

Integrated Reform Impact Assessment Report

NRB Bill 2082 (Third Amendment), BAFIA Amendment, and Financial Sector Strategy 2025/26–2029/30

Financial Sector Stability, Policy Coherence, Risk Profile, and Structural Gaps

Nepal is undertaking one of the most comprehensive financial sector reform cycles since liberalization through three major pillars: (i) the proposed NRB Bill 2082 (Third Amendment), (ii) amendments to the Bank and Financial Institutions Act (BAFIA), and (iii) the Financial Sector Strategy 2025/26–2029/30. Collectively, these reforms aim to modernize central banking, strengthen governance, institutionalize risk-based supervision, formalize bank resolution mechanisms, integrate digital finance, expand inclusion, and reinforce macroeconomic discipline. The overall reform direction is structurally sound and globally aligned. However, the transition carries moderate-to-high implementation risk, especially in supervisory capacity, cybersecurity exposure, credit transmission, fiscal coordination, and regulatory overlap. While long-term stability gains are substantial, short-term adjustment pressures must be carefully managed through sequencing and institutional strengthening.

1. Structural Impact of the NRB Bill 2082

The proposed NRB Bill modernizes Nepal’s central banking framework by strengthening autonomy, governance, transparency, and systemic oversight. It reinforces institutional independence through clearer appointment safeguards, refined governance standards, enhanced internal audit structures, and legal immunity for officials acting in good faith. By tightening overdraft limits and clarifying fiscal-monetary boundaries, the Bill reduces fiscal dominance and enhances macroeconomic credibility.

A major structural shift is the formal adoption of risk-based supervision and structured bank resolution tools. This aligns Nepal with post-global financial crisis regulatory standards and institutionalizes macroprudential oversight. Over time, this significantly reduces systemic crisis probability and fiscal bailout risk. However, the transition requires advanced supervisory skills, improved data systems, and legal clarity to mitigate litigation risk during bank resolution.

The Bill’s recognition of digital currency and fintech oversight marks a transformational shift toward 21st-century central banking. It enables digital legal tender, modern payment infrastructure, and fintech integration. While this enhances financial inclusion and reduces transaction costs, cybersecurity risk represents the single highest quantified systemic vulnerability (risk score: 25 – Critical). Without robust cyber resilience architecture, operational redundancy, and crisis simulation systems, digital modernization could expose the system to concentrated technological risk.

S.N.	Thematic Area	Nepal Rastra Bank Act 2058	Proposed NRB Bill 2082	Key Shift / Policy Implication
1	Legal Foundation	Establishes NRB as central bank of Nepal with defined objectives and functions	Retains core structure but amends multiple provisions for modernization	Reform-oriented amendment rather than replacement
2	Institutional Objective	Monetary stability, financial system regulation, currency issuance, forex management	Reaffirms objectives with stronger emphasis on autonomy, financial stability, and modernization	Broader and more contemporary policy orientation
3	Central Bank Autonomy	Provides operational independence but allows notable government interface in financial matters	Strengthens autonomy through clearer safeguards, refined appointment provisions, and governance clarity	Enhanced institutional and functional independence
4	Appointment of Governor & Deputy Governors	General provisions regarding qualifications and appointment	More explicit and detailed qualification, experience, and eligibility requirements. However, this approach narrows the pool of highly skilled professionals who can qualify, particularly at the boundaries of exceptional talent.	Improved transparency and professionalism in leadership selection
5	Board Governance Structure	Governor-led Board with government representation	Strengthened governance standards and clearer delineation of roles	Enhanced accountability and governance discipline
6	Internal Audit & Oversight	Standard audit mechanism	Stronger internal audit system and structured accountability provisions	Improved internal control framework
7	Reporting & Transparency	Annual reporting requirements	Annual audit within defined timeline; monthly balance sheet publication requirement	Greater transparency and public disclosure
8	Legal Protection	General legal protections	Explicit legal immunity for actions taken in good faith	Institutional protection against undue litigation
9	Currency Issuance	Authorizes issuance of banknotes and coins	Recognizes banknotes, coins, and digital currency as legal tender	Formal recognition of digital currency
10	Digital Currency & Fintech	No explicit provision for digital currency	Enables digital currency issuance and digital financial infrastructure	Major modernization reform

