals were expected to prepare and implement overall plan in order to win the war through battles, negotiations, or any other means available, according to the changing situation. From the ancient Greek usage in the military context to the business world, the term strategic planning retains much of its original spirit. Adoption of strategic planning in the private business companies can be traced back to 1920s, when the Harvard Policy Model was developed as a part of the business policy course to be taught at



the Harvard Business School. This model defines strategy as a framework which helps a company to determine the organizational structure and business strategies to achieve better result. Starting from 1950's there was a shift in the focus of strategic planning away from organizational policy and structure to risk management, industry growth, and market share. From 1960s, strategic planning became a standard management tool and gained wide popularity in almost every country both in public and private sector activities including the banking industry as a means to achieve the long-term goals with greater efficiency and effectiveness.

Almost all the central banks around the world have adopted the practice of developing and implementing strategic planning. This is done to set vision, determine priorities and actions to strengthen organizational management and operations. The ultimate goals of all the central banks are to maintain financial stability and contribute towards achieving the growth rate set by the government. In this regard, it is necessary for any central bank to strengthen the capability of the organization by enhancing the quality of staff, working environment, internal and external communication, allocation and use of resources in order to safeguard itself against detrimental ripples emanating from domestic as well as foreign events.

1.3 Strategic Planning in Nepal Rastra Bank

Nepal has a history of six decades in planning for the overall development of the economy. The first five year development plan was introduced in 1956. At present, fourteenth plan is in the second year of its implementation.

The practice of formulating and implementing strategic plan at the company level was started very late. In the case of NRB, strategic planning was introduced only in 2006 for a five year period to set the directions of medium term actions of the bank in order to achieve its objectives. The First Strategic Plan was followed by the Second Strategic Plan for a five year period from 2012 to 2016. As the Nepalese economy differs fundamentally in terms of size, structure, level of development, technological advancement, human resource development, and operational practices and efficiency from those of developed countries, western models of strategic planning cannot be replicated in exact manner for Nepal. However, similarity in the objectives and functions of central banks in both the developed and the developing countries implies that lessons can be learnt and



best practices can be gradually applied in harmony with the changes in socio-economic, financial and technological situation faced by NRB.

1.3.1. The First Strategic Plan 2006-2010

The First Strategic Plan 2006-2010 envisaged how NRB would move ahead in attaining mandated goals of maintaining macroeconomic stability through sound and effective monetary, foreign exchange and financial sector policies. Strategic planning framework of the Bank was organized into (a) functional strategies, and (b) management strategies as shown in Table 1.

Table 1: Functional and Management Strategies of First Strategic Plan

Functional Strategies	Strategic Objectives
Monetary Management	To maintain price and external sector stability
Domestic Debt Management	To accomplish efficiency in domestic debt management through open market operation as an effective instrument of monetary policy
Financial Sector Management	To ensure sound, prudent, accessible, and efficient financial system and maintain stability in financial sector
Foreign Exchange Management	To make foreign exchange management more effective and efficient for external sector stability
Currency Management	To circulate quality and clean currency throughout the country efficiently as per the demand

Management Strategies	Strategic Objectives
Human Resources Management	To develop and manage human resources for attaining the objectives of the Bank
Research and Statistics Management	To undertake research relating to NRB's policies and operations and develop internationally acceptable statistical database
Financial Management	To ensure efficient, transparent, accountable and modern financial management system and enhance financial discipline and add value to Bank's operations
Information and Communication Technology Management	Utilize modern information and communication technology (ICT) to facilitate policy decisions and enhance operational efficiency
Legal Affairs Management	Develop an up-to-date legal regime, enhance the level of legal compliance and upgrade and strengthen legal competency



General Services Management	To provide effective general services and strengthen the management of bank's physical assets
Public Affairs Management	To ensure effective and efficient dissemination of information on policies and activities of the Bank

The First Strategic Plan of NRB paved the way for attaining organizational goals in a planned manner. Nearly 85 percent tasks were completed and the rest were dropped because of their irrelevance and some other technical reasons.

1.3.2. Review of the Second Strategic Plan 2012-2016

The Second Strategic Plan was initiated in 2012 and completed in December 2016. The Plan was formulated with the experience of the First Strategic Plan and the activities included in it contributed significantly to maintaining economic and financial stability and making NRB a credible central bank. This plan contained seven important pillars and each pillar had various strategies to achieve the listed tasks (Table 2).

Table 2: Strategic Pillars and Strategic Priorities of Second Strategic Plan

Strategic Pillars	Strategic Priorities
Macroeconomic Stability	<ol style="list-style-type: none"> 1. Improve the effectiveness of monetary policy 2. Strengthen macroeconomic surveillance and enhance the quality of research studies and policy analysis 3. Establish resource center of an international standard
Financial Sector Stability	<ol style="list-style-type: none"> 1. Strengthen the legal framework for financial sector stability 2. Enhance regulatory and supervisory framework against money laundering 3. Strengthen regulatory framework 4. Strengthen supervisory framework to ensure the safety and soundness of the BFIs 5. Introduce forward-looking approaches in supervision of BFIs 6. Establish and strengthen supporting institutions for the financial stability 7. Increase financial deepening 8. Enhance financial inclusion



