



## 46<sup>th</sup> ACU Board of Directors Meeting

Colombo, Sri Lanka / 13 July 2017

*Address Delivered by Dr. Chiranjibi Nepal, Governor of Nepal Rastra Bank*

*Honorable Chairperson Mr. Indrajit Coomaraswamy,  
Fellow Governors and Members of the ACU Board of Directors,  
ACU Secretary General Mrs. Lida Borhan-Azad,  
Distinguished Delegates and Observers,  
Ladies and Gentlemen,*

1. It gives me immense pleasure to participate and address this 46<sup>th</sup> Annual Meeting of Board of Directors of the Asian Clearing Union in this beautiful city of Colombo. At the outset, I would like to extend my sincere appreciation to Governor Mr. Indrajit Coomaraswamy and the entire team of Central Bank of Sri Lanka for the warm hospitality extended to us and also for the excellent arrangements made for this Meeting in Colombo.

*Fellow Governors and distinguished delegates*

2. Allow me now to shed some light on some current developments of the Nepalese economy. After almost 20 years, elections for the local governments concluded recently following the promulgation of Constitution of Federal Democratic Republic of Nepal. The provincial and national level elections are to be held within 21 January 2018. The political uncertainty has now vanished and the economy is now ready for high growth trajectory.
3. Most of the macro-financial data of the first ten months of 2016/17 show that the economy is gaining traction. Nepal is the third fastest growing economy in the world in 2017 according to a report of the World Economic Forum. The economy rebounded strongly in 2016/17 following a good monsoon, reconstruction efforts after the 2015 earthquake and normalization of trade with India. The GDP growth estimate of 6.9 percent demonstrates optimistic growth outlook at least in the short term.
4. The government is targeting a growth of 7.2 percent in 2017/18 as economic activities are expected to expand due to increased government expenditure from the elected local governments. Acceleration in reconstruction works will potentially increase trade deficit further at least in the near term. Expected increase in foreign aid and foreign direct investment will, however, be instrumental in keeping the country's balance of payments in surplus. Decelerated growth in migrant workers' remittances is moderating deposit growth. Going forward, bridging the gap between deposit and credit growth is the key for reducing the financial frictions.
5. The consumer price inflation has been hovering below 4 percent since the last six months. This is attributed to the previous year's base price effect and improved supply situation.



6. On the external sector front, both exports and imports dropped by 17.8 percent and 0.1 percent respectively, leading to a small expansion in trade deficit by 2 percent to USD 6.61 billion in FY 2015/16. However, exports rebounded by 9.8 percent while imports surged by about 34.9 percent during the ten months of the current fiscal year, further widening the trade deficit by 37.5 percent. The export-import ratio has declined to 7.5 percent arising from high growth of imports compared to slower growth of exports in the review period. Still, improvements in the service incomes, grants and remittance inflows have contributed in marginal surplus in current account.
7. The overall balance of payments registered a surplus of USD 1.78 billion in FY 2015/16 and USD 504 million during the ten months of FY 2016/17. Lower current account surplus emanating from increased imports and lower remittance inflows were the principal contributing factors to the current balance of payments situation. Consequently, the gross foreign exchange reserves of the banking system surged by 17 percent to US\$ 10.31 billion as on mid-May 2017. Based on the trend of imports of the first ten months of the current fiscal year, the existing level of reserves is sufficient for financing merchandise imports of more than 13.2 months and merchandise and service imports of more than 11.4 months.

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8. Monetary aggregates are within the expected level in the current fiscal year. Broad money ( $M_2$ ) increased by 10.4 percent during the ten months of this fiscal year compared to a growth of 12.3 percent in the corresponding period of the previous year. Bank credit to the private sector grew at a rate of 16.6 percent this year. On the other hand, deposit mobilization of depository institutions increased by 9.3 percent during this year compared to a growth of 11.9 percent in the previous year.
9. 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 country remains low indebted, as outstanding total public debt, both domestic and foreign, accounts for 24.1 percent of GDP.
10. Nepal's financial sector has grown by leaps and bounds since the economy was liberalized in the 1990s. Yet, financial services have not become much effective till date. Also, the growth of this sector has remained lopsided, as many still do not have access to finance due to low financial literacy rate.
11. Safe, sound and self-regulated BFIs, transparent and consumer friendly banking transactions, adoption of international best prudential norms and best supervisory practices, mitigation of the systemic risks through advanced approach of supervision, and ultimately safeguarding financial stability have always been the prime aims of Nepal Rastra Bank as a regulator and supervisor.
12. NRB has taken a number of initiatives to consolidate the financial system. It introduced *Merger and Acquisition Policy* a few years ago for preserve financial stability. This policy has encouraged the merger of urban-centered institutions while according priority to the expansion of rural branches in the underserved areas. Till now, 138 BFIs



were involved in merger and acquisition. Out of this, the license of 94 BFIs was revoked thereby forming 44 BFIs.

13. In July 2015, NRB quadrupled the *minimum capital requirements* for BFIs in order to promote financial stability, mobilize the resources needed for the long-term development financing as well as to encourage merger and acquisition of BFIs.
14. The NRB is of the view that the expansion of the financial sector will be constrained without the growth of the real sector. Thus, priority has been accorded to the productive use of bank credit to the promotion of the real sector and this demands the judicious use of credit and macro-prudential policies. As a competitive, efficient and healthy financial system is vital for enhancing growth, ensuring economic efficiency and maintaining macro-economic stability, a reasonable growth of the real economy is equally important to sustain the expansion of the financial services.
15. In order to establish finance-growth nexus, NRB is pursuing the *Financial Sector Development Strategy (FSDS)* that aims to further consolidate the banking institutions, reduce the interest spread, introduce provisions on credit insurance and raise the banking sector's contribution to the gross domestic product (GDP) to eight per cent.

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16. While going through the overall ACU transaction, trade routed through ACU in 2015 has declined significantly by about 9 percent while in 2016, trade increased by about 21 percent. Similarly, following the trend of preceding years, total transactions have surged by about 19 percent during the first ten months of the current year on y-o-y basis compared to the corresponding figure of last year. Further, trade is concentrated primarily within a few member countries. All these facts warrant member countries to evaluate the trend and I urge all the Fellow Governors to rethink on how we can better serve the enshrined objectives of establishment of the ACU.
17. Since the establishment of ACU, Nepal has always been an active member. With regard to our activities under ACU, the share of Nepal on total transactions of the ACU member countries routed through ACU mechanism accounts for roughly 1 percent, which has remained almost the same over the last few years.
18. In this opportune occasion, I would like to reiterate my firm commitment and belief in the mission of our Union. Apart from improving the existing operational mechanism of ACU to enhance efficiency of the Union, I am optimistic that this Forum would also explore new avenues of co-operation that will further simplify the existing payment mechanism in order to facilitate trade amongst member countries and enhance monetary as well as technical cooperation among us.
19. Before concluding, I would like to once again express my utmost thanks to the Central Bank of Sri Lanka for the kind hospitality and excellent arrangements rendered for this important Meeting.

Thank you very much!