S.N.	Thematic Area	Nepal Rastra Bank Act 2058	Proposed NRB Bill 2082	Key Shift / Policy Implication
11	Banking Supervision	Supervisory authority over BFIs (traditional compliance-based approach)	Introduces risk-based supervision framework	Aligns with global post-crisis regulatory standards
12	Resolution Framework	Limited clarity on structured bank resolution	Clearer resolution and special administration mechanisms	Stronger systemic risk management
13	Financial Stability Mandate	Implicit within supervisory role	More explicit focus on systemic stability and crisis management	Institutionalization of macro-prudential oversight
14	Government Financing	Permits overdraft and purchase of government securities	Refines limits, timelines, and conditions for overdraft and securities purchase	Strengthened fiscal-monetary discipline
15	Relationship with Government	Operates as banker and advisor to Government	Clarifies financial obligations, payment timelines, and federal alignment	Reduced ambiguity in fiscal relations
16	Federal Structure	Drafted under unitary system (pre-federal constitution)	Aligns references to Federal, Provincial, and Local Governments	Constitutional alignment with federal system
17	Financial Inclusion	Implied support through regulatory framework	Explicit support for inclusive banking and financial access expansion	Stronger developmental orientation
18	Sustainable Development	No explicit reference to SDGs	Recognizes broader role in sustainable and inclusive development	Alignment with global sustainability agenda
19	Publication of Financial Statements	Periodic reporting	Defined deadlines for audit completion and balance sheet publication	Improved transparency timeline discipline
20	Institutional Modernization	Traditional central banking framework	Incorporates digital payments, fintech oversight, modern supervision	Transition to 21st-century central banking model

2. Structural Impact of the BAFIA Amendment

The BAFIA amendment substantially expands the definition of “related persons” and strengthens restrictions on insider and connected lending under Sections 52 and 52A. This represents a decisive move toward arm’s-length banking and enhanced prudential governance. It aligns Nepal’s banking framework with Basel principles by limiting conflicts of interest, reducing concentration risk, and strengthening depositor confidence. However, Nepal’s banking system historically evolved through intertwined promoter–borrower relationships. Many bank promoters are also industrial borrowers, particularly in manufacturing, energy, services and emerging sectors. Immediate and rigid enforcement may constrain legitimate credit channels, create short-term liquidity tightening, discourage capital investment, and shift financing outside formal structures.

Additionally, compliance obligations to continuously monitor complex ownership and influence structures impose high operational burdens. Ambiguity around “significant influence” and “substantial control” may create regulatory friction and inconsistent interpretation. Without phased transition, the reform risks overregulation rather than stabilization.

Description	Data Availability / Remarks	Risk to Financial Sector Stability
Founders, directors, officials of BFIs, or their family members having single or joint ownership of 10% or more in any entity.		Medium
Single or joint ownership of at least 10% in any other entity, as per Clause 3.3.1.	Data consolidation is difficult	Medium
Entities where BFI officials are involved in management or have authority to appoint or remove directors.	Subjective, cannot be quantified	High
Entities with authority to appoint or remove BFI directors, or where they are board members, office bearers, or hold 10%+ shareholding in BFIs.	Data consolidation is difficult	Low
Chief Executive Officer of a BFI.		High
Directors, officials of BFIs, or individuals/entities receiving guarantees from them.		High
Natural or legal persons with direct or indirect legal/ownership links with BFI shareholders.	Subjective, cannot be quantified	Medium
Persons or shareholders who can influence BFI management or board decisions.	Subjective, cannot be quantified	Low
Entities in which such shareholders or their relatives hold 10% or more.	Data consolidation is difficult	Medium
Entities significantly owned by BFIs or by individuals/families holding 10%+ in such entities.	Data consolidation is difficult	Medium
Entities where shareholders with significant BFI ownership serve as office bearers.	Data consolidation is difficult	Medium

Description	Data Availability / Remarks	Risk to Financial Sector Stability
Entities holding 1% or more shareholding in BFIs, individually or jointly.	Data consolidation is difficult	Medium
Entities with less than 1% BFI ownership but control over governance (e.g., directors, office bearers, or their families).	Subjective, cannot be quantified	Low
Parent company officials influencing BFI decisions, directly or indirectly.	Subjective, cannot be quantified	Low
Entities where the BFI holds 10% or more shareholding.	Subjective, cannot be quantified	Low
Entities with less than 10% BFI shareholding but influence on BFI board decisions.	Subjective, cannot be quantified	Low
Executives of BFI subsidiary companies.		Low
Other persons or entities as designated by Nepal Rastra Bank (NRB).		
For government-owned BFIs, any officials designated by NRB.		