Foreign Exchange Management	<ol style="list-style-type: none">1. Make foreign exchange reserve management more efficient and effective2. Reform foreign exchange regime to maintain external sector stability
Payment Systems and Mechanisms	<ol style="list-style-type: none">1. Promote efficient and effective payment system2. Ensure timely supply of bank notes and coins
Human Resources Management and Capacity Development	<ol style="list-style-type: none">1. Strengthen the organizational structure of NRB2. Strengthen the human resource management system of NRB
Infrastructure Development, Corporate Governance and Customer Services	<ol style="list-style-type: none">1. Create conducive work environment for the delivery of quality services2. Create sound corporate governance through the strengthening of policies and programs, internal control system and ensuring transparency and accountability
Information and Communications Technology (ICT)	<ol style="list-style-type: none">1. Promote business process automation to improve the efficiency on bank's operations;2. Improve data management capacity and IT security framework3. Implement and Upgrade IT related policies and enhance ICT capacity building.

A total of 201 tasks were planned in the Second Strategic Plan. Of these, 58 tasks were to be completed in 2012; 61 tasks in 2013; 16 tasks in 2014; 13 tasks in 2015 and 26 tasks in 2016. Remaining tasks were of ongoing nature.

The strategic framework of the Second Strategic Plan was framed with 22 priorities along with different sets of objectives. These priorities were further grouped into seven important strategic pillars.

As indicated in the Chart 1 below, 78 percent of the tasks have been accomplished fully and remaining 22 percent tasks are classified as 'under progress'. The tasks classified as 'under progress' are at various stages of implementation and expected to be completed subsequently. Year-wise progress of the Second Strategic Plan is shown in the Chart 2 below.



Chart 1: Implementation Status as of Dec 2016

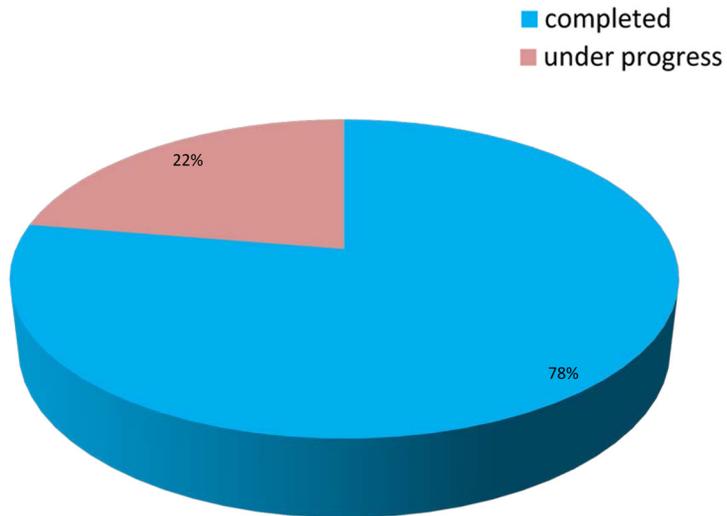
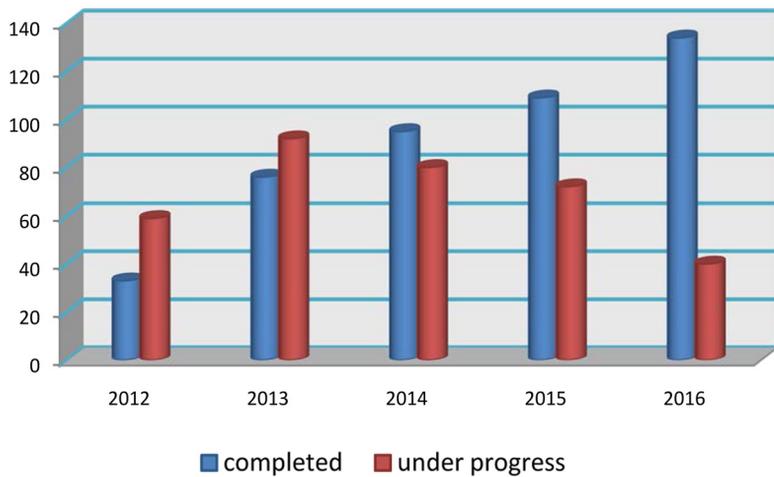


Chart 2: Annual Progress





1.3.2.1 Major Achievements

During the implementation of Second Strategic Plan, NRB was able to accomplish significant achievements. The major achievements include: (a) review and update of BFIs' licensing policy, (b) submission of draft Bill to the GON for setting up of second tier institution (STI) and National Microfinance Development Fund, (c) formulation of a national strategy for financial literacy draft, (d) gradual implementation of international best financial reporting system, (e) strengthening of assets and inventory management system, (f) procurement of goAML Software for FIU, (g) ensuring transparency in information dissemination (h) institutionalization of risk management system, (i) establishment of IT Help Desk, (j) development of international cooperation mechanism on anti-money laundering, (k) initiation for risk based internal auditing system, (l) enforcement of compliance to withdraw soiled and mutilated notes from the market, (m) awareness raising on clean note policy and identification of counterfeit notes, (n) implementation of Olympic Banking System (GL Software) and HRMISS, (o) amendment of NRB Act and Banking Offence and Punishment Act, (p) submission of Banks and Financial Institutions Act (BAFIA) Bill and Foreign Exchange Management Act (FEMA) Bill, (q) amendment of Merger and Acquisition by-laws (r) initiation of capital increment plan of (BFIs) and (s) submission of draft of Financial Sector Development Strategy (FSDS) to the GON.

