

INTERNATIONAL MONETARY FUND

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Press Release No. 43

October 3, 2004

Statement by the Hon. **BHARAT MOHAN ADHIKARI**,
Governor of the Bank for **NEPAL**,
at the Joint Annual Discussion

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Mr. Chairman

President Mr. Wolfensohn

Managing Director Mr. Rodrigo de Rato

Excellencies

Ladies and Gentlemen

I feel greatly honored to represent the Kingdom of Nepal in these 2004 Annual Meetings of the Boards of Governors of the Fund and the Bank. Let me thank the government and the people of the United States of America for the generous hospitality extended to myself and the delegates. I would like to extend our deep appreciation to the management and the officials of the Fund and the Bank for the impressive arrangements made for the meeting.

The world economic situation as well as the international financial environment has been gradually improving. The economic growth scenario in the US looks strong followed by modest recovery in the Japanese economy. Though the prospect of the world economy as a whole is now better over the years since 2000, the situation of prevailing unbalanced growth performance and continuing disparities among countries has been aggravated with the continuation of the geo-political uncertainty and the emerging oil price risks.

Mr. Chairman,

Modest recovery in the Asian region has been realized with the adoption of the prudent macroeconomic policies and flexible exchange rates along with the recovery in the trade and IT sectors. The Asian developing countries are now registering higher economic growth, with the upturn getting rapid particularly in China and India. However, the disparity in the growth rates among the countries persists. Therefore, a broad-based and sustainable growth as well as pressing forward in areas like structural reforms, good governance, and transparency comprise the most important economic policy challenges. The financial crises across the nineties teach us the need of a healthy financial sector for allocating resources efficiently. Sound, deep and strong financial sector is a prerequisite to attaining the benefits of an open, liberal and globalized economy. Enabling low income countries to reap the full benefits of a globalized economy should be the focus of the international efforts. In order to enhance the competitiveness of their respective economies, the need for the governments in the developing countries to be more responsible to consolidate their fiscal position has become urgent.

Combating poverty is one of the greatest challenges facing low-income countries. Although poverty reduction initiatives and necessary policies are put in place, implementation weaknesses persist. Hence, attaining the Millennium Development Goals (MDGs) requires strengthened efforts from international community backed by increased resources. I believe that trade would work as an engine of economic growth and low-income countries need to be given special space in realizing this potential. The Fund and the Bank are, therefore, advised to be serious in realizing the goal of poverty reduction and economic well-being on a global basis.

Mr. Chairman,

In Nepal, the overall economic development indicators have continued to improve despite unfavourable peace and security situation. The Nepal Development Forum (NDF) meetings held in Kathmandu in April 2004 provided the opportunity to apprise the donor community about the overall development problems and prospects and also the commitments from the development partners. Preparations for the post-membership of the World Trade Organization (WTO) and the implementation of the ongoing development and reform programs including the Poverty Reduction and Strategy Paper (PRSP) and the Poverty Reduction and Growth Facility (PRGF) have remained the national priority. As a result, notwithstanding the prevailing adverse situation of the peace, improvement has been observed in the overall economic situation as GDP in 2003/04 grew by 3.7 percent, agriculture by 3.7 percent and non-agriculture by

3.3 percent. The growth projection for the current fiscal year is 4.5 percent. Government revenue mobilization has recorded an impressive improvement. The growth of broad and narrow money accelerated by 13.5 percent and 12.6 percent respectively and the inflation rate remained stable at 4.0 percent in 2003/04. The restoration of peace has now become the topmost priority for the people of Nepal. Therefore, the government is taking serious initiative to settle the ongoing conflict through negotiation.

Exports rose by 5.6 percent and imports rose by 11.9 percent in 2003/04. Due to higher growth rate of imports, trade deficit has been expanding. The balance of payments, however, remained favorable by Rs. 16.5 billion due to the rise in the private remittances and loans. The present foreign exchange reserve level at US\$ 1.3 billion is sufficient to finance merchandise imports of 11.2 months or merchandise and service imports of 9.2 months.

While the overall public sector finances have witnessed prudent management, the initiation and implementation of some important projects have suffered on account of the unfavourable peace situation. Despite the growth rate of capital expenditure and current expenditure at 9.5 percent and 8.9 percent respectively, the principal repayment rose by 14.2 percent in 2003/04. With the resources registering a growth of 9.1 percent, the budget deficit/GDP ratio remained at 3.7 percent, recording only a marginal increment over such ratio of 3.6 percent in 2002/03.

Mr. Chairman,

With a per capita income level of around US\$ 250, i.e. about 69 cents a day, the need for vigorous development endeavors in Nepal has become urgent. Accordingly, the ongoing Tenth Plan/PRSP (2002-07) aims to reduce the poverty ratio from 38 percent to 32 percent over this period. GDP is estimated to grow by 6.2 percent, agriculture by 4.1 percent and non-agriculture by 7.5 percent, and per capita GDP by 4.1 percent, with a number of other socio-economic targets envisaged during the period. In view of the huge financial requirements for tackling the problems of poverty, unemployment, and the inadequate level of socio-economic infrastructure, a substantial level of financial and technical resources needs to be extended to Nepal at generous terms and conditions. Even for the sake of global peace and stability I use this platform to appeal the industrial countries to comply the commitment on ODA.

We are very grateful to the Fund and the Bank for their continued support to help Nepal improve the economic conditions of the people. I believe that the PRSP and PRGF are primarily oriented toward this objective though much needs to be done. The government especially needs the consideration and adoption of special packages for socio-economic revival in a least developed country like Nepal. The role of the Bretton Woods institutions in this endeavor would be of utmost importance. I would, therefore, like to request the Fund/Bank and the entire donor community to make arrangements to include Nepal in the Highly Indebted Poor Countries (HIPC) Debt Initiative framework so as to assist Nepal alleviate the gravity of the development challenges.

Mr. Chairman,

Greater support is also expected in the context of the opportunities and challenges associated with the WTO membership, especially in the transitional phase of the reform process, so that small and underdeveloped economies like ours will be able to participate in the global economy more meaningfully. I would like to assure our full support and participation in every action of the Fund and the Bank in this direction.

I would like to reiterate our sincere thanks to the Bank and the Fund as well as the entire donor community for rendering valuable technical as well as financial assistance in our development endeavors. We are always effortful to make optimum use of resources along with carrying our further reform programs in all our important socio-economic spheres. I seek more considerate support from the Fund and the Bank as well as our entire donor community in our endeavor of poverty reduction and sustainable socio-economic development in Nepal.

Thank You,