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Statement by the Hon. **YUBA RAJ KHATIWADA**,
Governor of the Bank for **NEPAL**

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Mr. Chairman,
Mr. Jim Yong Kim, President, World Bank Group
Ms. Christine Lagarde, Managing Director, IMF
Fellow Governors and Alternative Governors,
Distinguished Delegates,
Ladies and Gentlemen!

It is a great honor and privilege for me and my Nepali delegation to participate in this 2018 Annual Meeting of the Board of Governors of the World Bank Group and International Monetary Fund in this beautiful and cultural city of Bali. I take this opportunity to appreciate the World Bank and IMF management team for the excellent arrangements made for this meeting. I express my sincere thanks for the logistic arrangements made and hospitality extended to us by the government and people of host country Indonesia.

At the outset, let me note that the world economy has become more resilient and stable, overcoming the trend of recurring financial crises which occurred in every 10 years since 1987. After a decade of latest Great Financial Crisis, global economic outlook seems inclining towards normalcy at pre-crisis level. Both the developed as well as emerging market economies are getting stronger despite some external vulnerabilities in the emerging economies. I firmly believe that this global forum's policy initiatives and robust actions would lead towards the successful normalization of global economy and sustaining the growth path as we move along.

We have observed that more than one billion people have been lifted out of extreme poverty during the last two decades and a half, due mainly to the fast-growing economies of East and South Asia contributing to this outcome. However, it is concerning that not all the countries have been able to reduce poverty at the same high rate. For Nepal, we have managed to reduce absolute poverty by at least one percentage point every year during the last two decades. Significant progress has been observed in social outcomes along with achieving most of the MDGs.

However, our achievements have often been thwarted by global and regional economic shocks, natural disasters, and the impact of climate change. Linking poverty reduction strategy with environment and climate change initiatives along with building resilience against all kinds of shocks would be critical to ensure that there is no reversal of poverty reduction outcomes achieved so far. Besides, for small economies like ours, it is necessary that macro and sectoral economic policies are designed to minimize the impacts of such shocks. While global cooperation and support would be warranted to build national resilience to shocks and disasters, strong regional development cooperation would be equally critical for addressing the economic, social and environmental shocks facing the low income countries like Nepal.

While initiating regional cooperation and global partnership to achieve common goals thereby harmonizing policy measures across the globe, the world economy is flashing adverse shocks from the reintroduction of trade protection measures by some large economies. This new trend has influenced trade structure, capital flows, exchange rate, and commodity prices in many countries. The revolution in information technology and rapid progress in automation following technological advancement has been squeezing labour market opportunities. The technology-labour trade-off has resulted in coupling high economic growth and rising unemployment together. Besides, innovations in financial services such as the use of crypto currency, interconnectedness of financial architecture encompassing banking, insurance, and capital market institutions, and emergence of new financial products are posing additional challenges for the financial system regulators. The gradual rise of non-banking payment platforms such as growing payment function of telecom companies or internet service providers has also elevated financial system risks globally.

Rising inequality within and among nations has been a global threat to sustainable development and creation of peaceful societies. As such, high or even growing inequality has undermined the speed of poverty reduction. Had there been no worsening income inequality, many countries would have achieved poverty reduction even faster. This calls for reorientation of our macro and sectoral policies along with rebalancing the roles of the state and the market. As such, this also calls for balancing 'inclusion' and 'efficiency' in the production and distribution process. I urge the World Bank and the IMF to work together with national governments towards this direction, and play a proactive role to develop credible policies which foster equality and efficiency without undermining social justice and fair distribution of resources and opportunities so that every citizen benefits from the development outcome.

Mr. Chairman,

Let me highlight some of the recent political and economic achievement we have made so far in Nepal. Having suffered for more than two decades of the protracted political uncertainty, we have finally settled political stalemates with the promulgation of the Constitution of Federal Democratic Republic Nepal in 2015. Subsequently, we have implemented several laws pertaining to the fundamental social and economic rights of the citizen, implemented fiscal federalism, and restructured the state development functionaries. This has ensured smooth transition of the state from a unitary system to a federal one with 753 local and 7 provincial governments undertaking their autonomous governance and development functions. We have now a deep rooted democratic system and decentralized governance under the federal system with nearly 36 thousand people's representatives being elected at the sub-national levels in a country of less than 29 million people. The representation is one of the most inclusive and gender balanced, as 41 percent of the elected representatives are women and a significant of them are from marginalized class. This has created an unprecedented opportunity to us for ensuring inclusive development and creating a just society.

Nepal is recovering from the shocks of massive earthquake of 2015 followed by the 4-month long trade blockade in Southern border of the country in the same year. So far one-third of the residential houses have been fully constructed and another one-third are in near completion. The government is committed to complete housing reconstruction

work by this fiscal year ending July 2019. Progress towards reconstruction of school buildings, health centres, hospitals, and public service building is also satisfactory. However, as we are far short of the resource necessary to complete the reconstruction work, and as committed resources are yet to be fully disbursed, I urge the international community to support the financing gap in post-earthquake reconstruction. It may be noted that the financing gap is as high as 2 percent of Nepal's GDP, and half of it being in residential housing only.

The present government remains firmly committed to ensure the fundamental rights of Nepali citizen including food security, basic education, primary health care, work and employment, decent housing, clean environment, and social security. Towards meeting the fundamental rights, the present government is committed to eliminate hunger and illiteracy in two years, ensure universal access to renewable energy and basic water supply to all Nepali citizens within three years, create sufficient jobs for the workforce within five years, and cover all people with health insurance scheme in a few years' time. The government is working to achieve the ultimate goal of achieving Prosperous Nepal and Happy Nepali through inclusive democracy, social justice, and fair distribution of economic resources and opportunities.

