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Governor Adhikari Participates in the IMF-World Bank Group Annual Meeting



Governor Mr. Maha Prasad Adhikari participated in the 'Annual Meeting 2024' of the International Monetary Fund (IMF) and the World Bank Group (WBG), held in Washington, D.C., USA, from October 21 to 26, 2024.

Finance ministers, central bank governors, and financial and monetary officials from IMF and World Bank Group member nations actively participated in the program. Nepal's delegation to the plenary session, led by Deputy Prime Minister and Finance Minister Mr. Bishnu Prasad Paudel, included Governor Mr. Maha Prasad Adhikari and Finance Secretary Dr. Ram Prasad Ghimire.

The session was chaired by

Mr. Ahmed Munawar, Governor of the Maldives Monetary Authority. Key addresses were delivered by Ms. Kristalina Georgieva, Managing Director of IMF and Mr. Ajay Banga, President of World Bank Group, who reflected on 80 years of milestones since the Bretton Woods Conference. They also discussed global economic challenges faced over the decades and emphasized the World Bank and IMF's ongoing efforts to address these issues.

During the meeting, Governor Adhikari participated in the '54th Joint Governors' Meeting of the IMF-WB South East Asia Constituency.' Additionally, he held separate discussions with Mr. Bo Li, IMF

Deputy Managing Director and officials from the Asia Pacific Department (APD), Monetary and Capital Market Department (MCM), Legal Department, South East Asia Voting Group (SEAVG).

During the meetings and discussions, there was a review of the progress of Nepal's programs under the Extended Credit Facility (ECF) from the IMF, as well as deliberations on future action plans.

During the Annual Meeting, Governor Adhikari also participated in the '44th SAARCFINANCE Governor's Meeting.' Similarly, in the context of Nepal chairing SARFII, established under the Alliance for Financial





Inclusion (AFI), Governor Adhikari held discussions with SARFII Vice Chair Mr. Jameel Ahmad, Governor of the State Bank of Pakistan, on potential regional collaboration for the development of payment systems.

During the meeting,

Governor Adhikari also met with representatives of the International Finance Corporation (IFC) and various private sector organizations. The meeting was attended by Dr. Gunakar Bhatta, Executive Director of the Economic Research Department, and

Mr. Puspa Chandra Khanal, Assistant Director of the Office of the Governor.

Currently, the World Bank Group has 189-member countries, while the International Monetary Fund (IMF) includes 191-member countries. ■

Governor Adhikari Participates in 60th SEACEN Governors' Conference and 44th SEACEN Governors' Meeting



Governor Mr. Maha Prasad Adhikari participated in the '60th SEACEN Governors' Conference' and '44th SEACEN Governors' Meeting' held

in Seoul, South Korea, from December 5-6, 2024.

On the first day of the conference, jointly organized by the SEACEN Centre and the

Bank of Korea, the Governor of the Bank of Korea, Mr. Changyong Rhee, delivered the welcome address, highlighting the conference's objectives and



significance. Meanwhile, Dr. Sin Yong Park, the Executive Director of the SEACEN Centre, presented the inaugural speech.

On this occasion, a panel discussion was held among the Governors on two sessions: 'Prospects for Global Economy and Financial Markets in 2025' and 'Policy Implications of Geo-economic Fragmentation for the Asian Economies'. The discussion delved into various topics such as the global economy's low growth, inflationary pressures, high interest rates, geopolitical tensions, financial market prospects, and the policy implications of geo-economic fragmentation.

In the second session of the conference, Governor Adhikari participated as a panelist and discussed the challenges faced by countries like Nepal due to

geo-economic fragmentation. He highlighted issues such as declining export opportunities, increasing trade dependence on neighboring and other Asian countries, the impact of remittance flows on poverty reduction, environmental effects, and the potential impact on sustainable economic development. He emphasized that regional cooperation, multilateral solutions, and flexible policies would be effective in addressing these issues. The event was attended by the Governors and senior officials of the central banks of SEACEN's member countries.

