

N E P A L
RAM SHARAN MAHAT, Governor

It is my honor and privilege to address this Thirty-Fourth Annual Meeting of the Asian Development Bank (ADB) being held in this beautiful and picturesque city of Honolulu. At the very outset, let me extend my sincere appreciation to the organizers for the excellent arrangements made for this meeting. Likewise, on behalf of my delegation and myself, I would like to thank the government and the people of the United States of America, especially Governor Benjamin J. Cayetano of the State of Hawaii and the Hawaiian people for the warm hospitality accorded to us.

Let me join hands with other colleagues in welcoming Turkmenistan as the 59th member of this organization. I am pleased to recall President Chino's successful visit to Nepal in January this year. The visit provided us a wonderful opportunity to exchange our views on areas of mutual concern including those related to Nepal's development endeavors.

Please allow me to say a few words on the current global and regional economic scenario. The performance of the world economy during the year 2000 remained positive and encouraging. World GDP grew by 4.7 percent, and that of the developing countries of Asia and the Pacific region by 7.3 percent, indicating a quick rebound of the Asian economies that were affected by the financial crisis of 1997. Such a speedy recovery of these economies will certainly have a positive impact on all the developing member countries in the region. I am of the opinion that ADB's support to these Asian economies was of immense help in their revival from the financial crises.

However, the growth impulse generated seems to have been short lived. The performance of the American and Japanese economies has become a matter of global concern. With a deceleration in the conditions of these economies that account for 46 percent of the global GDP, other countries of the world are likely to be affected adversely.

We are very appreciative of ADB for preparing the long-term strategic framework to carry out ADB's Poverty Reduction Strategy in the next 15 years. The strategy recognizes three core areas of intervention including the achievement of sustainable economic growth, social development, and good governance for effective policies and institutions. In order to broaden and deepen the impact of core poverty reduction interventions, three crosscutting areas have been identified including the promotion of the role of private sector in development, support to regional cooperation and integration for development, and addressing the problem of environmental sustainability. Indeed, these are quite relevant to countries of the region.

I would also like to place on record our sincere appreciation to the government of Japan for creating the Japan Fund for Poverty Reduction. I am sure developing member countries will benefit from this facility providing much needed support in their struggle against poverty.

While we noted with satisfaction that Asian Development Fund (ADF) lending increased by 49 percent during the year 2000, we believe that considerable scope exists for its further expansion. In this context, we welcome ADB's decision to introduce performance-based allocation (PBA), which seeks to establish a linkage between the level of performance of the individual government and the allocation of resources from the Japan Fund. However, I would like to suggest that ADB needs to be pragmatic and flexible in the application of this principle, taking full cognizance of the specific development situation of the countries and the unique problems they are facing.

ADB's recent drive in promoting economic growth through subregional economic cooperation could offer new avenues for accelerating economic development in developing member countries, ensuring optimal gains from their comparative advantages and competitive strengths. The concept of the South Asian growth quadrangle could, undoubtedly, be an instrument in identifying the areas of mutual cooperation among the four member countries and thereby creating subregional synergy. To this end, Nepal is keenly interested to work in tandem with ADB and other members of the quadrangle.

Having said this, let me shed some light on the current macroeconomic situation of Nepal and the Government's new policy initiatives aimed at poverty alleviation. GDP at current prices recorded a growth of 6.5 percent in the last fiscal year and is expected to remain around 5.5 percent this year. The foreign currency reserve has been at a satisfactory level. The balance of payments has remained favorable. Though the current account is still in deficit, the level of deficit is declining. However, on the fiscal front, the fiscal deficit has widened during the period due mainly to the unexpected rise in regular expenditure. The level of inflation has been contained to an all-time low.

Alleviating poverty by maintaining sound macroeconomic fundamentals has been the overarching goal of the Government. Despite several constraints, the Government has been deepening and intensifying the reform measures. The Government is fully committed to continue the reform initiatives despite difficulties. We believe short-term difficulties on account of the reform process will ultimately be outweighed by long-term benefits to be accrued by lasting reform measures.

Government policies are increasingly geared toward providing the private sector a lead role in the economy. A number of important initiatives have already been made resulting significant diversification and expansion of private sector activities. Further improvements in policy and institution building are needed to create an agile and proactive private sector. Realizing the need for a robust and resilient financial system, the Government has come up with programs to restructure the financial sector. As a part of the strategy to address problems in the financial sector, the Financial Sector Reform Program is being carried out. The management of the two large state-owned commercial banks is soon being transferred to private management. The regulatory role of the central bank is being strengthened. Moreover, the Government is implementing a new corporate and financial governance program in order to establish and internalize healthy and transparent corporate practices and create an active capital market.

The Government has also been trying to bring about improvements in the fiscal health by reforming the tax system and streamlining and rationalizing government expenditure. The Public Expenditure Review Commission has already submitted its final report and the Government is determined to implement the suggestions in a phased manner. A new Income Tax Act is being enacted soon. This will replace the conventional and discretionary taxation practices with a modern and sound system. Merger of the Department of Value Added Tax and Tax Department into one single organization will help simplify tax administration, reduce administrative and compliance costs, and ultimately result in revenue enhancement.

Taking stock of past experience, an Interim Poverty Reduction Strategy Paper has been prepared to design and implement effective poverty alleviation programs. The objective is to attain broad-based economic growth geared to improve the living conditions of the poorest strata of the population.

Good policies per se will not bear fruits until and unless they are supported by sustaining and homegrown institutions. Therefore, the Government's utmost focus has been to create institutions that spur broad-based, pro-poor, and sustainable economic growth. Several reform measures are under way, including civil service reform, decentralization, and development of effective partnership with civil society organizations.

May I also take this opportunity to share some of the pains faced by the developing countries like Nepal that are amidst the reform process. We, like many others, are at the crossroads of sustaining democratic values and fulfilling everincreasing aspirations of the people. At the same time, the challenges of maintaining macroeconomic stability and expediting second generation reforms have put us in a difficult position. Despite our attempts to sustain and expand our efforts to achieve them, several constraints including the resource crunch, and politico-social limitations at times tend to limit our ability for reforms.

The other challenge the economy is facing at the moment is on the fiscal front. The growth in public expenditure is quite disproportionate to the growth in internal resources mobilization. The sharp growth in public expenditure has been due, among other things, to the rising wage bill, security expenditure, and debt-servicing obligations. These have severely constrained the Government's capacity to provide greater resources for much-needed infrastructure projects and social development.

We are committed to overcome the challenges of our economy. There are no choices left for us but to organize and use our energy and resources toward achieving poverty alleviation. It could be time taking and at times frustrating, but, that is the direction we have decided to move forward. We need to be steady in our efforts.

In the end, may I take this opportunity to thank President Chino and his team at ADB for their support in our efforts to change the destiny of the millions of poor people through equitable and sustainable economic growth. I also take this opportunity to

express our appreciation for ADB's continuing support in our development endeavors. I am confident that our mutual cooperation will be further strengthened in the days to come.