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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'ble Dr. Ram Sharan Mahat
Governor of the Bank for Nepal
at the 2006 Annual Meetings of the Board of Governors of the World Bank
and the International Monetary Fund**

Mr. Chairman,
Mr. Wolfowitz,
Mr. de Rato,
Fellow Governors,
Distinguished Delegates,

It is a great honor for me to address the 2006 Annual Meetings of the Board of Governors of the World Bank and the International Monetary Fund in this gorgeous city of Singapore. On behalf of the Government of Nepal I would like to put on record our sincere appreciation to the people and the Government of Singapore for their warm hospitality, and thank the Bank and the Fund for the excellent arrangements made for the meetings.

Mr. Chairman,

We have noted that the economic growth of world was encouraging in 2005. It was driven by favorable global financial market and structural macroeconomic policies. We are expecting the global expansion in 2006 by 4.9%, slightly higher than the 2005 level of 4.3%. Among industrial countries, the US economy has played a key role but its economy is expected to slow modestly to a more sustainable pace amid cooling housing market, high oil prices and rising interest rates. The growth of ever expanding Japanese economy, driven by strong private domestic demand is expected to slow down a bit as well. In the Euro-area, the momentum of recovery is expected to be sustained this year, despite signs of unexpected weaknesses in Germany. The high economic rates of the emerging economies of China and India are expected to remain strong this year

too. As a neighboring country, Nepal can take the geographical advantage of being in between the two of the world's emerging economic powers provided we can encompass our policies and priorities towards this direction.

On the other hand, the world has experienced escalating petroleum prices caused by political instability in the Middle East Asian Countries and natural havocs like Katrina in the US. It has become a real concern for oil importing countries that oil prices have hit new highs and future markets suggest that oil prices will remain high for the foreseeable future, resulting inflationary pressure and potential serious consequences.

Fellow Governors,

As the 2015 is approaching closer, it still remains a challenge for many developing countries like Nepal to achieve MDGs targets. This is not only because of the exogenous challenges being faced by such countries but also due to inadequate concessional resources to scale-up pro-poor growth and human development efforts. We would like to urge rich countries to bolster aid levels in line with the commitments made at the 2002 Monterrey Conference devoting 0.7% of their gross national income to aid. We support the version mentioned in World Development Report 2006 that "Aid should not be undermined by Debt".

Hundreds of millions of the world's poor live in countries where crushing debt stands in the way of lasting poverty reduction. This situation demands that the Fund-Bank should be proactive and take leadership in safeguarding the interests of the poor countries. We appreciate the debt relief proposals of the G-8 Finance Ministers in Gleneagles last year and welcome the progress made in this direction. We believe the initiative would support the heavily indebted poor countries to get rid of debt burden undoubtedly. However, we are of the view that this initiation should not hamper the IDA flows to developing countries and

should not replace the existing potentiality of scaled up concessional resources flows.

Mr. Chairman,

We are facing opportunities as well as challenges by joining World Trade Organization. To benefit from the global opportunities, the LDCs should be given effective and proportionate share to voice for their interest, while the developed countries should think seriously of reducing protections like subsidies to their exports and encourage value-added processing in developing countries. We support the recommendation made by the UN Millennium Project 2005 for the total removal of barriers to merchandise trade, a substantial and across-the-board liberalization of trade in services, and the universal enforcement of the principal of reciprocity and non-discrimination.

Suspension of Doha Trade negotiation is a matter of disappointment. Let us hope it will be back on track with encouraging results in the days to come. We encourage the Bank to continue engaging in Aid for Trade agenda despite the Doha suspension. This is helpful in providing technical assistance and capacity building to the developing countries so that these countries would really benefit by the free trade regimes. We welcome the initiation of the Bank on regional co-operation, particularly in infrastructure, and would like to see further development to materialize it.