On the second day of the program, the 44th SEACEN Board of Governors' (BOG) Meeting was held under the chairmanship of the Governor of the Bank of Korea, Mr. Changyong Rhee. The meeting discussed activities undertaken

in 2024, the implementation status of the current strategic plan, proposed programs for 2025, research, budget, and other related topics. Based on the feedback and suggestions from the participating governors, proposals were approved. It was announced that the chair of SEACEN for 2025 would be handed over to Bank Indonesia, and the 61st Governors' Conference and the 45th Board of Governors' Meeting would be held in Indonesia.

After participating in the conference, Governor Adhikari returned to the country on the 9th December. The event was also attended by Mr. Tulasi Prasad Ghimire, Executive Director of the Human Resource Management Department; Mr. Muktinath Sapkota, Director; and Mr. Samir Hari Sharma, Assistant Director of the Office of the Governor. ■

First Quarterly Review of Monetary Policy Released

Nepal Rastra Bank has released the first quarterly review of the monetary policy for the fiscal year 2024/25. The bank published this review on November 29, 2024.

Through the review, the existing policy rate of the monetary policy has been maintained at 5.0 percent, the deposit collection rate under the lower bound of the interest rate corridor at 3.0 percent, and the bank rate under the upper bound of the interest rate corridor at 6.5 percent. Similarly, the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) have

also been kept unchanged. The first quarterly review of the monetary policy is based on the implementation status up to the first quarter, domestic and external economic and financial conditions, and the overall macroeconomic outlook.

The continuation of the monetary policy instance is expected to maintain price stability and external sector stability while further supporting the expansion of economic activities to achieve the economic growth target set by the Government of Nepal. ■

Governor Adhikari Joins High-Level Policy Conference of Central Banks from the Global South



Governor Mr. Maha Prasad Adhikari participated in the ‘High-Level Policy Conference of Central Banks from the Global South’ held in Mumbai, India, from November 21 to 22.

The conference, organized by the Reserve Bank of India (RBI) on the occasion of its 90th anniversary, was attended by Governors of central banks from the Global South, representatives from the International Monetary Fund, the World Bank Group, the Bank for International Settlements, Swift and other payment system-related fields, as well as experts from 18 countries. Governor of RBI, Shri Shaktikanta Das delivered the keynote address while the conference featured discussions

in various sessions on challenges, experiences, and future directions regarding economic growth and inflation balance, communication of monetary policy, fintech and digital banking, foreign exchange reserves management, and regulation and supervision faced by central banks of the Global South.

On the first day of the conference, Governor Adhikari participated as a panelist in the discussion on “Balancing Growth and Inflation in the Global South.” He shared insights on the theoretical aspects of balancing economic growth and inflation, the challenges faced by emerging economies, and the policy directions that a landlocked country like Nepal,

with a fixed exchange rate, can adopt. Additionally, in the fourth session of the same day, Governor Adhikari presented the experience of Nepal Rastra Bank in managing price stability, the external sector, and financial stability, particularly in the context of the COVID-19 pandemic and subsequent geopolitical tensions. He also emphasized the increasing need for high-level regional discussion platforms and acknowledged the significant role played by the RBI in fostering coordination among central banks in the Global South.

Dr. Guna Raj Bhatta, Deputy Director of the Economic Research Department of NRB, also participated in the conference. ■

Regulator's Response to US Banking Turmoil, 2023



 **Angadeep Neupane**¹

1. Introduction

Countries estimated the positive economic scenario eventually during the end of COVID but the actual situation differed. The Russia-Ukraine war, a war among the countries in the Middle East has played its part in stimulating economic distress and global increase in inflation. Similarly, 2023 and 2024 were challenging years for global financial stability due to some cases of financial distress as listed:

a. In the banking sector, the collapse of Silicon Valley, Signature and Silvergate Bank, and First Republic Bank's bank run in March 2023 loosened confidence in the global financial system.

