

Speech by Governor Dr. Chiranjibi Nepal

At the 44th ACU Board of Directors Meeting, Dhaka, Bangladesh

**Honorable Chairperson Dr. Atiur Rahman,
Fellow Governors and Members of the ACU Board of Directors,
ACU Secretary General Mrs. Lida Borhan-Azad,
Other Delegates and Observers,
Ladies and Gentlemen,**

1. I would like to express my sincere thanks to Governor Dr. Atiur Rahman and the entire team of Bangladesh Bank for the warm hospitality extended to us and also for the excellent arrangements made for this meeting in Dhaka. As this is my seminal international event, I am also pleased to get introduced with my fellow Governors and distinguished delegates of ACU member countries for the first time. I would also like to take the opportunity to express to this august gathering my honor and commitment to work together in strengthening the Union in the days ahead.
2. As you may all be aware, Nepal is currently passing through a tragic period brought about by the two devastating earthquakes that struck the country on April 25 and May 12. We are deeply saddened by the loss of countless lives as well as shaken by the injuries, hardships, and psychological trauma that the survivors are facing. In this regard, I would like to express deep gratitude to our neighboring countries for extending their prayers, heartfelt condolences and invaluable support to us at this difficult time of national mourning.
3. Let me also mention here that recent estimation shows USD 6.66 billion is needed for the domestic reconstruction. This is about one third of Nepal's GDP. In view of this huge loss, there is a great challenge for the country to move smoothly and swiftly in the rehabilitation and reconstruction process.

Fellow Governors and Distinguished Delegates,

Against this backdrop, I would like to shed some light on the recent scenario of the Nepalese economy.

4. The economic growth rate over the last five years averaged 4.5 percent. In the current year, the economy was initially expected to grow at 5.2 percent compared to the growth of 3.5 percent last year; however, because of the recent devastation, the economy is expected to grow by only about 3.04 percent. The economy experienced an inflation of 9.3 percent on average in the last five years. Still, the inflation has moderated over the range of 6.9 percent in the first nine months of the current fiscal year. Despite the structural bottlenecks resulting from the current devastation, we believe that inflation will be contained within single digit.
5. On the external sector front, merchandise exports have decreased by 5.6 percent and merchandise imports have increased by about 10.5 percent during the first nine months of current FY. With the negative growth of exports and increased imports, the trade deficit has further widened by around 12.9 percent. However, improvements in the service incomes, grants and remittance inflows have contributed positively in generating remarkable surplus in current account.

6. The overall balance of payments registered a surplus of USD 494 million during the nine months of FY 2014/15. The surplus in current account resulted from improvements in service incomes, grants and remittance inflows and these factors also contributed to the surplus in the balance of payments. Consequently, gross foreign exchange reserves of the banking system surged by 8.9 percent to USD 7.29 billion as of mid-April 2015. Based on the trend of imports of the first nine months of the current FY, the existing level of reserves is sufficient for financing merchandise imports of more than 11 months and merchandise and service imports of about 10.0 months.
7. Monetary aggregates have remained within the expected level in the current fiscal year. Broad money (M₂) increased by 9.6 percent during the nine months of this fiscal year compared to a growth of 12.4 percent in the corresponding period of the previous year. Bank credit to the private sector grew at a rate of 7.1 percent this year. On the other hand, deposit mobilization of depository institutions increased by 9.6 percent during this year compared to a growth of 11.4 percent in the previous year.
8. In the fiscal sector, a higher rate of growth in resource mobilization relative to government expenditure led to a surge in budget surplus during the review period. The ratio of outstanding domestic debt to GDP remained at 13 percent in the review period. The country remains low indebted, as outstanding total public debt, both domestic and foreign together, accounts for 32.7 percent of GDP.

