



Nepal

NEPAL

Nepal is a small landlocked country lying between India in the south, east and west, and China in the north. The land area is 147,181 square kilometres. Kathmandu is the capital city of Nepal. The official language is Nepali and the monetary unit is the rupee, which was exchanged at NRs. 74.70 (mid-rate) to a US dollar as on 16 December 2009. The low land of the country is in the south, which is about 152 meters above sea level while Mount Everest, the highest peak (at 8,848 meters) in the world, is in the north. Nepal has a total population of 23.2 million (Population Census 2001).

NEPAL RASTRA BANK

NEPAL RASTRA BANK (NRB) was established in 1956. The Central Office and Banking Office of the Bank are in Kathmandu. It has seven other offices outside Kathmandu Valley.

Policy-Making Body	The Board of Directors, which consists of the Governor as Chairman, Finance Secretary, two Deputy Governors, and three independent Directors, appointed by the Government of Nepal from amongst the persons renowned in the field of economics, monetary, banking, finance and commercial Law as Board members, is the policy-making body of NRB.
Frequency of Meeting	The Board meets, as summoned by the Governor as per the requirement of the Bank, at least once every month.
Degree of Independence	The NRB Act 2002, which has granted more autonomy to the NRB, came into effect since 31 January 2002, replacing the NRB Act 1955. In the new Act, the maximum limit for government overdraft borrowing from NRB has been fixed at 5% of the preceding year's net government revenue. The new Act has also given autonomy to NRB to choose the appropriate exchange rate regime. Additionally, the new Act includes a definite procedure for the appointment and dismissal of the Governor. It has also upgraded the positions of the two Deputy Governors to be voting members of the Board. All these provisions in the new Act have enhanced the degree of independence of NRB.
Policy Information Released by NRB	As mandated in the NRB Act 2002, NRB prepares and publishes the annual monetary policy statement at the beginning of the fiscal year i.e. mid-July. The Bank also prepares and releases the mid-term review of monetary policy. NRB announces its policy and information through its own publications and other public media. It also releases information on other activities through circulars to concerned agencies/institutions. The Bank publishes monthly statements of its accounts.

NRB submits the annual report to the Government and publishes the same for the public. It publishes the Economic Bulletin on a quarterly basis and the Economic Report annually. NRB prepares a monthly report on macroeconomic situation which is released to the general public through news media. NRB publishes the foreign exchange rates via all available public media on a daily basis. It also publishes, on a weekly basis, the treasury bill auction rates. NRB disseminates information through its website at <http://www.nrb.org.np> as well.

MONETARY POLICY IMPLEMENTATION

Policy Targets The objectives of monetary policy, as mentioned in the NRB Act 2002, are geared towards maintaining domestic price stability, securing a reasonable Balance of Payments surplus and maintaining financial sector stability. With the gradual liberalisation of the external sector and the adoption of a flexible exchange rate system vis-à-vis convertible currencies and the fixed exchange rate vis-à-vis the Indian rupee, the focus is given to price stability and external sector stability. Monetary cum credit aggregates are used as intermediate targets. The fixed exchange rate with Indian currency continues to be a nominal anchor of monetary policy. Excess liquidity of commercial banks is chosen as the operating target.

Policy Instruments *Primary Policy Tools:*

Open market operation has been an effective monetary instrument for the monetary management in Nepal. CRR and the bank rate are used as an ex ante stance of monetary policy and has been revised considering the risk at prices. For monetary policy in 2009/10, the CRR and bank rate have been same as 5.5% and 6.5% respectively as it was in 2008/9. Open market operation, an ex post stance of monetary policy, is conducted every week on Government Treasury bills of various maturity periods of 28-days, 91-days, 182-days and 364-days. Outright sale and purchase auctions are done on a multiple price basis whereas repo and reverse repo auctions are conducted on multiple interest rate basis. Repo and reverse repo auctions are the collateralised window for short-term liquidity management. The maturity period for such auctions ranges from 1 to 28 days. From 2008/09, the counter-parties of monetary policy have been broadened to include development banks and finance companies. Therefore, the facilities of open market operations have been granted to development banks and finance companies along with commercial banks. Of the total amount offered for auctions, 15% is allotted for the non-competitive bidders. Open market operations have been conducted based on the excess liquidity indicated by the liquidity monitoring and forecasting framework (LMFF).

An automatic and fully collateralised standing liquidity facility (SLF) has been instituted to facilitate the domestic payment system. Commercial banks, development banks and finance companies can use this facility for a maximum period of 5 days on an interest rate determined by adding 3% penal rate on the latest 91-day Treasury bills or the latest repo rate of within 30 days or the existing bank rate, whichever is the higher. The maximum standing facility that these institutions can use is limited to 90% of the collateral value.

Other Policy Tools:

The Bank also uses other tools such as refinancing to export based industries, sick industries, small and cottage industries and refinance to deprived sectors. There are four different refinance rates: 2.0% for export credit in local currency, 3.5% for Rural Development Banks, 1.5% for sick industries, and 0.25 percentage point plus LIBOR Rate for export credit in foreign currency.