The distressful situation in Credit Suisse which was later acquired by UBS through a regulator's intervention.

b. Several countries faced stressful debt situations. Sri Lanka and Zambia experienced debt crises whereas Ghana struggled to meet debt obligations.

c. FTX, one of the largest trading platforms in the crypto ecosystem, filed for bankruptcy. It created contagion in the crypto world.

d. Silvergate Bank providing services for crypto users announced liquidation of the bank after the bankruptcy of FTX.

e. Many countries faced inflationary pressure. Argentina experienced the hyperinflation of 211% in 2023². Inflation in Zimbabwe averaged 354% annually between 2019 and 2023³.

2. Bank Failures in the United States and Europe

On March 10, 2023, the

biggest failure of US banks since the global financial crisis was witnessed. Silicon Valley Bank's customers were pulling their money out of the bank and the US regulators intervened to take control. A week after, a second US bank, Signature Bank was shut down. A third bank, First Republic Bank was supported by emergency funds from regulators, and a consortium of 11 banks deposited \$300 billion to boost liquidity to help them cope with the stress but the sentiment of the public didn't change, and the bank was closed by the regulator.⁴ Later, the bank was seized and sold to JP Morgan Chase.⁵

Similarly, in Europe, a stressful situation was seen in the second-largest Swiss Bank, Credit Suisse. However, regulators took initiation and persuaded UBS, the giant Swiss Bank to buy rival bank Credit Suisse. The Swiss bank crisis was the result of idiosyncratic problems such as mismanagement, a series of

1 Assistant Director, Nepal Rastra Bank.

2 <https://www.freiheit.org/one-year-javier-mileis-economic-policy#:~:text=Significant%20decline%20in%20inflation&In%202023%2C%20Argentina%20had%20the,the%20world%20at%20around%20211%25>.

3 <https://www.milkenreview.org/articles/zimbabwes-new-currency#:~:text=Inflation%20averaged%20354%20percent%20annually,to%20operate%20an%20economy%20efficiently>.

4 https://www.richmondfed.org/publications/research/econ_focus/2024/q3_federal_reserve

5 <https://www.reuters.com/business/finance/how-jpmorgans-dimon-won-first-republic-deal-2023-05-02/#:~:text=JPMorgan%20bought%20First%20Republic%20on,sources%20familiar%20with%20the%20situation>.

scandals, and significant losses.

The combination of social media and highly networked technology as mobile banking led to a speed bank run within a few days.

3. Federal Reserve Report on Supervision and Regulation of Silicon Valley Bank⁶

On March 8, 2023, Silicon Valley Bank announced a balance sheet restructuring that included the sale of certain securities and intended to raise capital which occurred during uncertainty for the technology sector in which the bank had large exposure. And then the bank faced a run by depositors on March 9 and the bank was closed on March 10.

After the failure of Silicon Valley Bank in March 2023, the Fed prepared a report on the Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank on April 2023 which concluded the following reasons for the failure of Silicon Valley Bank:

- Silicon Valley Bank's board of directors and management failed to manage their risks.
- Supervisors did not fully appreciate the extent of the vulnerabilities as Silicon Valley Bank grew in size and complexity.
- When supervisors did identify vulnerabilities, they did not take sufficient steps to ensure that Silicon Valley



AI generated image

Bank fixed those problems quickly enough.

- The Board's tailoring approach in response to the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) and a shift in the stance of supervisory policy impeded effective supervision by reducing standards, increasing complexity, and promoting a less assertive supervisory approach.

4. Regulator's Response to US Banking Crisis

The two measures were implemented by the Fed after the banking failure situation in March 2023. Those regulatory measures were Bank Term Funding Program and Systemic Risk Exception.

a. Bank Term Funding Program⁷

The program was initiated to provide liquidity to U.S

depository institutions in advance to eligible borrowers taking certain securities as collateral.

