

Hon. Finance Minister's Address
at the SAARC Finance Minister's Second Meeting:
*Country Statement on Cooperation in the Financial Sector among the
SAARC Member States*
(New Delhi, September 15, 2007)

Hon. Chairperson
Your Excellencies
Distinguished Guests
Ladies and Gentlemen

Please accept greetings from me personally and on behalf of the government and the people of Nepal. It is my pleasure to represent Nepal in the deliberations of this august gathering. We are humbled by the warm welcome and hospitality extended to us. We express our appreciation for the meticulous care orchestrated in holding the Meeting so excellently.

Hon. Chairperson, you are quite aware that the conditions and problems in South Asia have remained daunting in comparison to those elsewhere. Accordingly, we in the SAARC have been placed with the responsibility of rising to the urgent challenge of meeting the needs and aspirations of our people. The increasing global integration has offered us both opportunities and risks in managing our economies for the overall well-being of our people.

In order to analyze our region's development situation in a comparative perspective, let me share some indicators from the World Development Report, 2007. This region comprised 23 percent of the world population and 2.24 percent of the world GDP in 2005. Agriculture has remained this region's backbone, but its performance still mainly depends on the monsoon. The agricultural productivity as expressed in the value added per worker in 2002-04 averaged US\$ 394 compared to US\$ 2,831 in Latin America. High-technology exports as percent of manufactured exports in 2004 was 4 percent compared to 14 percent in Latin America. The life expectancy, child mortality, maternal mortality, and the prevalence of child malnutrition point out weak development performance in our region.

Let me briefly review Nepal's macroeconomic situation which has remained broadly stable even in the ongoing transitional phase following the decade-long insurgency that weakened the prospects for increasing investments, employment, economic growth and poverty reduction including the utilization of foreign aid. The GDP growth during the last four years averaged 3.3 percent. Even in a difficult situation, the government revenue/GDP ratio rose to 12.1 percent in FY 2006/07 from 11.2 percent in FY 2005/06. The government has also been able to maintain the fiscal deficit/GDP ratio below 4 percent. The rate of inflation, which was 8 percent in FY 2005/06, averaged 6.4 percent in FY 2006/07. Despite the trade deficit/GDP ratio witnessing an upward trend, the surpluses in the current account and the balance of payments kept the forex level at US\$ 2.5 billion, sufficient to finance merchandise imports

for 10 months. For the current FY 2007/08, the budget has targeted the GDP growth and the inflation rates both at 5 percent. Physical and social infrastructure development along with the poverty reduction programs has received special focus in this year's budget.

Hon. Chairperson, the host of development challenges facing South Asia need to be addressed for attaining, to a satisfactory extent, the socio-economic development and the poverty reduction objectives in the region. The process of cooperation in the financial sector among the countries would also not be institutionalized unless the development problems are corrected on a sustainable basis. Though broadly categorized as the developing countries geographically situated in proximity to each other as the neighbors, differences with respect to the development experiences, present structures of the economies, and prospects for the future are becoming clearly evident on a number of instances, making divergence and not the convergence, a way of life. While some countries have seen accelerated growth of their economies and stepped higher on the socio-economic development ladder, others are still reeling at the lower rungs of development.

Continued progress in making enabling environment and reducing the cost of doing business would substantially help the process of economic integration across the region. To be regionally competitive, one also needs to be domestically efficient. In the process, legal, regulatory, managerial, technological, and resource-wise improvements on a competitive basis would be required. Reduced transactions cost and the broadly uniform macroeconomic policy regime would provide stable, efficient and smooth environment that supports investments, entrepreneurship, technological development, quality assurance, price competitiveness, marketing efficiency, and consumer protection on a durable basis. This process would reduce risks, vulnerabilities, uncertainties, and destabilizing or speculative tendencies which would then reduce the probability of the occurrence of the crisis situations in the economies. This would also help develop uniform regulatory regime that would avoid distortions and fragmentations of the market, ultimately fostering a strong and stable regional market benefiting the region as a whole. Convergence of the trade and tariffs and their rationalization would enhance efficient production built on comparative advantages and specialization that is sustainable, hence improving the competitiveness of the business even at the global level.

Regional integration would facilitate trade and business by building economies of scale, complementarities, efficiency in resource mobilization, trade-related infrastructure, and the entire range of business-support services on a competitive basis. Opportunities would be created to make optimum utilization of regionally available resources, benefiting the entire value chain process. Efficiency in the credit and payments systems along with the reforms in the capital account transactions under a sound framework would help catalyze the development of competitive investments, increase productivity and build higher economic growth in a medium-term perspective. The stronger cooperation and coordination among the

regulatory bodies would help in the orderly development and prudent regulation of the financial markets in the region.

Progress in customs harmonization and procedural improvements, tax matters, arbitration council, and investment promotion would be useful for fostering economic activities and integrating our economies on a regional basis. Studies by the SAARCFINANCE in the critical areas of the macroeconomy including the banking and payments systems would be useful and relevant for the development of the benchmarks/convergence criteria in the process of enhancing cooperation for operationalizing the concept of regional economic integration. The successful implementation of the SAFTA would be an essential component in this regard because the Agreement mentions that the South Asian Free Trade Area would be established by January 1, 2016. Early completion of the tasks envisaged under the financial sector cooperation besides the development of the time-bound action plan for the implementation of the agreed arrangements including the SAARC Development Fund (SDF) would help strengthen the regional economic cooperation. The financial and technical support of the ADB through initiatives like the South-Asia Sub-Regional Economic Cooperation (SASEC) would be effective in making the related work for facilitating the process of South Asian integration.

The economic integration would be facilitated if the structural and procedural problems that the region suffers from are addressed as a priority. According to the World Bank and the IFC Report entitled *Doing Business in South Asia 2005*, in the overall difficulty of doing business, South Asia on an average imposes some of the highest regulatory obstacles to running a company, second only to Sub-Saharan Africa. The Report suggests the governments to focus their efforts on improving labor markets flexibility, property rights, and access to credit. The administrative cost of running a business in South Asia is 45 percent of income per capita, excessive when compared to Europe and Central Asia's 15 percent. The region ranks the worse in the world with respect to the procedural barriers and cost of firing unproductive workers. The cost to complete the registration of the property as well as the time and cost relating to the completion of the contract enforcement is appallingly high. With an extremely limited scope, access and quality of credit information, South Asia offers to the potential lender the least legal protection in the world. When a firm becomes bankrupt in South Asia, a creditor receives only 21 cents to the dollar, the lowest of all the regions, according to the Report. These problem areas need to be corrected for making the individual country systems less burdensome, less time-consuming and less costly besides contributing to make the integration process sound and sustainable.

With Hon. Chairperson's vision and dedication amidst us, we are confident that South Asian region will progress as a strong regional economic community in not too distant future.

I thank you all,