IMF Facility

Following the completion of the SAF, Nepal concluded an agreement with the IMF for Enhanced Structural Adjustment Facility (ESAF) in 1992/93. The loan amount sanctioned for this programme was SDR 33.57 million. The programme was for a period of three years. In November 2003, Nepal entered into the arrangement of Poverty Reduction and Growth Facility (PRGF). This three-year arrangement approved by the IMF Executive Board was extended to 18 November 2007. The Board completed the fifth and final review of Nepal's economic performance under PRGF arrangement in November 2007. The completion of the review makes SDR 10.69 million (about US\$16.9 million) available to Nepal, which would bring the total amount drawn under the arrangement to SDR 49.9 million (about US\$79.1 million).

Policy Signals

Since interest rates are completely liberalised, NRB signals its policy stance either through open market operations, bank rate or CRR. Secular policy signals are given through changes in the bank rate and CRR. However, the short-term policy signals are provided through the quantities for sale auction, purchase auction, repo auction and reverse repo auction.

**FINANCIAL
STABILITY**

**Authorities
Responsible for
Financial
Stability and
Supervision of
the Financial
Sector**

NRB is the apex authority responsible for financial stability of the country. NRB is authorised and also responsible for the regulation and supervision of commercial banks and all other financial institutions licensed by it. The Insurance Board and Securities Board of Nepal (SEBON) are the regulatory and supervisory authorities for insurance companies and Nepal Stock Exchange Limited (only one stock exchange in Nepal, which is owned by the government) respectively.

**Institutional
Coverage of the
Financial
Supervisory
Authorities**

All the financial institutions undertaking banking activities are licensed and supervised by NRB. Among the financial intermediaries; commercial banks, development banks, finance companies, micro-finance development banks and other micro-finance institutions that are licensed to perform limited banking activities are under the supervision of NRB.

**Strategy for
Supervision
and Monitoring
of Financial
Stability**

To ensure that the overall financial system in the country is safe and sound and threats to financial stability are identified and reduced, NRB is currently using CAMELS based approach for supervision. Similarly, CAELS based offsite surveillance with early warning measures are also adopted to meet the supervisory objectives. NRB is conducting risk assessment and risk reduction approaches to ensure financial stability. NRB is gradually moving towards risk-based approach for supervision. NRB has implemented the Prompt Corrective Action (PCA) Rule to safeguard the financial system effective from mid – October 2008. Under the PCA Rule, banks and financial institutions licensed by NRB should maintain the prescribed level of capital fund; otherwise the NRB will take necessary actions promptly.

**Plan and
Progress for
the
Implementation
of Basel II**

NRB has initiated the implementation of Basel II. In this process, a high level Basel II core preparatory committee and a working group called the Accord Implementation Group (AIG) were formed, comprising of central bank and commercial banks' officials. A quantitative impact study was also conducted. A draft for the new capital adequacy framework was published and several interactions among stakeholders were held. Subsequently, NRB introduced a new framework on a parallel basis since July 2007 for at least one year and made mandatory for compliance from July 2008.

With respect to the approaches, the simplest and most practical approach suitable for the Nepalese banking industry called Simplified Standardized Approach (SSA) has been selected to implement Basel II known as "Basel II Minus". The advanced approaches in Nepal's circumstances may still be a long way off although it has been planned that more advanced approaches be adopted gradually as the market attains maturity and becomes more sophisticated.

**CURRENT
MONETARY
OFFICIALS
(as of December
2009)**

Governor

Mr. Bijaya Nath Bhattarai
(reinstated from 24 July 2009)

**Deputy
Governors**

Mr. Krishna Bahadur Manandhar
Mr. B. B. Rayamajhi

Executive Directors Mr. S.R. Mathema
Banks & Financial Institutions Regulation Department

Mr. G. P. Kaphle
Office of the Governor

Mr. R. P. Pandey
Research Department

Mr. L.P. Sitaula
Public Debt Management Department

Mr. A.K. Thakur
Currency Management Department

Mr. Mr. B. Nepal
Micro Finance Department

Mr. G.R. Thapa
Human Resource Management Department

Mr. R. Regmi
Corporate Planning Department

Mr. B. M. Gyawali
Foreign Exchange Management Department

Mr. M.K. Shrestha
Financial Management Department

Mr. L.B. Khadka
Financial Institutions Supervision Department

Mr. P.R. Pandey
Bankers' Training Center

Mr. H.P. Kaphle
General Services Department

Mr. S.K. Joshi
Banking Office, Thapathali

Mr. M.P. Adhikari
Bank Supervision Department

Mr. T. Pangen
Internal Audit Department

MINISTRY OF FINANCE

Minister for Finance Mr. Surendra Prasad Pandey

Finance Secretaries Mr. Rameshor Prasad Khanal
Mr. Krishna Hari Baskota

Address: Nepal Rastra Bank, Central Office, Baluwatar, Kathmandu, NEPAL
Telephone: (9771) 4 419-804; **Facsimile:** (9771) 4 414-553; **Telex:** 2207 RABA NP;
Email: researchifd@nrb.org.np; **Website:** <http://www.nrb.org.np>