Federal Reserve set some eligibility criteria, rate, prepayment clause, and program duration of a year for the program. BTFP was a temporary loan program that allowed all the eligible banks to borrow money keeping certain types of securities as collateral. The borrowers could pledge the collateral eligible for open market transactions and the collateral was valued at 100% of par value regardless of the market value of the collateral. The Department of Treasury, using the Exchange Stabilization Fund, would provide \$25 billion as credit protection to the Federal Reserve Banks in connection with the Program.

b. Systemic Risk Exception

On March 12, 2023, the Fed announced that the Federal Deposit Insurance Corporation

6 Board of Governors of the Federal Reserve System, *Review of the Supervision and Regulation of Silicon Valley Bank* (Washington, D.C.: Board of Governors of the Federal Reserve System, 2023).

7 <https://www.federalreserve.gov/financial-stability/bank-term-funding-program.htm>



(FDIC) would guarantee uninsured deposits at those banks under the Systemic Risk Exception. FDIC insured deposits up to \$250,000, but the two banks that failed on March 10 and 12, 2023 (Silicon Valley and Signature Bank) had estimated uninsured deposits of \$231.1 billion in 2022⁸ which hold a larger proportion of their total deposits (Silicon Valley Bank had a high share of uninsured deposits- 90% of total deposits)⁹.

However, the Fed also warned the public not to assume that the federal government's actions have created any guarantee of deposits beyond FDIC-insured amounts and if another bank fails, it doesn't ensure that the FDIC will pay all the deposits above insured limits.

The SRE was used during the 2008 global crisis, but it was not effective. Therefore, it was subsequently revised and expanded in scope following the 2008 crisis.

The Fed's rapid action and response and the roles played by industry players helped stabilize the banking sector in the US. Following the stress triggered by the banking turmoil, the indicators have shown improvement as deposit outflows stabilized and the KBW Regional Bank Equity Index rebounded.

The high exposure of credit to some specific sectors may create a vulnerability in banking sectors at any time if the specific sectors are harmfully affected during adverse economic scenarios. Additionally, the proportion of uninsured deposits must be checked regularly.

5. What should Nepal learn?

- a. All three failed banks (Silicon Valley, Signature, and First Republic Bank) had a high concentration of uninsured deposits, substantial unrealized losses, and high CRE (Commercial Real Estate) concentration. In contrast, Signature Bank had large exposure to volatile crypto assets before failure. The high exposure of credit to some specific sectors may create a vulnerability in banking sectors at any time if the specific sectors are harmfully affected during adverse economic scenarios. Additionally, the proportion of uninsured deposits must be checked regularly.
- b. As per the report of the Federal Reserve, some managerial weaknesses were identified in Silicon Valley Bank as BOD didn't receive adequate information from management the management was not effectively managing

the firm's risk, and the bank failed its own internal stress tests.

The inefficiency of management to manage risk and conceal adequate information are the major issues faced by banks and financial institutions globally.

- c. The Fed, being regulator and supervisor has criticized its' own aspects of regulation and supervision. Among the four reasons of the report *Review of the Supervision and Regulation of Silicon Valley Bank*, it states that supervisors did not fully appreciate the extent of the vulnerabilities as Silicon Valley Bank grew in size and complexity, and when supervisors did identify vulnerabilities, they did not take sufficient steps to ensure that Silicon Valley Bank fixed those problems quickly enough. So, the regulator of banks should be proactive in different situations, and prompt to act against the institutions that may hinder financial stability and supervisors must be well equipped with quality and adequate workforce, technology, and supervisory tools for efficient and effective supervision of banks and financial institutions.
- d. Regarding the two rapid

⁸ <https://crsreports.congress.gov/product/pdf/IF/IF12378>

⁹ Board of Governors of the Federal Reserve System, *Review of the Supervision and Regulation of Silicon Valley Bank* (Washington, D.C.: Board of Governors of the Federal Reserve System, 2023).