Fellow Governors and Distinguished Delegates,

9. In recent years, the Nepalese financial system witnessed rapid expansion in the number of banks and financial institutions. This, however, has not ensured wider access to finance since banks and financial institutions prefer to concentrate in urban areas whereas majority of the Nepalese people live in rural areas. Access to financial services is particularly difficult in rural areas with limited infrastructure and absence of markets. Only about 27 percent of rural households have access to a bank within 30 minutes of walk, which is very low compared to the percentage of urban households (89 percent) with the same facility. The challenge is then to expand financial outreach through most viable and cost effective mechanism - including through the wider use of Information and Communication Technology.
10. NRB is cognizant of the importance of financial inclusion and has put forward the overarching goal to increase access to financial services in the country. In order to achieve this goal, NRB has pursued various policies and programs such as: (i) enhancing policies and regulatory environment that allows BFIs to offer financial services to the remote areas where there is lack of financial access, (ii) developing financial infrastructure that has the capacity to provide high quality financial services (iii) implementing innovative models of financial service provision that are used effectively to extend outreach to underserved regions and groups and (iv) increasing capacity of clients to understand and utilize financial services effectively.
11. To expedite financial inclusion, NRB has put forward several guidelines. For example, BFIs are required to open three branches outside of the capital city (among which at least one branch in remote districts having low financial access) in order to establish a branch in the capital. Similarly, BFIs can obtain interest free loan up to Rs. 10 million for opening up a new branch in specified district with inadequate

financial access. NRB has encouraged the BFIs to introduce branchless banking, mobile banking and other types of electronic banking services which help to enhance financial access in the country and has issued directives on lending to both the productive sector and the deprived sector in order to enhance financial inclusion for inclusive growth. Furthermore, NRB also has been taking initiations on financial literacy and financial consumer protection, which is expected to enhance the banking habits of unbanked people. I would also like to mention here that NRB is pursuing financial inclusion in a holistic manner through participation in developing a Financial Sector Development Strategy under the coordination of the Government of Nepal.

12. As financial stability has been a primary concern of NRB, it has been addressing pertinent issues such as productive use of credit, enhancing access to financial services, deposit guarantee, exercise of macro-prudential measures, strengthened bank supervision and enforcement of good governance measures. It has introduced some measures such as early warning, prompt corrective actions, know-your customer, stress testing and risk based supervision to ensure resilience of the financial system. NRB is also embarking on a strong legal framework for anti-money laundering and financial crisis management.

Fellow Governors and Distinguished Delegates,

13. A review of the overall ACU transactions reveals that trade routed by Nepal through ACU in recent years has decreased. Export routed through ACU has declined by 18 percent, 13 percent and 40 percent in 2012, 2013 and 2014 respectively. On the other hand, import routed through ACU member countries has not shown a consistent pattern; while it had increased significantly by 76 percent in 2012, it had declined by 29 percent in 2013 and again increased by 24 percent in 2014. Furthermore, trade is primarily concentrated within a few member countries of ACU. All these facts warrant members to evaluate the trend and we urge all the fellow governors to rethink on how we can better serve to achieve the enshrined objectives of establishment of the ACU to promote regional trade and monetary co-operation amongst the members.
14. With regard to our activities under ACU, the share of Nepal in total transactions of the ACU member countries routed through ACU mechanism accounts for 0.40 percent. This figure is generally stable but excludes the trade data with India.
15. Finally, Nepal has been an active member of ACU from the very beginning of its establishment. On this auspicious occasion of the 44th ACU Board of Directors Meeting, I would like to reiterate my commitment and belief in the mission of our Union. I am confident that this meeting would be instrumental in exploring new avenues of co-operation and further come out with measures for simplifying the existing payment mechanism in the pursuit of fostering its effectiveness. This will facilitate trade amongst member countries and enhance monetary as well as technical co-operation among us.

Before concluding, I would like to once again thank Bangladesh Bank for the generous hospitality and excellent arrangements made in hosting this meeting.

I thank you all.

Thank you Mr. Chairman