1.4 The Third Strategic Plan 2017-2021

The Third Strategic Plan (2017-2021) is formulated around the basic NRB objectives and strategic pillars. Its primary focus is on addressing economic and financial issues currently faced by NRB and the Nepalese economy in maintaining macro-economic stability. In addition, this plan is expected to enhance the working environment by improving physical, technological and human resources foundations of NRB. This in turn, is expected to enhance proactive thinking in policy issues, operational procedures and supervisory system apart from initiating prompt actions in addressing the economic and financial challenges confronting the Bank. In addition to making regular activities more dynamic and innovative, new activities are proposed for the next five years in alignment with the vision, mission, objectives and core values enunciated in the plan.

The Plan is formulated through a bottom-up participatory planning process which involved: (i) situational analysis of current internal as well as external environment pertaining to NRB, (ii) Analysis of Strengths, Weaknesses, Opportunities and



Threats (SWOT) of NRB, (iii) preparation of tasks deemed important for next five years for each department and office and (iv) gathering feedback and inputs from department and office chiefs. The implementation plan is framed in terms of actions that are deemed necessary to achieving the objectives under each pillar, Objectively Verifiable Indicator (OVI), Means of Verification (MoV), time line for accomplishment of each action and responsible Departments and Offices.

1.5 Factors Taken into Consideration in the Plan Formulation

Various internal and external factors have been taken into account in formulating the Plan. Some of the major factors are discussed below:

1.5.1 Emerging Economic and Financial Challenges

NRB sets major policy direction through the monetary policy announcement every year prior to the start of fiscal year keeping in view the changing economic and financial environment in the domestic and the world economy. It formulates and implements monetary policy for internal (i.e. growth supportive financial stability and price stability) as well as external sector stability (i.e. stable exchange rate, favourable BOP and maintaining desired level of foreign exchange reserve). Hence, NRB needs to be proactive and vigilant to address short run economic and financial problems, such as asset bubbles, liquidity crunch, fluctuations of interest rates in the international markets etc, without compromising the objective of maintaining economic stability in the long run.

1.5.2 Restructuring of NRB

Nepal has adopted federal democratic structure delineated into seven provincial federal-states. This would have implications on the organizational structure and activities of NRB and the overall financial system. In this context, NRB needs to restructure its organizational setup and activities to suit with the federal structure of the country.

There is also an urgent need to adopt modern technologies for smooth operation of NRB activities and to effectively perform monitoring and supervision of BFIs.

1.5.3 Reconstruction of Buildings

NRB suffered a huge loss of physical infrastructure due to the devastating earthquake of April 25, 2015 and its subsequent aftershocks. The major



historical buildings at Baluwatar, Thapathali and Sundhara which housed NRB central office along with some departments and offices were severely destroyed causing great difficulty in managing office space to the staff and carrying out regular activities. Furthermore, NRB office buildings outside Kathmandu, erected long time back, though not severely affected by the earthquake, are in need of urgent renovation and reconstruction.

1.5.4 Environmental Challenges and Opportunities

NRB's internal environment that consists of organizational development, system and process development, infrastructural development, human resource development, interpersonal relations, work environment, corporate governance and relation building was also taken into consideration in the formulation of this plan, ensuring strong and cohesive organization with highly motivated staff committed to work to the best of their potentials and abilities to provide prompt services to the valued stakeholders and achieve the overall organizational goals. All these imply that human resource plays a key role in achieving NRB's goals and objectives.

External environment of NRB is shaped by the interplay of the BFIs, GON, international organizations and other concerned agencies and general public. NRB is likely to face uncertainties in the course of rendering services owing to changes in external environment. Thus, it is necessary for NRB to keep abreast of changing external environment in order to cope with the changes and challenges thereof by adopting appropriate policy tools.

1.5.5 Ensuring Good Governance

Governance refers to the state of affairs or process or act of governing any organization. When it comes to an organized corporate sector, it is the way by which an organization is directed and managed. The relative effectiveness of corporate governance has a profound effect on how well an organization performs by complying with laws, rules, regulations, guidelines, code of conduct and best practices to minimize the associated risks and thereby enhancing organizational credibility. NRB needs to follow the prevalent legal provisions, regulations, guidelines, code of conduct and best practices for ensuring good corporate governance.



"A Modern, Dynamic, Credible and Effective Central Bank"





CHAPTER 2 VISION, MISSION, CORE VALUES AND STRATEGIC OBJECTIVES

2.1 Vision

“A Modern, Dynamic, Credible and Effective Central Bank”

NRB has set the vision statement to provide clear direction towards achieving its goals and adopt forward looking approach in service delivery.

Modern reflects NRB's commitment to practice best international standards, policies, rules, regulations and carry out modern central banking functions in a holistic manner. NRB contemplates for new ideas and technologies, workflows, and methodologies into its service delivery that creates value for its stakeholders.

NRB is dedicated in maintaining **Dynamism** through embracing changes by updating and upgrading its functions in a timely manner. It is determined to cope up with future opportunities and challenges.

