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INTERNATIONAL DEVELOPMENT ASSOCIATION

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Statement by the Hon. **RABINDRA NATH SHARMA**,
Governor of the Bank for **NEPAL**,
at the Joint Annual Discussion

Statement by Hon. Rabindra Nath Sharma
Governor of Nepal
At the 1997 World Bank/IMF Annual Meetings

Mr. Chairman, Fellow Governors, Ladies and Gentlemen,

It is a great honor and privilege for me to address the Joint Annual Meetings of the Bretton Woods Institutions in Hong Kong in the aftermath of its handover to the People's Republic of China. On behalf of my delegation, I would like to thank the organizers of the meetings for the excellent arrangements made and warm hospitality accorded to us.

Global integration has been spurred by economic and financial liberalization. Worldwide access to markets for goods and financial services has increased. Private capital flows have become a major factor in the realization of the economic potential of developing countries. However, there is growing awareness of the greater susceptibility of economies to external shocks and the wider ramifications of domestic economic and financial imbalances, including the international response that those imbalances elicit. The recent experience of Mexico and the turmoil in the currency and financial markets of South East Asia have reminded us of the world we live in. Events have also demonstrated, however, the willingness and ability of the international financial community to come to the assistance of countries in distress and help remedy situations of crisis. Despite strong growth in external private financing to developing countries, the continued decline in Official Development Assistance has been worrisome. As the majority of developing countries, including my own, are confronting with the formidable task of nation building, domestic revenue is largely inadequate to finance development programs. In spite of various reform measures taken to invite private capital it would take some years

more before the private sector can become a viable means of financing project in our countries.

Allow me to say a few words about the Nepalese economy. The fiscal year ending in mid-July 1997 saw a number of improvements on the financial front. The government deficit and domestic borrowing requirement declined, domestic credit expansion was brought under control, foreign exchange reserves rose and inflation declined to the lower single level. At the same time, government revenue mobilization and development expenditure fell significantly short of targeted levels, economic growth was relatively sluggish at about 4 per cent and the performance of key public enterprises continued to be affected by structural weaknesses. For this year our aims include further improvements in reserves, a further reduction in government borrowing and the imposition of a legal limit on central bank financing. We will make determined efforts to enhance both revenue mobilization and the implementation of priority development projects. We have broadened the tax base in order to raise domestic revenue. Similarly, income and corporate tax rates have been reduced. Customs rates have been rationalized and reduced. It has been decided to implement VAT from mid-November 1997. Privatization, facilitation of foreign investment, and improvements in public enterprise are our other priorities as well. This year is the first year of the "Ninth Five Year Plan" which embodies poverty alleviation as the main agenda of development. Agriculture and the social sector development are given high priority.

We welcome the Bank's effort of helping countries to combat corruption and improve governance. I am happy to note the satisfactory results obtained in the implementation of debt reduction strategy in heavily indebted poor countries by both the

Bank and the Fund. I feel that this program needs to be continued. We welcome the recent understandings reached with regard to IMF Quota distribution, SDR allocation and surveillance arrangements. Nepal has successfully executed Fund's macro-economic stabilization programs like SAF and ESAF which in essence witnessed noticeable improvements in the Nepalese economy. We look forward to join the next ESAF program soon. We are thankful to the international donor community for their consistent and strong support in our economic development programs. I would like to mention here that Nepal Aid Group Meeting will be held next month in Paris. As in the past, we are confident to receive strong support of the members of Nepal Aid Group.

Before I conclude, please allow me to share some of my concerns with the distinguished governors. We highly appreciate the concern shown in macroeconomic management. While it is a necessary condition we feel that it is not a sufficient condition for the functioning of the economy of developing nations. Equally important is the concern for raising resources for financing development activities. Prudent management and judicious use of available resources are other important aspects for both the recipients and donors. However, stringent conditionalities on aid disbursement, complicated reimbursement procedures, donor's stress in financing reduced proportion of development expenditure, weakness in selection of appropriate projects should be carefully addressed. Reversing the trend of official development assistance and improving significantly the economic and social conditions of the people in poor countries is the single biggest challenge for all of us. In the interest of both the developed and developing countries, the former should pay greater attention to resolve the issues of developing countries. The gap between the rich and the poor and the unjust and inequitable international economic order

should no longer continue to prevail. In this regard, the opinion expressed by Chinese Premier H.E. Mr. Li Peng deserves our utmost attention. Likewise, the exhortation by Mr. Wolfensohn, I quote “our goal must be to reduce disparities across and within countries to bring more and more people into the economic main stream to promote equitable access to the benefit of development regardless of nationality, race and gender” I unquote, deserves attention by the world community.

While Nepal is committed to a sustainable growth by implementing various reform measures, it is necessary that the sequencing and timing of these reforms should be realistic enough. We believe that only dialogues and joint efforts of the member Governments, the Fund and the Bank are likely to produce lasting reforms supporting sustainable development. Thank you.