

**SAARCFINANCE Seminar on
"Macro-prudential Policies in SAARC Countries"**

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*Inaugural Address by
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Executive Directors of Nepal Rastra Bank
Seminar Participants,
Media Friends,
Distinguished Guests,
Ladies and Gentlemen,*

It gives me great pleasure to address this august gathering at this SAARCFINANCE Seminar on "Macro-Prudential Policies in SAARC Countries." This theme seems to be very appropriate as significant macro-prudential policy reforms worldwide are being designed to respond to the increasingly interconnected nature of financial institutions, markets and systems.

Ladies and Gentlemen,

Macro-prudential policy has become an indispensable public policy in safeguarding financial stability across the world. This new perspective has spawned profound changes and impacts on our understanding of how the whole economy operates when the impacts of financial policies and actions are considered.

Macro-prudential policies have become part of the policy paradigm in emerging and advanced economies alike, but less so in most countries of the SAARC region. These policies primarily use prudential tools to limit systemic risk and thus minimize disruptions in the provision of key financial services that can have serious repercussions on the economy.

Ideally, a sound macro-prudential policy needs to be based on the determination of the economic cycles, assessment and measurement of the build-up of systemic risk and also the impact of the stance of other public policies like monetary and fiscal policy on the risk taking behavior of the financial sector.

Ladies and Gentlemen,

In this digital era that seeks to encourage electronic transaction settlement system with the aim of minimizing the use of cash, the adoption of macro-prudential supervision would persuade banks to adequately manage their investment portfolios and foster risk management. Macro-prudential approach also elicits broad implementation of contingency plans by banks to bolster internal controls and provide early warning signals for the speedy resolution of problem areas.

However, unlike the case of monetary policy where there has been a clear consensus about the crucial role of the policy rate and supported by clear and coordinated communication, a comparable consensus is still absent in the literature on macro-prudential policy.

Likewise, there are some complex issues with regard to the implementation of macro-prudential policies in countries in this region. These include a) constructing an appropriate tool kit to tackle with systemic risk; b) evolving an optimal mix of rules and discretion while using macro-prudential policies; and c) extending the perimeter for macro-prudential instruments to encompass the shadow banking system.

Ladies and Gentlemen,

Prior to the global financial crisis of 2007-09, Nepal Rastra Bank had accorded more focus on micro-prudential policies. As the financial crisis exposed the gaps in existing supervisory and regulatory framework, regulators worldwide hastened to embrace macro-prudential policies due to their significance in overcoming the inherent flaws associated with the traditional micro-prudential approach. NRB also followed suit and issued a host of macro prudential measures to make BFIs more resilient.

The principal macro-prudential policies implemented by NRB are related to strengthening the capital of banks and financial institutions, implementing risk based supervision, making necessary arrangement for system audit, and enhancing corporate governance in BFIs. Likewise, some of the core elements of macro-

prudential regulation include risk management guidelines to banks, stress testing guidelines, liquidity monitoring, fixation of credit to core capital and deposit (CCD) ratio, loan to value ratio, and single borrower limit, among others. I will not go into the details of these as they will be examined in the country presentation session. What I want to stress here, however, is that NRB has been implementing macro-prudential measures together with the monetary policy for facilitating in maintaining financial stability as well as in attaining higher economic growth.

Ladies and Gentlemen,

Let me conclude.

The significance of the macro-prudential approach has been acknowledged for quite some time and rightly so. Developing, enhancing and implementing effective macro-prudential policy measures are the core for promoting and maintaining ongoing financial system stability.

Systemic risks and the associated policies warrant close and active attention of supervisors and regulators. Prudential policies need to go beyond traditional supervision. What is important is not the validity of the approach, but rather how to apply it in practice.

This Seminar presents a unique opportunity for us to understand the macro-prudential approach for maintaining financial stability. It is my sincere hope that all the participants would maximize the opportunity offered by this Seminar to enhance their capacities in this area through active participation and sharing of experiences.

In closing, I wish you an insightful and productive deliberation and trust that the Seminar will leave you with additional insights to tackle the challenges that lie ahead in this field.

Thank you for your attention.