NRB is committed to maintain trustworthy relationship with its stakeholders adhering to the highest ethical standard particularly in policy formulation, decision making and service delivery. For this, NRB continuously strives to reinforce **Credibility** through formulation of consistent policies and programs in conjunction with the legislation and policies of the GON.

NRB has been working consistently to enhance its efficiency and **Effectiveness** as a capable Central Bank by demonstrating the philosophy of “Leading by Example”. Its focus is on utilizing its limited resources efficiently to achieve its goals and objectives by addressing contemporary issues and challenges.

2.2 Mission

“Maintaining Macroeconomic and Financial Stability for Sustainable and Inclusive Economic Growth through Proactive and Effective Monetary and Financial Policies”

NRB's primary focus is on formulating and implementing effective monetary policy as an important tool for economic stability and growth. Owing to the importance of internal as well as external stability, it tries to ensure efficient transmission mechanism of policy instruments to maintain **Macroeconomic Stability**.



NRB is committed to formulating appropriate regulatory framework and implementing prudential practices in order to maintain financial stability. It is equally concerned with executing efficient supervisory framework that is compatible with internal regulations and Basel core principles. Simultaneously, it has accorded high priority to implement Financial Sector Development Strategy (FSDS) approved by the GON in January 2017. All these commitments and initiations will help maintaining **Financial Stability**.

NRB gives high priority towards formulating monetary and financial policies in order to increase credit flow in productive and priority sectors for sustainable and equitable growth. This will help to create value addition and capital formation through production and productivity increase; and income and employment generation. For this, NRB aims to facilitate **Sustainable and Inclusive Economic Growth** through **Proactive and Effective Monetary and Financial Policies**.

2.3 Core Values

Values are the beliefs or ideals shared by the members within the organization. Such values are established as guiding principles for better organizational image. Each and every staff/member in NRB is expected to exhibit these values in their day-to-day activities. The core values identified in the first and second five-year strategic plans have been modified in the Third Plan in line with changing context.

*Core Values of the Bank are reflected by the word “**CREATIVE**”*

C: Committed

NRB is committed to achieve the institutional objectives and goals by delivering quality services to its stakeholders.

R: Responsible

NRB is dedicated to discharge its roles and responsibilities with best efforts and capabilities through continually upgrading skills and knowledge, maintaining effective system of communication and consultation for being responsible for effective service delivery.

E: Efficient

NRB strives for high level of efficiency and effectiveness in achieving the objectives of the Bank by embracing emerging changes in the domestic as well as international financial markets.



A: Accountable

NRB is committed to ensuring accountability and transparency in its activities through good governance and public dissemination of information. The Bank maintains integrity in its actions and decisions.

T: Team-Spirit

NRB believes in team spirit to foster interdepartmental trust and coordination by adopting participative and collaborative approach in decision making and service delivery process.

I: Inclusive

NRB endeavours to adopt innovative ideas and inclusive policies to cater to the financial needs of the different sectors of the economy. Such policies ensure improved financial access, widened financial literacy and greater consumer protection in order to facilitate sustainable and equitable economic growth.

V: Visionary

NRB believes in visionary and proactive policies to attain macroeconomic and financial stability. For this purpose, NRB shall formulate appropriate policies to address current issues and problems and suitable strategies to mitigate the potential threats.

E: Equitable

NRB is committed to provide fair treatment to all its stakeholders. It ensures integrity and honesty by assuring impartiality in its policies, functions and services.

2.4 Objectives

The main objective of the Third Strategic Plan is to facilitate the attainment of macroeconomic and financial stability and enhance NRB's credibility. The focus of the Third Strategic Plan will be centered on restructuring of the NRB in accordance with federal structure, constructing earthquake devastated buildings, modernizing ICT system, adopting technological advancements, upgrading payment system, strengthening good governance and institutional capabilities and maintaining good relations with national as well as international entities.



