

**20<sup>TH</sup> SAARCFINANCE COORDINATORS' MEETING &  
SEMINAR ON PAYMENT AND SETTLEMENT SYSTEMS IN SAARC REGION**

4 September 2014, Dhulikhel

**Opening Address by  
Dr. Yuba Raj Khatiwada**

Chairman, SAARCFINANCE and Governor, Nepal Rastra Bank

Deputy Governor Mr. Maha Prasad Adhikari,  
Fellow SAARCFINANCE Coordinators and Friends,

I am pleased to address the opening session of this 20<sup>th</sup> SAARCFINANCE Coordinators' Meeting and Seminar on Payments and Settlement Systems in SAARC Region. Analogous to the 19th SAARCFINANCE Coordinators' Meeting that was held in Kathmandu on 18 July 2014, I believe the principal objectives of this Meeting are also to review the progress of SAARCFINANCE activities and to prepare the draft agenda for the forthcoming 29<sup>th</sup> SAARCFINANCE Group Meeting to be held in Washington, D.C. on 9 October 2014.

*Dear Colleagues,*

Before I proceed to highlight some issues pertaining to cooperation among central banks as well as some recent initiatives undertaken by SAARCFINANCE, allow me to provide a glimpse of the recent macroeconomic situation of the SAARC region. Although growth in the global economy is picking up, South Asia is still one of the slowest growing sub-regions, with GDP expanding by less than 5 percent. Energy shortage has constrained economic activities in several of these economies. Large fiscal deficits have also limited fiscal maneuverability within the sub-region. However, growth is projected to improve to 5.5 percent in 2014 and 6.3 percent in 2015 as anticipated reforms bear fruit, especially in India, South Asia's largest economy. Overall, macroeconomic policies are largely accommodative in South Asia, as growth levels remains below the pre-crisis pace amid the fragile global economic recovery. Moreover, structural reforms are introduced in some economies. Fiscal policy remains supportive to economic growth, but concerns regarding high budget deficits have risen.

Inflationary pressures in South Asia have remained strong compared to other sub-regions in the recent years. For most of the economies in the sub-region, persistently high inflation was driven by supply-side constraints, such as food and energy shortages. Rising costs of agricultural products and changing food habit has also contributed to high inflation. Although inflation eased to 6.2 percent in 2013 as global commodity and oil prices broadly stabilized, it is expected to go up slightly to 6.3 percent in 2014 before falling back to 6.1 percent in 2015 on account of country-specific factors such as currency depreciation, pressures on food prices, and energy price adjustments.

*Ladies and Gentlemen,*

In the recent years, central banks world-wide have focused not only on responding to the crisis, but also on working to minimize the risk of future crises by improving the soundness and stability of the financial sector. Indeed, the global financial crisis has underscored the importance of the financial stability objective of central banks. Given the global nature of financial markets and cross border presence of financial institutions, coordination and cooperation among central banks and bank supervisors and regulators is crucial in achieving this goal.

In this age of global financial integration, the central banks must cooperate to achieve their institutional mandates. The need for coordination has been especially true during the recent crisis, when the actions of central banks working together facilitate to easing financial strains and boosting confidence. Indeed, closer ties and more open lines of communication across central banks are some positive outcomes of these difficult times.

The global financial crisis has raised new fundamental challenges for monetary policy globally. Close regional and global central bank cooperation in the form of a structured and regular exchange of views will be essential to foster a common understanding of the issues and to converge on solutions. Central banks need to forge a new consensus on how to address the challenges they face.

In this respect, regional cooperation and integration can play a paramount role in achieving the long-term development objectives of South Asian countries. By deepening cooperation, this region can exploit the economies of scale and enjoy cost advantages resulting from the large regional market, thereby sustaining high economic growth and faster reduction in poverty.

*Ladies and Gentlemen,*

In this light, it gives me pleasure to note that the SAARCFINANCE Network is undertaking some new initiatives. One of them is the joint research study on a specific topic of relevance to the region which I believe is also part of your agenda this morning. Let me point out here that the SAARCFINANCE Members had also underlined this issue in the last SAARCFINANCE Group Meeting held in Colombo on 24 July 2014. Likewise, at the same meeting, it was unanimously agreed that the host country may hold a sideline seminar during the Coordinators' Meeting as this would definitely make the bi-annual SAARCFINANCE Coordinators' Meeting more productive. In this context, I believe a half-day seminar on "Payment and Settlement Systems in SAARC Region" has been scheduled for tomorrow. I think it would be quite appropriate for me to share a few words on this theme.

Proliferation of modern payment systems have far reaching economic and social implications for South Asia where a large number of the population has been excluded from the benefits of the financial services. Payments systems facilitate financial inclusion and improve the quality of their lives. Implementing such systems increase transparency, lower transaction costs, improve operational efficiency of trade and commerce, and provide support to the integration of the economy.

A principal aim behind improvements in payments and settlement systems is to promote trade and industry along with toward off against the adverse impact of a financial crisis on the economy. As recent events in the global financial system have demonstrated, financial crises occur over and over again. Precluding the emergence of a bubble economy and the episode of a financial crisis is a challenge we must continuously tackle. However, considering the history of recurring "boom-and-bust" cycles, I must stress here the importance of building a robust financial infrastructure that can absorb shocks in a flexible manner. This is particularly pertinent for payment and settlement systems, which form the foundation of the financial infrastructure.

I hope that seminar tomorrow will be highly interactive and enable the participants to review major payment system issues in the light of the developments in their countries. Let me also mention here that Nepal Rastra Bank has also had the privilege of hosting the 15<sup>th</sup> SAARC Payment Council (SPC) Meeting and the 1<sup>st</sup> SPC Seminar during 9-10 May 2014.

*Ladies and Gentlemen,*

Nepal Rastra Bank has benefitted a lot from SAARCFINANCE activities. We have been sending our staff to different central banks of this region to acquire knowledge on specific topics. Similarly, Nepal Rastra Bank has also organized numerous workshops/seminars, the most recent being the SAARCFINANCE Seminar on "Regulation and Supervision of Microfinance Institutions in SAARC Region" during 20-22 March 2013.

Based on these types of initiatives undertaken, I am pleased to note here that the SAARCFINANCE Network, instituted to achieve the objectives of promoting dialogue and share experiences, has made significant progress since its inception.

*Ladies and Gentlemen,*

In closing, I wish you a productive deliberation during the course of this meeting today and the seminar tomorrow and believe that both of these events will be useful and will leave you with additional insights to tackle the challenges that our region faces.

Let me once again welcome you all to this event, and express my confidence that the discussions during the meeting and the seminar will be both stimulating and constructive.

Thank you.