

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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Statement by the Hon. **RAM SHARAN MAHAT**,
Governor of the Bank for **NEPAL**,
at the Joint Annual Discussion

Speech by Hon. Dr. Ram Sharan Mahat
Minister of Finance, Nepal
And
Governor of the World Bank for Nepal
At the 2007 Annual Meetings of the Boards of Governors of the
Bank and the International Monetary Fund (Oct. 20-22, 2007, Washington, DC,
USA)

Mr. Chairman
President Mr. Zoellick
Managing Director Mr. de Rato
Fellow Governors
Delegates and Participants
Ladies and Gentlemen!

1. I congratulate President Mr. Zoellick and offer best wishes for your success. Your observation at the National Press Club in Washington, DC on October 10, 2007 that poverty breeds instability is quite appropriate. I would like to express my heart-felt thanks to the Managing Director Mr. de Rato for leading the Fund with great competence. I appreciate your program of reform to ensure that the IMF remained attuned to the needs of its members in a globalized economy. I also congratulate and welcome Mr. Dominique Strauss-Kahn who is taking over as the Managing Director on November 1, 2007. I take this opportunity to offer Mr. Strauss-Kahn best wishes for his success.
2. My sincere appreciation goes to the government and the people of the United States for the warm hospitality extended to us.

Mr. Chairman,

3. Despite the recent volatilities, uncertainties and defaults that marked the functioning of the financial markets, it is heartening to note that the immediate impact of the market turbulence would be modest and the world economic growth would remain solid, buoyed by strong growth in emerging market and developing countries. However, we need to be constantly vigilant about the occasional dangers and risks inherent in the financial markets and make utmost

efforts toward strengthening the international financial infrastructure and addressing the weaknesses in the global financial and economic system.

4. We noted with appreciation the theme of the **World Development Report 2008 -Agriculture for Development**. The report covers the major features underlying the economic structure and performance as well as the development prospects and priorities in the developing economies. Agriculture and the agriculture-linked industry account for a significant share of GDP in majority of these economies. It is disheartening to note that such an important sector of the economy in these countries is still suffering from a very low level of productivity. In my country Nepal, the dominant role of this sector is reflected in its contribution to GDP, employment, livelihoods and interlinkages with the other sectors. However, its productivity is very low and the country has turned to a net food-importing country from its past position of a food-exporting country. We strongly support the Report's conclusion that the agriculture has a special role in reducing poverty and that GDP growth originating from agriculture would have a far greater income impact than the growth generated outside the agriculture.
5. We have also taken note of the World Bank Group's Report entitled **Doing Business 2008**. The Report mentions that, in South Asia, the cost of employing and laying off workers, registering property, getting credit, trading across borders, and closing a business is high. These problems need to be addressed for making the individual country systems less burdensome, less time-consuming and less costly. We would, therefore, like to urge the Bank, especially the IFC, to substantially enhance its efforts to help countries like Nepal in creating a favorable investment climate and reducing the cost of doing business.
6. Achieving Millennium Development Goals remains a continued challenge for many of us. Nepal is making sincere efforts toward meeting these goals, especially halving the number of people below the poverty line by 2015. However, goals on primary education and HIV/AIDS would be hard to achieve primarily because of the resource constraint. I would, therefore, like to urge the

development partners to enhance their support level as per the agreed commitments.

7. Focus on clean energy by the Bank is a welcome step. Nepal has huge potential of hydropower which is a prime source of clean, renewable energy. This resource could be harnessed for the benefit not only of Nepal but also of the neighboring countries. I encourage and welcome both, the official development assistance and the private investments, and domestic and foreign, for tapping this potential.
8. As mentioned in the communiqués of both the DC and the IMFC in their 2006 Annual Meetings, Nepal would like to see a successful conclusion of the Doha Round after its unfortunate suspension last year. We continue to encourage the Bank to engage in Aid for Trade with the focus on trade-related infrastructure development so as to help developing countries in a meaningful way in the expanding global trade.
9. I support the Bank's initiative in the field of Global Public Goods through policy support, advocacy, financing, and technical assistance. Countries are facing a severe risk of climate change, flooding, pandemics, conflicts, civil strife, etc. These risks need urgent and collective global action with particular focus on risk mitigating strategies at the regional and national level.
10. I also support the country-based scaling up of efforts by the Bank and acknowledge the progress made so far. Certainly, scaling up should be based on the country performance. However, special consideration needs to be given to the specific country contexts where, despite persistent efforts, the performance level has not been met for reasons of natural calamities, conflicts, and so on.
11. We have observed that much of the rise in aid has been for debt relief. We are supportive of debt relief measures as a financing instrument, but we firmly believe that this should be treated as a supplement rather than a substitute to the ODA.

Mr. Chairman,

12. Now, allow me to briefly mention Nepal's current situation. The country is in the midst of political transition after more-than-a-decade-long insurgency. Our imminent task is to hold free and fair elections for the Constituent Assembly that would pave the way for building a truly democratic and inclusive Nepal. Though the election slated for November 22 this year has been postponed because of some new political developments, we are holding consultations with the concerned parties for a new date. The march toward sustained peace, democracy and development is not without hiccups and challenges, but we are clear about the direction to take and the goal to achieve. Our commitment to the evolving peace process remains unequivocal and unfaltering, and we are particularly grateful to the international community for their support at our difficult times.
13. Nepal's development efforts in recent years have been severely constrained due to violent insurgency. This is reflected particularly in the slower rate of economic growth which averaged 2.8 percent a year during the last three years. Nepal's merchandise exports/GDP ratio also fell from 10 percent in FY 2004/05 to 8.4 percent in FY 2006/07. Nepal's macroeconomic management has remained under control. The government revenue increased by 20.8 percent in FY 2006/07, which pushed the revenue/GDP ratio to 12.1 percent from 11.2 percent in the preceding year. The government has also been able to maintain the fiscal deficit/GDP ratio below 4 percent. The monetary expansion has been contained at the targeted levels and the treasury operations resulted in the surplus situation. The rate of inflation has come down to 6 percent.
14. The fourth PRGF Review Report on Nepal mentions that economic outcomes have been in line with the program, macroeconomic policies have remained sound, the PRGF-supported program is broadly on track, and Nepal's economic prospects have improved despite some risks. According to the Report, the authorities' efforts and achievements as reflected in the continued macroeconomic stability and further progress in structural reforms under trying circumstances merit international support. I assure that the government would not at any cost let the reform measures be weakened. I request the international

community to adequately support Nepal in these endeavors in this period of difficult transition.

15. Nepal needs immediate resources for reconstruction, rehabilitation and reform. People displaced due to the conflict need immediate support to return home and lead a normal life. Problems of hunger, deprivation, disease and unemployment, which provided fertile ground for violent insurgency, need to be addressed with utmost urgency. International community has been supportive, but additional and timely support is crucial.
16. Before I close, I would like to reaffirm our commitment to consolidating gains achieved to date in stabilizing political and economic situation in the country. Our journey to peace, democracy and development will continue until we reach the goal of building a just, prosperous and democratic Nepal.
17. Finally, I would like to thank the Bank and the Fund for their continued support for Nepal's overall development in the past and hope for the enhanced support in the future.

I wish the Annual Meetings a grand success!

Thank you!