CREATIVE





CHAPTER 3

STRATEGIC PLANNING FRAMEWORK

3.1 Conceptual Framework

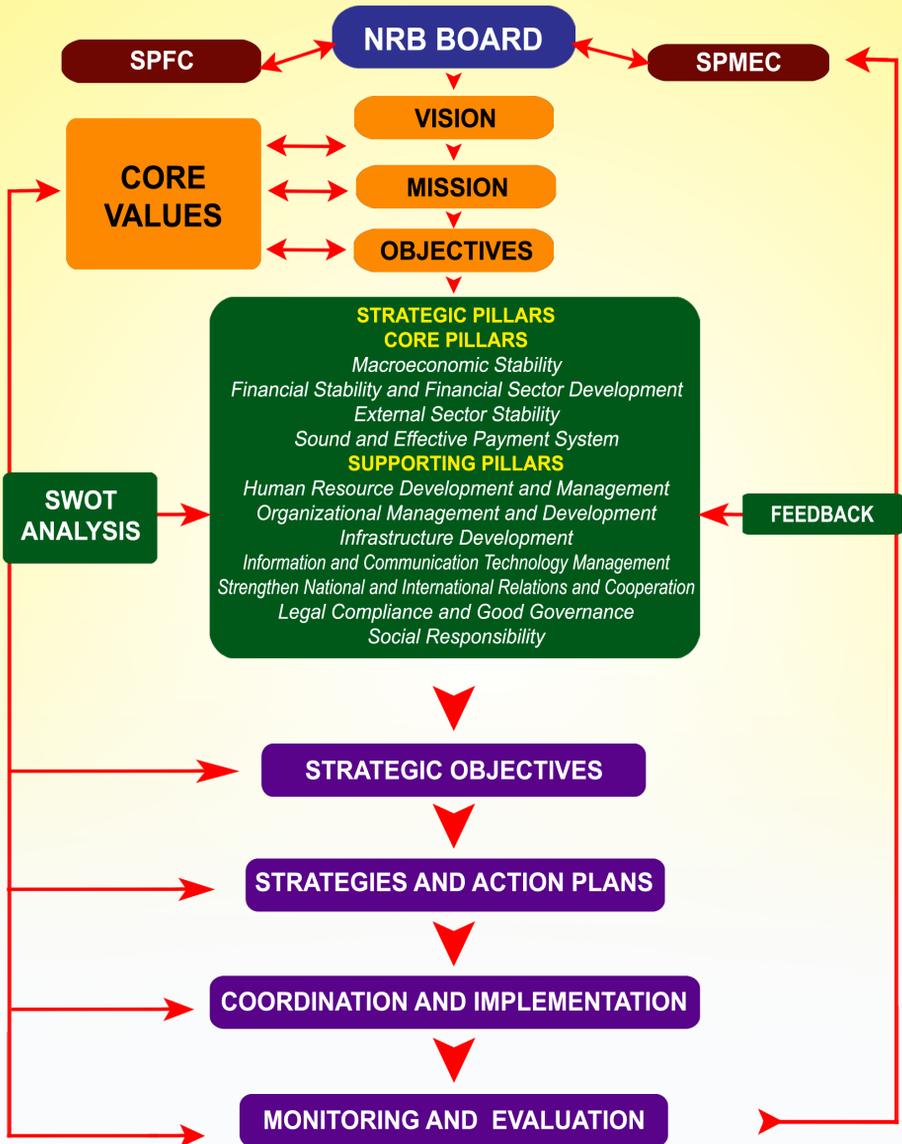
Strategic Planning provides a framework for defining NRB's vision, mission, goals, strategies, core values and objectives to be achieved in the next five years. It involves a process of setting action plans for guiding day to day activities and performance indicators to evaluate the implementation progress on a periodic basis. The formulation of strategic plan requires a SWOT analysis in order to identify NRB's internal strengths and weaknesses as well as opportunities and threats. Such analysis helps the NRB to find out the steps needed to capitalize on the strengths, to minimize the weaknesses, to take advantage of opportunities and to respond to threats.

The previous strategic plans as well as the ongoing activities were carefully reviewed so as to assess their relevance in formulating the Third Strategic Plan. The proposed Plan is expected to reorient the NRB's activities to the changes in the internal as well as external environment through appropriate policies and programs. Moreover, action plans and responsibilities are predefined to ensure the attainment of strategic objectives under each strategic pillar. The framework also consists of periodic reporting, monitoring, evaluation and feedback for the effective implementation of the Plan.

The Strategic Planning Framework is exhibited in a flow chart given below:



STRATEGIC PLANNING FRAMEWORK





3.2 Strategic Pillars

The Third Strategic Plan is built on four core pillars, which are supported by seven supporting pillars. The core pillars are set to guide the NRB on the way to achieve the objectives of economic and financial stability. The supporting pillars are designed for complementing the accomplishment of key strategic pillars. These pillars are mutually reinforcing thereby influencing the overall achievement of the Plan. Each core and supporting pillar is briefly elaborated below.

3.2.1 Core Pillars

Pillar One: Macroeconomic Stability

Macroeconomic stability is essential for achieving high levels of sustainable economic growth by providing a more secure environment for the promotion of private sector investment. Various empirical studies have shown that sound macroeconomic management is associated with a higher growth rate for a given rate of investment. It also minimizes economic vulnerability from potential internal and external shocks. In course of the implementation of this Plan, NRB aims to establish transparency, effectiveness, and efficiency of transmission mechanism of monetary policy.

Pillar Two: Financial Stability and Financial Sector Development

Financial sector stability ensures resilient financial system that withstands internal and external shocks that arise from various socio-economic factors. Such stability is important to create public confidence on financial system and to promote conducive environment for depositors, borrowers and investors. A stable financial system, therefore, encourages efficient financial intermediation, which encourages investment, facilitates effective and efficient operation of financial markets and improves rational distribution of resources in the economy through increased level of productive activities.

Generally, stable and well functioning financial system is maintained through (i) monitoring and regulating of financial system, (ii) designing and building of financial system safety nets, (iii) creating strong legal framework and (iv) promoting financial deepening/development through proper financial infrastructures. For this purpose, the Bank will adopt and implement global best practices of macro prudential regulation and supervision techniques.

NRB is committed to promote financial inclusion across regions and people, particularly focusing on providing financial services to the disadvantaged



segment of the population at affordable costs. NRB will also ensure prompt availability of financial services to the general public without any discrimination in terms of cost and access to services.

Pillar Three: External Sector Stability

External sector stability plays an important role in supporting growth and poverty reduction. International transactions in the form of imports and exports, capital inflows and outflows and the overall BOP are important factors in affecting growth rate and macro-economic stability of the country. Other factors influencing external sector stability encompass Foreign Direct Investment (FDI), external debt, exchange rate, and foreign exchange reserve position. Foreign exchange reserve being an important component of national assets needs to be managed effectively by maintaining a proper balance amongst safety, liquidity, and return.