After a low growth trajectory for many decades, Nepal is now following a high growth path. The country achieved more than 6 percent GDP growth during the last two years and is projected to grow by 8 percent this year. A higher growth trajectory is warranted not only for graduating the country from LDCs status by 2022 which Nepal aims for, but also for achieving the SDGs and reaching to middle-income country by 2030. The government is committed to maximize finance for development through legal, regulatory and operational reforms in the areas of public, private and cooperative sector investments.

Nepal has accelerated tax reforms and strengthened revenue administration to mobilize domestic resources for financing the public spending requirements. Currently, Nepal's tax GDP ratio is one of the highest in South Asia. Still our public spending requirements to meet the fundamental rights of the citizens ensured through recent legislations remains much higher than the available resources. More to this, as the government is geared up to implementing the 2030 Agenda for Sustainable Development, huge additional financing requirement has been mapped out for the next several years. The SDG financing gap remains the highest in the infrastructure sector which is getting very much capital intensive in the recent years. The country needs to invest as high as 60 percent of GDP annually to meet the SDGs related investment which translates into public sector financing gap of more than 15 percent of GDP for the entire SDG period. As more than half of investment requirement belongs to SDG related infrastructure, this is where I see a pivotal role that the multilateral institutions like the World Bank Group can play for bridging the financing gap. I recall here my interaction with the Executive Board and senior officials of the World Bank Group during my visit in World Bank Headquarter in August 2018. While I take a positive note that the World Bank Group along with other global partners have perceived the additional development financing requirement of low income countries like ours, I urge that the concessional windows of the development partners, particularly the IDA resources, be expanded with higher level of fund being available for this window. Equally important for us is a larger commitment, clear road map and higher resource flow for financing SDGs in low income countries like ours.

Mr. Chairman,

The Government of Nepal has been expediting economic reform as a vehicle for accelerating economic growth thereby utilizing domestic resources more efficiently and attracting private and foreign investments. In this context, we are reforming private investment and labour market related laws, simplifying land and forest acquisition regulations and strengthening environmental standards. These reforms are expected to ensure conducive business environment while moving forward.

In the financial sector, the government has taken a series of reforms, also under the framework of development policy credit support of the World Bank. Expanding banking service to all the newly formed units of local level government, initiation of opening bank account of all Nepali citizens, widening the coverage of insurance, and making capital market services available throughout the country also through the usage of information technology are some of the measures undertaken to enhance access to finance. Adoption of universal banking approach, fostering digital payment system and introduction of international financial reporting standards, introduction of Basel III prudential regulation and supervision, and following financial system oversight practice as per international standard are some of the key measure initiated to make the financial sector more resilient and supportive to real sector growth.

The government has also accelerated budgetary system reform thereby making it more rule based and credible while also enhancing transparency in budget allocation and spending. Improving public service delivery is another key priority that the government has undertaken. Other major public finance management measures include formulation of public procurement and financial accountability act, financial procedure act, expenditure reporting regulation, expenditure tracking, and monitoring of funds allocated to local governments starting from this fiscal year. Governance of public resources is made more credible through regular monitoring, evaluation of major programs, zero tolerance to corruption and initiation of e-government in procurement and expenditure tracking. This is expected to make the public service delivery more efficient, effective and transparent.

The government has lent top priority for strengthening interconnectedness and institutional capacity of sub-national governments. The aim is not just for making public service delivery more effective but also for setting up development process from the grass-root level. We are developing a practical and transparent mechanism of fiscal transfer and revenue as well as responsibility sharing under the federal system. The issues related to concurrent tax collection rights and responsibilities in course of the fiscal federalism implementation are also addressed through a series of legislations and regulations.

Mr. Chairman,

The Government of Nepal recognizes the private and cooperative sectors as important pillars of the economy and encourages them for partnership with the public sector in fostering investment, promoting inclusive growth, and delivering better result. The government is seeking partnership not only for financing but also for encouraging innovation, efficient management and technical advancement. We have already undertaken partnership with private sector in many areas such as in energy, tourism, small infrastructure and industrial sectors, which have yielded encouraging results. We are in the process of amending foreign exchange laws, investment laws, company law,

and public private partnership frameworks for promoting investment. I am confident that these initiatives will encourage both domestic and foreign private investment, especially in infrastructure and business enterprises. We also look forward for substantive engagement of the World Bank Group in this endeavor.

Mr. Chairman,

Let me conclude by acknowledging the pro-active and supportive role of the World Bank Group and International Monetary Fund for shaping the world economy. It is, however, critical to focus global efforts towards low income countries so as to eliminate extreme poverty which is deeply rooted in these countries. Meanwhile I would urge the multilateral and bilateral development partners to come up with concrete commitments to support the developing world to meet the huge financing gap that some countries are facing. If SDGs are shared responsibilities, it is our appeal that the responsibility is honored and taken to action by all of us. I strongly believe that global issues of poverty, inequality, shocks, and poor governance be addressed through multilateralism than through other platforms where small countries like ours have no voice. Particularly for development cooperation, Nepal strongly calls for strengthened role of the multilateral institutions including the Bretton Wood institutions.

Let me also reiterate that the support from the World Bank Group and the IMF has been instrumental for shaping out the path of economic development of Nepal. On behalf of the Government of Nepal and on my own, I would like to extend sincere thanks to the World Bank Group and International Monetary Fund for their continuous partnership with Nepal and expect further cooperation in the days to come to support the government's aim of achieving Prosperous Nepal and Happy Nepali. I wish the Annual Meeting a grand success.

Thank you very much.