We welcome the world Bank engagement on good governance and anti-corruption actions. This is crucial towards attaining poverty reduction and MDG goals. While recognizing the recipient countries' obligation in this respect, the external dimension of this problem – the role of international suppliers of goods and services to developing countries – can hardly be ignored. It would be naive to believe that the recipient countries have the capacity to control such bribes. We, therefore, urge that the dimensions of the problem also be looked

into, and enforcement of anti-bribery and anti-malpractices conventions in countries where such institutions are based, be strictly monitored.

Mr. Chairman,

Now I would like to briefly dwell upon current economic situation of my own country.

Nepal's economy has been in crisis for over half a decade. The country achieved annual average economic growth rate of 5.1 percent in the 1990s following the political change. Trade liberalization and practical economic policies contributed to this. The political stalemate and escalating conflict since 2000 had a negative impact. The real GDP growth during 2000/01-2004/05 has hardly kept pace with the population growth. The economy is now looking for a new momentum with the peaceful resolution of armed insurgency in sight. In spite of rise in petroleum prices, the inflation rate remained at a moderate level. Despite this, our economy is able to maintain macro economic stability due to budgetary discipline and adoption of prudential monetary policy.

At this juncture, the foremost need of the country and people of Nepal is to create an environment conducive to the deprived population, where there are low level of inequalities and plenty of opportunities for livelihoods, that assures sustainable peace and creates space for growth and development.

We cannot afford the repetition of insurgency - again and across generations. We do not want our young children carry guns and explosives instead of pen and book in their delicate hands. It is well understood that the conflict in Nepal is not only political but it is fuelled by deep-rooted disparities, exclusiveness, inequality and deprivation. Improving the situation gradually and at a faster pace calls for huge amount resources and firm commitment.

Fellow Governors,

After the historical events and the political changes that followed the peoples' movement in early 2006, Nepal is pursuing important initiatives to achieve sustainable peace and peoples' welfare. The nation is heading toward economic and social transformation towards defining a "New Nepal" - a new state that is prosperous, inclusive and peaceful. Following the political changes, the democratic institutions are reinstated, and avenues for a lasting peace are opened up, new prospects of opportunities have emerged, and the economic activities that were suspended are now revived.

As indicated in the budget of this fiscal year, the national debate right now has centered on the future political system and process to achieve sustainable peace. This does not mean that the issue of economic development should be pushed back to back burner. Democracy can not flourish on the foundation of a weak economy.

Reconstruction and rehabilitation are urgent needs. The economic activities, suspended during the period of conflict, insecurity and absence of peoples' representatives, are waiting to pick up. The rural area seeks new opportunities for employment and income generation. Crisis-ridden industrial, trading and tourism sector is yearning for industrial peace and investment climate. Damaged and destroyed physical infrastructures are in need of reconstruction. People displaced due to conflict want to return home and live a normal life. Socially excluded and oppressed people want a fair share. The budget of FY 2006/07 tries to get this process started to lay the foundation and build the momentum for the future.

Mr. Chairman,

It is against this background that I would request the World Bank to support Nepal to solve the immediate budgetary crunch and support the Government's plan to execute economic reconstruction by releasing the second tranche of the PRSC, without any delay. Similarly, I would like to request the IMF for extending the PRGF facility beyond November 2006, since this is based on country ownership and linked up with the country's poverty reduction strategies. We consider this as the macro-economic support vehicle of the Fund for low-income countries. Nepal would like to see the Paris Declaration on Harmonization, Alignment and Aid-effectiveness to fully materialize as to its spirits.

Peace and nation building are only possible when all concerned strive for bringing about an amicable settlement of conflict. And it can only be sustainable when we all tackle the reasons behind extreme and age-old human suffering and deprivation, especially for the disadvantaged population. It also means addressing the vast "infrastructure deficits" and improving the climate for investment. There is a clear and dire need to match between what we expect and what Fund-Bank offer. I am confident that the magnificent support by our development partners and well wishers will help Nepal in meeting these challenges.

I thank you all.