measures taken by the Fed- Bank Term Funding Program and Systemic Risk Exception, the regulators must provide a rapid response to deal with the situation. Bank Term Funding Program is a temporary loan that helps to solve the liquidity distress situation in case of an emergency. Similar actions can be taken by the regulator by providing ample liquidity to banks and financial institutions during distress. As in the case of Nepal, the insured deposit limits to Rs. 500,000 for natural depositors. However, the portion of institutional depositors and uninsured

natural depositors holds a higher proportion among total deposits which is not guaranteed by the Deposit and Credit Guarantee Fund (DCGF). The uninsured depositors may quickly react during a distressful situation. Nepal Rastra Bank should prepare a Pre-crisis plan to estimate the available funds maintained with Nepal Rastra Bank such as the General Reserve Fund, Financial Stability Fund, and other funds maintained by government or governmental agencies to act promptly during contingencies.

f. The Silicon Valley Bank was shut down after two days of

chaos in the banking sector, which began on March 8, 2023. This was due to the fast flow of information through social media and news that spread quickly.

In the present world, the general public reacts quickly to news or information spread through social media. Many rumors and news spread regularly against banks and financial institutions in Nepal. Specific banks and Nepal Rastra Bank should not get actively involved in all cases. However, they must be ready to deal with the rumors/news and pass factual information before the financial ecosystem faces severe damage. ■

Disclaimer: The views and opinions expressed in this article are solely those of the author and do not represent the views, policies, or positions of the author's organization.

Workshop with Non-Financial Professionals and Entrepreneurs



The Financial Information Unit(FIU)organized a workshop on December 12 in Kathmandu with the participation of non-financial professionals and entrepreneurs.

FIU organized the program to address the prevention of money laundering and financial investment in terrorist activities. The program was attended by more than 60 participants,

including representatives from the Ministry of Tourism, Department of Tourism, Inland Revenue Department, Department of Land Management and Records,



Office of the Company Registrar, Nepal Notary Public Council, Institute of Chartered Accountants of Nepal, Nepal Bar Council, Nepal Casino Association, Federation of Gold and Silver Dealers of Nepal, Federation of Nepal Gold, Silver, Gems, and Jewelry Associations, Federation of Handicrafts Associations of Nepal, Nepal Land and Housing Developers Association, Nepal Notary Public Association, Nepal Chartered Accountants Association, Nepal Auditors Association, and Nepal Bar Association, as well as auditing professionals and legal experts.

On that occasion, Dr. Hari Kumar Nepal, Director of Nepal Rastra Bank, presented a paper on 'The role of non-financial professionals and businesses in preventing money

laundering and financing of terrorism, regulatory and supervisory arrangements, and recommendations provided by the mutual evaluation'.

At the program, Dr. Narayan Prasad Regmi, the Director General of the Department of Tourism, emphasized that the active involvement of all sectors is essential for preventing money laundering and financial investment in terrorist activities. Ms. Kavita Regmi, Deputy Director General of the Inland Revenue Department, informed that the department has developed an annual work plan and initiated monitoring and research activities related to the prevention of money laundering.

On the occasion, Mr. Kiran Kumar Khatri, the Technical Director of the Institute of Chartered Accountants of

Nepal, stated that the institution has been regularly carrying out activities related to the prevention of money laundering and financial investment in terrorist activities with non-financial professionals and entrepreneurs.

During the program, Mr. Basudev Bhattarai, Chief of FIU, emphasized in his closing remarks the need for effective coordination among indicator institutions, regulatory bodies, and investigative agencies to prevent money laundering and financial investment in terrorist activities.

At the program, Mr. Bishnu Prasad Guragain, the Deputy Director of FIU, delivered the welcome speech and highlighted the significance of the workshop, while Assistant Director Mr. Kamal Paudel conducted the program. ■

Agreement between the Financial Information Unit and FINC Bahrain

An agreement has been reached between the Financial Information Unit (FIU) and the Financial Intelligence National Center (FINC) of Bahrain for the exchange of information related to money laundering, financial investments in terrorist activities, and associated crimes.

In this regard, the memorandum of understanding was signed on November 13th, 2024, between the two organizations. The MoU was signed by the head of the FIU, Director Mr. Basudev Bhattarai, and the Chief Executive of FINC, Sheika May bint Mohamed Al Khalifa. ■

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