

Local Donors' Meeting

Statement by Hon'ble Finance Minister Dr. Ram Sharan Mahat

MoF, 16 January 2008, 10.15 AM

Excellencies,

Heads and Representatives of Development Partners,

Colleagues from the Political Parties,

Vice-Chairman of the National Planning Commission,

Chief Secretary,

Secretaries,

Officials of the Ministry of Finance,

Ladies and Gentlemen!

1. Let me first extend a warm welcome to you all in this meeting. I am delighted and thankful for your kind presence and participation notwithstanding our short-notice request.
2. Despite some delay in reaching consensus on some contentious issues related to the peace process, the stalemate was broken following the signing of the 23-point agreement by the seven political parties. The accord has now cleared the confusion and uncertainty about holding of elections to constituent assembly, which remains a core component of peace process. The date for the elections has been set for April 10 this year.
3. We have reached this agreement after a series of ceaseless dialogues and negotiations to move the peace process forward and for creating conducive climate for the CA elections. It now becomes our duty to put all our efforts and energy to implement this accord effectively. We

are mindful that the run up to the CA elections is not all smooth. There are problems and we need to address them.

4. New political forces have emerged in Terai-Madhes with new demands. Security situation in that region, although improving lately, still remains fragile. This is further aggravated by the activities of armed groups espousing political cause in Terai. While we need to further strengthen security situation, it is necessary that we need to quickly find amicable solution to the genuine problems that Terai people are raising through dialogue and negotiation. I am hopeful that we will succeed in this endeavor. However, there are some issues of fundamental nature that require much deliberation and debate. The Constituent Assembly is appropriate body to deliberate and decide on them.
5. Today, I would basically like to explain to you the fiscal implications arising from the 23-point Agreement. I must mention in the beginning that government cannot compromise in any way on the emerging expenditure needs that lead up to the CA elections and smooth handling of the peace process. We shall exercise every care in avoiding wasteful expenditures and apply all the prudence in our conduct, but hard-earned political consensus is of paramount importance to us.
6. As you may be aware, the recently concluded Agreement commits to addressing the promises made during the signing of the Comprehensive Peace Accord over two years ago. The issues that currently warrant immediate attention, among others, are the payment to the verified combatants and their reintegration and readjustment, repatriation of discharged combatants, rehabilitation of internally

displaced persons (IDPs), managing the cantonments, relief and rehabilitation of the victims of the conflict, and rebuilding of infrastructure. Added to that, formation of the commissions and committees as committed in the Agreement will also create further financial burden. The Election Commission has come up with an expenditure estimate that is far above what was budgeted earlier this fiscal year. It appears that there is hardly any room for applying austerity measure in proposed election expenditures if we intend to be holding free and fair elections, which we, of course, certainly do. Allied to the election is reinforcing of the security measures. We cannot contemplate any compromises on election security as this only can ensure free and fair election and this is the only one opportunity that Nepali people will ever be getting to participate in CA election.

7. As you know, we have created Nepal Peace Trust Fund (NPTF) to mobilize international resources for facilitating the peace process. This operates under the implementation mechanism jointly agreed with the donors and is being further improved and strengthened in consultation with the concerned donors. However, the Fund, at present, has far too limited resources to meet our current and imminent requirements, which as per the current estimates stand at about 5.04 billion Nepalese Rupees (equivalent to USD 81.3 million). NPTF currently has external commitments available to the tune of USD 17.4 million. The shortfall, therefore, after government's own commitment is about 47.8 USD million.
8. In the meantime, as we are trying to grapple with the fiscal mismatch arising from reasons explained above, the obligation to settle Nepal Oil Corporation dues to Indian supplier has fallen on government. It

has become imperative so as to ensure unhindered supply of petroleum products in the country, while adjusting the oil prices in accordance with market development.

9. In view of the above, we have already announced our intention to presenting a supplementary budget to the Parliament. However, our options are limited. Revenue growth has been satisfactory thus far, in keeping with our expectations, but hardly sufficient to meet mounting expenditures, specially the new additional needs. It would not be fair to think of any additional taxes at this juncture when fledgling manufacturing, export and tourism sectors are struggling hard to find a recovery. There is one more phenomenon that is worrying us—which, of course, may be temporary and we wish it be so—is the emerging liquidity crunch that banking sector is lately reporting. It will push the interest rates upward and we hope there will be a new equilibrium. But this clearly signals to us that this is not the right time for government to think about additional borrowing from the market for government spending. To be precise, there is very limited scope for government to raise the domestic borrowing limit this year without further aggravating macroeconomic stability.
10. Nepal perhaps never felt the greater need for external financial assistance than what is being felt, at present. And, I think, this is perhaps the most important time that our development partners can come forward with generous support.
11. On our part, we will remain vigilant and put all our effort in achieving even higher revenue growth. We will apply austerity measures in all sectors so that no wasteful expenditures are incurred. In the process we will surely ensure that resources committed to priority

- development programs and projects are fully protected. Capital expenditures that benefit public at large and accelerate growth will not be compromised.
12. Let me also highlight some other aspects of recent macroeconomic situation. The overall economic growth rate is expected to improve this year as the agricultural GDP has been projected to attain higher growth, after years of dismal performance due to unfavorable weather condition. The shortfall in export and the consequent rise in the trade deficit has remained one of the major problem areas. The balance of payments position for the past few months has turned negative, indicating weak investment environment in the country. The inflationary expectation remains somewhat high, mainly due to the effects of the petroleum price adjustments and the price rise in the food items. Despite our efforts to make the fiscal situation sound and sustainable, the treasury position portrays mixed signals on account of sudden jumps in the recurrent expenditures arising from the additional liability in the management of country's political transition, among others.
 13. I would also like to remind you that the government is organizing a **Nepal Donor Consultation Meeting** in Kathmandu on February 21 and 22, 2008. As we have shared with you from time to time, the main objective of this meeting is to strengthen the process of Communication, Dialogue and Confidence-building among the Government, Development Partners and the domestic stakeholders including civil society and the political parties. The broader theme of the meeting would thus be to interlink 'Peace and Development' with the specific objectives such as sharing current status of the peace

process and evolving political scenario in Nepal, disseminating the country's development needs and priorities and stock-taking of required resources centered around the Three-Year Interim Development Plan, seeking programmatic commitment from development partners about long-term support to Nepal's development, and so on.

14. Leading to the main event, we are also holding Pre-Consultation Meetings between February 1 and 8, 2008 in Kathmandu to secure maximum engagement and support of the domestic stakeholders in the Meeting's theme and agenda. Invitation letters to this effect are being extended to all of you both at headquarters and the country level for both the events. I trust that with your support and good offices, high level participation from the headquarters and also that from the country level will be ensured for the meetings.
15. I encourage you to share your feelings and suggestions.
16. I thank you for your attention.

Thank you.