3. Structural Role of the Financial Sector Strategy 2025/26–2029/30

The Financial Sector Strategy provides the overarching policy framework integrating stability, inclusion, digital transformation, green finance, and institutional capacity building. Its four strategic pillars

- (i) Sustainable development,
- (ii) Financial access and inclusion,
- (iii) Financial literacy and consumer protection, and
- (iv) Financial sector strengthening and stability—complement the NRB Bill’s institutional authority and BAFIA’s prudential discipline.

The Strategy emphasizes macroprudential tools, stress testing, early warning systems, open banking, ESG integration, digital payments expansion, and inter-regulatory coordination. Importantly, it plays a balancing role: while BAFIA tightens insider lending restrictions, the Strategy encourages productive credit expansion to agriculture, MSMEs, tourism, energy, and export sectors. It thus mitigates potential growth-side contraction from governance reforms.

4. Policy Risk Assessment – Integrated View

Based on the quantitative risk scoring model ($P \times I$), the aggregate reform risk score is 10.67/25 (Moderate–High). Risk concentration is highest in technological modernization and supervisory transition.

Risk Concentration Summary

- Digital Currency Cybersecurity Risk – Critical
- Risk-Based Supervision Capacity Gap – Very High
- Autonomy Reform & Fiscal Overdraft Tightening – High
- Resolution Litigation Risk – High
- Regulatory Overlap & Federal Coordination – Moderate
- Transparency Communication Risk – Low–Moderate

5. Do the Three Reforms Support Each Other?

Areas of Complementarity

NRB Bill	BAFIA Amendment	Financial Sector Strategy	Synergy
Risk-based supervision	Related-party restrictions	Financial stability pillar	Strong governance alignment
Resolution framework	Insider credit control	Crisis management strengthening	Systemic risk containment
Digital currency	Governance transparency	Digital transformation pillar	Financial modernization
Fiscal discipline	Fit & proper criteria	Macro stability objective	Reduced moral hazard

6. Comparative Reform Matrix: Stability Impact, Risk, and Gaps

Major Area	NRB Bill 2082	BAFIA Amendment	Financial Sector Strategy	Stability Impact	Key Risk	Structural Gap
Central Bank Autonomy	Strengthened institutional safeguards	Supports governance discipline	Anchors macro stability pillar	Stronger credibility & inflation anchoring	Political resistance	Lack of formal fiscal-monetary protocol
Risk-Based Supervision	Formal adoption	Reinforces prudential restrictions	Core strategic priority	Early systemic risk detection	Capacity gap	Limited supervisory analytics & training
Resolution Framework	Structured crisis tools	Reduces insider exposure	Crisis management strengthening	Containment of banking crises	Shareholder litigation	Need judicial clarity & resolution guidelines
Digital Currency	Legal recognition & issuance power	Governance oversight	Digital transformation focus	Inclusion & modernization	Cybersecurity threat	No fully articulated cyber resilience framework
Related-Party Lending	Indirect oversight role	Broad prohibition expansion	Governance emphasis	Reduces conflict of interest	Credit contraction	No phased restructuring window
Fiscal Discipline	Tightened overdraft limits	Indirect impact	Supports macro stability objective	Reduced inflationary financing	Short-term liquidity stress	Lack of liquidity contingency design
Financial Inclusion	Explicit developmental role	May restrict certain credit channels	Core inclusion pillar	Expanded access & trust	Regulatory arbitrage	Need proportionate compliance rules
Transparency	Defined reporting timelines	Disclosure compliance	Governance pillar	Market discipline improvement	Data misinterpretation	Communication capacity gap
Institutional Coordination	Expanded stability mandate	Potential regulatory overlap	Calls for inter-agency coordination	System resilience	Institutional conflict	No formal Financial Stability Council

7. Short-Term vs Long-Term Stability Outlook

Time Horizon	Stability Outlook
Short-Term	Adjustment stress, litigation risk, compliance pressure
Medium-Term	Governance stabilization, stronger supervision
Long-Term	Lower systemic crisis probability, enhanced macro credibility

Short-Term (1–3 Years)

- Adjustment resistance
- Compliance burden
- Credit tightening in interconnected sectors
- Cybersecurity vulnerability exposure

Medium-Term (3–5 Years)