The external stability generally refers to maintaining adequate level of international reserves as targeted by the policy for meeting international payment obligations, strengthening foreign exchange regulatory framework and effective management of reserve portfolio. A number of indicators are used to gauge the state of the external sector, and monitor whether external stability is being achieved. Maintaining stability of the exchange rate in the FOREX market, reducing the size of the current account deficit, maintaining a favourable BOP position, attaining stable and reasonable level of foreign debt and outflow of principal and interest payments and pursuing effective reserve management are key elements for maintaining external sector stability.

As effective foreign exchange management is the key element for the external sector stability, there is a need for: (i) maintaining adequate level of reserves for meeting convertible currency denominated payment obligation and external trade facilitation, (ii) reserve portfolio diversification to minimize risks and optimization of returns and (iii) gradual liberalization of capital account.

Pillar Four: Sound and Effective Payment System

The world is moving faster towards adoption of modern technologies including electronic payments in settling financial transactions or in the purchase of goods and services. The traditional payment system has many problems and is being gradually replaced by electronic payment system all over the world. In line with the global trend, NRB aims at gradually moving towards cashless society by facilitating various instruments of electronic payments in a safe, secured and



efficient manner.

Effective payment system enhances the stability of the financial sector, reduces transaction costs in the economy, promotes the efficient use of financial resources, improves market liquidity and facilitates effective implementation of monetary policy. NRB aims at increasing the effectiveness of payment system through (i) strengthening payment and settlement legal framework and regulatory mechanism, (ii) introducing Real Time Gross Settlement (RTGS) for large value payment system, and (iii) establishing National Payment Gateway (NPG) and National Payment Switch (NPS).

3.2.2. Supporting Pillars

Pillar One: Human Resource Development and Management

Human resources constitute of one of the key factors in the attainment of vision, mission, goals and objectives of an organization. It is, therefore, important to attract and retain qualified manpower and motivate them to work with high commitment and integrity by providing attractive facilities, conducive work environment and opportunities for career development. NRB accords high priority to strengthen human capital through adoption of scientific performance appraisal system, career planning, succession planning, and institutional memory system. In this regard NRB shall (i) formulate and implement HR Plan, (ii) ensure effective use of Human Resource Management Information System Software (HRMISS), and (iii) ensure capacity building.

Pillar Two: Organizational Management and Development

NRB is in an urgent need to diagnose the structural rigidness, procedural hurdles and obstacles in its operations. Considering continuous innovations in global and domestic financial markets, NRB requires to adopt innovative practices in its work modalities and procedures, managerial practices and operational system. In view of the country recently moving towards the federal structure, NRB has to restructure its organizational set-up and operational modalities. Thus, understanding the importance of structural change and obligation to adopt new developments, NRB has to give high priority to reorganize its set-up by ensuring improved work environment, adequate capacity building, improved service delivery mechanism, and strengthened stakeholders' relation.



Pillar Three: Infrastructure Development

Adequate physical infrastructure supported by modern logistic is a prerequisite for smooth functioning of the Bank. In this context, NRB's physical infrastructure was immensely damaged by the devastating earthquake of 25 April, 2015, creating severe problem in smooth functioning of the Bank. It is therefore, important to give high priority to construct modern buildings equipped with necessary office support system. In addition, it is important to undertake timely repair and maintenance of various assets including buildings, machinery and equipment; and vehicles. To ensure the procurement of quality goods and services, strong legal and procurement procedure should be developed and enforced. NRB also has to give attention to equity consideration in providing pecuniary and other facilities to staff. For uninterrupted operations and service delivery, NRB has to formulate and implement Business Continuity Plan (BCP) with high priority.

Pillar Four: Information and Communication Technology Management

Use of modern Information and Communication Technology (ICT) is indispensable to carry out central banking functions more effectively and efficiently. As NRB is recently exposed to modern ICT, it needs to capitalize the opportunities available and face the challenges created by it. Increased use of ICT in business operations and service delivery by adopting innovative ICT system, and using emerging cloud computing services has to be encouraged. For these, NRB needs to expedite installation and implementation of state-of-the-art ICT system including Data Centre, Production Site and Disaster Recovery (DR) Site.

NRB's existing ICT policy includes outsourcing the non-core ICT services, promoting automation in the Bank, strengthening institutional memory through digitization and safeguarding the information management system. In this regard, NRB's ICT policy has to be amended to accommodate the emerging changes in the ICT system. It is important to protect the system from potential cyber crimes, hardware breakdown, network failures, and unauthorized access to data and information. Accordingly, existing ICT Guidelines and ICT Code of Conduct should also be reviewed for aligning them with ICT Policy.

Pillar Five: Strengthen National and International Relations and Cooperation

NRB has been effortful to strengthening its relationship with both the national as well as international institutions. With regard to national institutions, NRB has been in constant dialogue and interaction with the concerned Government



Ministries and entities and private sector organizations on pertinent monetary and financial issues of national importance. NRB's associations and networking with Central Banks and financial institutions of various countries, bilateral and multilateral link and participation in the conferences and meetings of various organizations have given opportunities to benefit from experience sharing and learning from latest developments in monetary and financial policy issues. Furthermore, NRB can also learn from the global best practices in central banking and regulatory and supervisory mechanisms.

