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Statement by the Hon. **PRAKASH CHANDRA LOHANI**,
Governor of the Bank for **NEPAL**,
at the Joint Annual Discussion

**Statement by the Hon. Dr. Prakash Chandra Lohani,
Governor of the Bank for Nepal,
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Excellencies,
Ladies and Gentlemen,

It is my pleasure and honor to address the 2003 Annual Meetings of the Board of Governors of the World Bank Group and the International Monetary Fund. At the outset, I would like to thank the Government and the people of the United Arab Emirates for the excellent arrangements and warm hospitality extended to us since our arrival in this beautiful city of Dubai.

We are particularly concerned that the world economic growth has not witnessed satisfactory improvement in 2003. In this context, we urge the Bank and the Fund to increase the level of assistance to the least developed countries in order to foster growth and reduce poverty as these countries are facing both internal and external shocks.

We welcome the World Bank's initiative to provide grants to the poorest countries through its IDA window. In this regard, we appreciate the IDA donors for their generous contribution to the IDA trust fund in 2002 and hope that this will significantly contribute in the poverty alleviation of resource poor countries.

Similarly, we welcome the PRGF, the IMF's concessional facility for low-income countries, which is based on country owned poverty reduction strategies. We are of the view that this facility will prove instrumental in fostering economic growth and reducing poverty in low-income countries.

We would like to stress here that the Millennium Development Goals (MDGs) agreed at the United Nations Millennium Summit, would remain unfulfilled if developed countries do not increase the Official Development Assistance (ODA) significantly. We also urge developed countries to honor the commitments made in International Conference on Financing for Development in Monterrey and the World Summit on Sustainable Development in Johannesburg in which they have stressed the importance of removing trade barriers, increasing assistance and reducing debt burden.

The Heavily Indebted Poor Countries (HIPC) Initiative, launched in 1996 by the World Bank and the International Monetary Fund (IMF), needs to be further intensified making it more flexible and accommodative. This Initiative although modified in 1999 for deeper, broader and faster debt relief, has been able to provide debt relief to only 27 countries so far. Other poor debt ridden countries like Nepal are still outside of this Initiative. If the world community really wants to get rid of debt overhang from the

world, the HIPC Initiative should revisit the criteria and accommodate all debt ridden poor countries. We urge developed countries to contribute more fund for this initiative in order for poor countries to pursue sustainable development and reduce poverty.

We believe that trade is vital for accelerating economic growth and poverty reduction. In this context, Nepal has made all necessary preparation to join the World Trade Organization. We believe that for least developed countries like Nepal this will be an opportunity as well as challenge. In this regard, we appreciate the World Bank President Mr. James D. Wolfensohn and the IMF Managing Director Horst Kohler for their concerns about the Cancun Ministerial Meeting of World Trade Organization. We welcome the two institutions' commitment to assist developing countries to address the short-term adjustment problems as a result of joining an open trading environment.

We welcome the initiative for enhancing the voice and participation of developing and transition countries in decision making at the World Bank and the IMF.

We support better aid donor coordination through better donor cooperation. We commend the World Bank for working with other multilateral and bilateral donors and developing countries to improve the aid coordination through harmonization of procedures in line with Rome Meeting of February this year. Nepal has adopted its own Foreign Aid Policy in order to harmonize aid procedures and policies. We want to cooperate with donor agencies including the World Bank in the days to come to cut the red tape and reduce the development cost through better aid coordination.

Excellencies,
Ladies and Gentlemen,

Now I would like to mention about the economic situation of my own country Nepal. The economic performance of Nepal was very discouraging in FY2001/ 02. During this year the economy contracted by 0.5 percent for the first time in two decades due to escalation of the Maoist insurgency, unfavorable monsoon and weak external demand. The agriculture growth rate in F.Y. 2001/02 declined to 2.2 percent from 5.5 percent in the previous year, and industrial growth fell by 3.3 percent owing to nearly 10 percent drop in manufacturing production. Similarly, tourism was badly hit during this year as arrival of tourist dropped by 40 percent resulting in one-fourth decrease in tourism receipts. However, there have been some modest improvements in FY 2002/03 as GDP is expected to increase by 2.4 percent with 2.5 percent growth in non-agriculture sector and 2.1 percent growth in agriculture sector. Similarly, the economy has witnessed price stability.

The external sector also has shown some improvements during this time as export increased by 4.9 percent as against the decline of 15.6 percent in previous year, while the import increased by 16.9 percent as compared to the decline of 7.2 percent in the previous year. The BOP remained stable due to significant increase in overseas remittances and the country's foreign exchange reserve is sufficient to cover 11 months

of merchandise imports. The fiscal deficit during FY 2002/03 has been contained at 4.7 percent of GDP as compared to 5.4 percent of GDP in the previous year. The monetary policy is geared towards the price, exchange rate and financial sector stability, and also to spur growth in the economy.

On policy developments, the government has completed the preparation of the Tenth Plan, which also serves as Poverty Reduction Strategy Paper (PRSP) of the country, in December last year. The Plan aims to reduce poverty from 38 percent to 30 percent of the population by the end of plan period in 2007. The plan has adopted strategies of broad based sustainable economic growth, social sector development, and targeted programs for the poor and disadvantaged people, and good governance. The resource management in the plan will be based on a Medium Term Expenditure Framework (MTEF). To expedite the implementation of the Reform Agenda as discussed in the Nepal Development Forum Meeting held in Nepal in 2002, the government has prepared and implemented the Immediate Action Plan (IAP) 2002. The implementation of IAP has remained satisfactory. In the meantime, FY 2003/04 budget of the government, among others, focuses on poverty alleviation and economic reform policy. On financial sector reforms, under the collaboration of World Bank, the government has already made several key decisions including the contracting out of the management of the two largest public sector commercial banks and the reengineering of Central Bank of the country to international companies.

Despite the government's serious efforts to turn around the economy, the difficult security situation of the country poses a challenge to us. The government is committed to bringing sustainable peace in the country so that economic progress could be achieved for the alleviation wide spread poverty. To this end, I appreciate our development partners for their understanding and support. I would also like to mention here that the government is also committed towards economic reforms as ever.

Finally, I would like to thank all the development partners especially the World Bank and the IMF for their continued support in the socio-economic development of Nepal.

Thank you.