- Governance stabilization
- Improved supervisory discipline
- Enhanced depositor confidence

Long-Term (5+ Years)

- Lower systemic banking crisis probability
- Stronger macroeconomic credibility
- Reduced fiscal bailout risk
- Digitally integrated, resilient financial system

8. Strategic Gaps Identified

1. Supervisory Capacity Deficit – Risk-based regulation requires advanced analytics and skilled human capital.
2. Cybersecurity Infrastructure Weakness – Digital currency rollout lacks redundancy and system-wide stress testing.
3. Transition Sequencing Gap – No clear restructuring timeline for legacy promoter-borrower relationships.
4. Fiscal Coordination Gap – Overdraft tightening not fully matched with debt management reform.
5. Regulatory Coordination Gap – Financial stability mandate expansion risks overlap without institutionalized coordination mechanism.

9. Strategic Recommendations

Tier 1 (Critical Priority)

Establish a National Digital Currency & Cybersecurity Taskforce with international technical cooperation.

Tier 2 (Structural Priority)

Accelerate supervisory capacity-building and regulatory data modernization.

Tier 3 (Political–Macroeconomic Priority)

Formalize a Fiscal–Monetary Coordination Framework.

Tier 4 (Transition Priority)

Introduce phased implementation (10–15 years) for related-party restructuring.

Tier 5 (Institutional Priority)

Create a Financial Stability Coordination Committee across regulators.

10. Two critical elements

Two critical elements appear insufficiently embedded within the current reform architecture: a strengthened Prompt Corrective Action (PCA) framework and a forward-looking asset quality containment strategy.

First, while Nepal Rastra Bank (NRB) has existing PCA guidelines, the evolving risk environment—particularly rising non-performing assets (NPAs)—demands a more rule-based, tiered intervention mechanism. A structured escalation model should be introduced. If net NPA remains below 7 percent, no supervisory restriction may be required beyond routine monitoring. However, once net NPA exceeds 7 percent but remains below 9 percent, the concerned BFI should face restrictions on sanctioning new loans to prevent further asset quality deterioration. If the ratio crosses 9 percent, a second-tier restriction should be triggered, including limitations on accepting new deposits in order to contain balance sheet expansion risk. When net NPA reaches or exceeds 11 percent, the institution should be formally placed under PCA with mandatory restructuring, capital restoration plans, management oversight, and supervisory monitoring. Complementing this, the allowable provisioning deductible under the Income Tax Act should be increased from the current 5 percent to at least 9 percent of the loan portfolio to strengthen buffers and incentivize prudent loss recognition. Simultaneously, NRB should undertake a comprehensive recalibration of risk weights across asset classes to ensure that capital requirements better reflect actual credit, market, and operational risks, thereby aligning regulatory capital more closely with underlying exposures.

Second, the urgency of these measures is amplified by Nepal’s rising stressed assets and the broader risk of reputational damage in the international financial system. Economic slowdown, weak credit demand, governance shortcomings, and delayed supervisory intervention have contributed to a gradual accumulation of impaired assets within banks and financial institutions. Persistent deterioration in asset quality, if not proactively managed, can undermine depositor confidence, weaken capital adequacy, and increase systemic fragility. Moreover, deficiencies in prudential enforcement and compliance controls heighten the risk of adverse scrutiny from international monitoring bodies, potentially exposing Nepal to reputational sanctions or blacklisting concerns. Such an outcome would significantly impair foreign investment flows, correspondent banking relationships, and integration with global financial markets. Strengthened PCA triggers, enhanced provisioning norms, and recalibrated risk-weighting frameworks are therefore not merely supervisory refinements—they are essential safeguards to preserve systemic resilience, restore market confidence, and protect Nepal’s international financial credibility.

11. Overall Conclusion

The NRB Bill 2082, BAFIA amendment, and Financial Sector Strategy are mutually reinforcing reforms designed to transition Nepal’s financial system from relationship-based banking toward a risk-based, transparent, digitally integrated, and stability-oriented framework. The direction is strategically correct and globally consistent. The long-term benefits—enhanced systemic stability, stronger governance, improved monetary credibility, and increased investor confidence—outweigh the quantified moderate-to-high transition risks.

However, reform success depends critically on sequencing, institutional capacity strengthening, cyber risk mitigation, and preservation of productive credit flow. If implemented pragmatically and in phases, these reforms will significantly strengthen Nepal’s financial sector stability and support sustainable, inclusive economic growth.