Pillar Six: Legal Compliance and Good Governance

Legal provisions incorporated in NRB Act and other prevalent Acts, rules, bylaws, directives, guidelines, regulations and policies have helped to ensure transparency and accountability among Departments and Offices. Such legal provisions also provide guidelines to the NRB Board in overseeing major policy thrusts and initiating corrective measures for ensuring macro-economic and financial stability along with institutional good governance. These legal provisions also bind the staff to perform their respective roles and carry out their responsibilities with honesty for effective and efficient service delivery. Moreover, legal compliance and good governance would help NRB to build its image and reputation as a credible Central Bank.

Pillar Seven: Social Responsibility

NRB has been mindful in incorporating necessary provisions in its regulatory and supervisory mechanisms to safeguard the concerns and rights of customers and other concerned stakeholders. Furthermore, NRB strives for raising financial awareness and literacy about availability of banking and financial products and services by organizing various programs in educational institutions and different communities. In addition, the Third Strategic Plan also propels the banks and financial institutions to comply with NRB directive pertaining to corporate social responsibility (CSR). Moreover, it will also strengthen and carry forward the grievance handling mechanisms for resolving unfair practices prevailing in the financial system. The Third Strategic Plan shall also give priority to disseminate information for public use to ensure peoples' right to information.



Table 3: Core Pillars and Supporting Pillars

S.N.	Strategic Pillars	Objectives
1.0	Core Pillars	
1.1	Macroeconomic Stability	<ol style="list-style-type: none"> 1. Maintaining price stability 2. Supporting economic growth 3. Maintaining robust macroeconomic surveillance system 4. Strengthening research and forecasting capabilities
1.2	Financial Stability and Financial Sector Development	<ol style="list-style-type: none"> 1. Strengthening regulatory framework 2. Strengthening supervisory system 3. Reforming financial sector 4. Enhancing financial access and financial inclusion
1.3	External Sector Stability	<ol style="list-style-type: none"> 1. Strengthening foreign exchange regulatory and supervisory framework 2. Effective reserve management 3. Reviewing exchange rate policy and initiating legislative reforms
1.4	Sound and Effective Payment System	<ol style="list-style-type: none"> 1. Developing financial market infrastructure for payment system 2. Strengthening payment system regulatory mechanism
2.0	Supporting Pillars	
2.1	Human Resource Development and Management	<ol style="list-style-type: none"> 1. Developing and implementing human resource plan 2. Strengthening the human resource management system 3. Overall capacity building
2.2	Organizational Management and Development	<ol style="list-style-type: none"> 1. Restructuring organizational set-up 2. Improving service delivery system
2.3	Infrastructure Development	<ol style="list-style-type: none"> 1. Building physical infrastructure 2. Ensuring business continuity
2.4	Information and Communication Technology (ICT) Management	<ol style="list-style-type: none"> 1. Developing information and communication technology (ICT) infrastructure 2. Enhancing information and communication technology (ICT) management 3. Upgrading the level of mechanization
2.5	Strengthen National and International Relations	<ol style="list-style-type: none"> 1. Enhancing information dissemination system 2. Strengthening cooperation and co-ordination with national and international stakeholders
2.6	Legal Compliance and Good Governance	<ol style="list-style-type: none"> 1. Strengthening legal compliance 2. Effective planning, programming, budgeting and control 3. Strengthening risk management system 4. Strengthening good governance
2.7	Social Responsibility	<ol style="list-style-type: none"> 1. Ensuring financial consumer protection 2. Enhancing financial awareness



Annex - 2

SWOT Matrix

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Conducive legal framework and operational autonomy • Strong regulatory and supervisory system • Stable and supportive leadership • Collective decision making process • Committed towards good governance • Adequate financial resources • Competent and motivated human resource • Adoption of functional software backed up by advanced hardware and equipments • Physical presence covering major geographical areas • Good international relations 	<ul style="list-style-type: none"> • Lack of business continuity plan • Lack of HR plan • Weak institutional memory • Inadequate IT infrastructure and automation • Inadequate Management Information System (MIS) • Inadequate system audit • Cumbersome procurement process • Inadequate physical infrastructure
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Increasing public trust and confidence • Inter-linkage with various national and international organizations • Conducive environment for adopting global best practices • Restructuring organizational set-up in line with the federal system • Enhanced financial access and inclusion • Increasing use of FinTech/ RegTech • Scope for constructing modern building 	<ul style="list-style-type: none"> • Volatility in domestic and global financial market • Informal financial market and Shadow banking • Inadequate financial market infrastructure • Multiple banking • Financial and cyber crimes • Ever changing technologies • Pressure groups in internal functioning and management

Note: After discussion at different stages of the Plan Formulation above SWOT matrix has been derived.



Annex - 3

List of Principal Officers of Nepal Rastra Bank

Executive Directors		
1	Mr. Narayan Prasad Paudel	Banks and Financial Inst. Regulation Dept.
2	Mr. Nara Bahadur Thapa	Research Department
3	Mr. Janak Bahadur Adhikari	Banking Office, Thapathali
4	Mr. Bhisma Raj Dhungana	Corporate Planning Department
5	Mr. Laxmi Prapanna Niraula	Currency Management Department
6	Dr. Shankar Prashad Acharya	Payment Systems Department
7	Mr. Maheshwor Lal Shrestha	Bank Supervision Department
8	Mr. Bhuban Kadel	Development Bank Supervision Department
9	Mr. Ramesh Kumar Pokharel	Foreign Exchange Management Department
Executive Directors (Acting)		
1	Dr. Nephil Matangi Maskay	Office of the Governor
2	Mr. Upendra Kumar Paudel	Micro-Finance Promotion & Supervision Dept.
3	Mr. Ejendra Prasad Luitel	General Services Department
4	Dr. Bhubanesh Prasad Pant	Public Debt Management Department
5	Mr. Basudev Adhikari	Finance Company Supervision Department
6	Dr. Gopal Prasad Bhatta	Human Resources Management Department
7	Mrs. Nilam Dhungana	Internal Audit Department
Directors		
1	Mr. Jhalak Sharma Acharya	Problem Bank Resolution Division
2	Mr. Dev Kumar Dhakal	Micro-Finance Promotion & Supervision Dept.
3	Mr. Mukunda Kumar Chhetri	Bank Supervision Department
4	Mr. Harisharan K.c.	Banks and Financial Inst. Regulation Dept.
5	Mr. Pitambar Bhandari	Research Department
6	Mr. Rajendra Pandit	Office of the Governor
7	Mr. Sunil Udash	Foreign Exchange Management Department
8	Mr. Rishikesh Bhatta	Bank Supervision Department
9	Mr. Mukunda Mahat	Human Resources Management Department
10	Mr. Pradeep Raj Poudyal	Research Department
11	Dr. Gunakar Bhatta	Research Department
12	Mr. Naresh Shakya	Development Bank Supervision Department
13	Mr. Suman Kumar Adhikari	Corporate Planning Department
14	Mr. Raman Nepal	Banks and Financial Inst. Regulation Dept.
15	Mr. Bam Bahadur Mishra	Banks and Financial Inst. Regulation Dept.



16	Dr. Prakash Kumar Shrestha	Research Department
17	Mrs. Sita Ghimire	Public Debt Management Department
18	Mr. Bhisma Prasad Upreti	Currency Management Department
19	Mrs. Sarita Bhatta (Adhikari)	Banking Office, Thapathali
20	Mr. Revati Prasad Nepal	Payment Systems Department
21	Mr. Ramu Poudel	Financial Information Unit
22	Mr. Vishrut Thapa	Finance Company Supervision Department
23	Mr. Ram Bahadur Manandhar	Payment Systems Department
24	Mr. Binod Kumar Tandukar	Development Bank Supervision Department
25	Mr. Chiranjibi Chapagain	Office of the Governor
26	Mr. Tej Bahadur Rana Magar	Financial Management Department
27	Mr. Ramhari Neupane	Legal Division
28	Mr. Dhananjaya Sharma	Nepal Rastra Bank, Dhangadhi
29	Mr. Daya Ram Sharma	Micro-Finance Promotion & Supervision Dept.
30	Mr. Tulasi Prasad Ghimire	Banking Office, Thapathali
31	Mr. Guru Prasad Poudel	Nepal Rastra Bank, Nepalgunj
32	Mr. Ashok Kumar Poudel	Nepal Rastra Bank, Siddharthanagar
33	Mr. Rabindra Maharjan	Nepal Rastra Bank, Birgunj
34	Mr. Bimal Raj Khanal	Development Bank Supervision Department
35	Mr. Binod Raj Acharya	Nepal Rastra Bank, Biratnagar
36	Mr. Pom Nath Gautam	Nepal Rastra Bank, Pokhara
37	Mr. Ram Prasad Gautam	Nepal Rastra Bank, Janakpur
38	Mr. Shiva Ram Dawadi	Information Technology Department
39	Mr. Kiran Pandit	Bank Supervision Department
40	Mr. Satyendra Timilsina	Currency Management Department

Directors (Acting)

1	Mrs. Binita Bista	Banking Office, Thapathali
2	Mr. Prahlad Thapa	Financial Management Department
3	Mr. Uddhab Lal Ranjitkar	Bankers Training Center
4	Mr. Chet Prasad Uprety	Foreign Exchange Management Department
5	Mr. Balaram Paudel	Human Resources Management Department
6	Mr. Prem Prasad Neupane	Currency Management Department
7	Mr. Ishwori Prasad Neupane	Finance Company Supervision Department
8	Mr. Ananda Poudyal	General Services Department
9	Mr. Roshan Kumar Sigdel	Internal Audit Department
10	Mr. Krishna Murari Ghimire	General Services Department
11	Mr. Keshav Thapa	Human Resources Management Department



Photo Gallery

SWOT Analysis Seminar January 25, 2017







Strategic Planning Seminar

March 28, 2017









Interaction on Final Draft of Third Strategic Plan June 30, 2017





(Nepal Rastra Bank, Banking Office, Thapathali building before devastation by earthquake of April 25, 2015)



(Nepal Rastra Bank, Central Office building
before devastation by earthquake of April 25, 2015)



Nepal Rastra Bank
Central Office,
Baluwatar, Kathmandu, Nepal