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**WORLD BANK GROUP**

World Bank Governor's Statement No. 13

October 25, 2024

Statement by the Hon. **BISHNU PRASAD PAUDEL**,  
Governor of the IBRD for **NEPAL**

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Governor of the IBRD for Nepal

Mr. Chairman

Mr. Ajay Banga, President, The World Bank Group

Ms. Kristalina Georgieva, Managing Director, IMF

Fellow Governors and Alternate Governors,

Distinguished Delegates,

Ladies and Gentlemen

1. I am truly honored to participate in the 2024 Annual Board Meeting of Governors of the World Bank Group and the International Monetary Fund. On behalf of my delegation and my own, I sincerely commend the entire management team of the Bank and the Fund for their tireless efforts in making this annual meeting highly organized and successful.
2. We gather here when the global economy is coming back with stable growth and inflation returning to target levels. Despite many pessimistic predictions, the world successfully avoided recession, the banking system largely remained stable, and major emerging market economies did not face sudden downturns. Additionally, while inflation surged and created a cost-of-living crisis, it did not trigger wage-price spirals. However, there are some short-term risks to consider, including a potential increase in inflation due to slow progress in reducing service costs and price pressures arising from trade or geopolitical tensions.
3. It is disheartening to note the widening gap between many low-income developing countries and the rest of the world. These countries are still grappling with the aftermath of the pandemic and the cost-of-living crisis and with the ongoing political conflicts adding to the loss of life and increased uncertainty. To address these challenges, it is crucial to invest in structural reforms that encourage growth-enhancing domestic and foreign investment and improve domestic resource mobilization. These efforts can help manage borrowing costs and financing needs while advancing development goals. We must also focus on enhancing the knowledge and skills of the young population.
4. The heavily indebted emerging markets face the problem of rising real interest rates despite decreasing inflation, which eventually leads to less favorable sovereign debt dynamics. These countries must implement credible fiscal

consolidations to reduce the cost of capital and enhance financial stability. On the other hand, prioritizing the rising fiscal demands for safety nets, climate adaptation, digital transformation, energy security, and defense is essential.

5. The decline in total factor productivity is critical for medium-term growth prospects, mainly due to the inefficient allocation of capital and labor within sectors and countries. There is considerable optimism that artificial intelligence will drive significant productivity improvements, but it also carries a high risk of severe disruptions in labor and financial markets. Rising geoeconomic fragmentation and increased trade restrictions also hinder medium-term growth prospects. Consequently, this trend undermines global cooperation and multilateralism.
6. Significant global investments are essential for a sustainable and climate-resilient future. Reducing emissions can go hand in hand with economic growth, as demonstrated in recent decades when growth has become much less emissions-intensive. Robust collaboration for climate change adaptation is crucial for resilient and sustainable development.

Mr. Chairman,

7. I believe that this global forum will help address the risks, encourage effective policy responses, and take decisive actions to support the global economy for higher growth.
8. It is obvious that countries possess varying economic strengths. As leaders in the global economy, we believe that advanced economies bear greater responsibilities for ensuring global economic stability and supporting economic growth in the least developed and low-income countries. This can be achieved by improving market access for their products, increasing official development assistance through concessional avenues, attracting foreign direct investment, and facilitating technology transfers, among other measures.
9. Income inequality, both within and among the countries, particularly low-income countries, poses a significant threat to sustainable development. High or increased levels of inequality have been an obstacle to poverty reduction efforts in many developing countries. This situation necessitates rethinking global and national macroeconomic and sectoral policies and reviewing the roles of the state and the market. I urge the World Bank and the IMF to collaborate with governments by harnessing the potential and implementing credible policies that promote efficiency and equality, ensuring that every citizen can benefit from development outcomes.

10. Our collaborative and focused efforts have successfully lifted over a billion people from extreme poverty. However, the rate of poverty reduction varies among the countries. Nepal still has a significant level of poverty, which has been further exacerbated by climate change. To reduce poverty and achieve sustainable development goals, the Government of Nepal is putting effort into sustained economic growth, promoting equitable resource distribution, and ensuring social security and safety nets for marginalized groups. In this journey, fostering broad partnerships with valued development partners is equally important.
11. As Nepal is putting its effort to fulfill citizens' fundamental rights to food, education, health, water supply, and housing and aims to graduate from LDC status by 2026, we require a substantial increase in domestic and external resources and enhanced capacity to implement development programs and projects. However, our efforts have frequently been hindered by global challenges, regional geopolitical tensions, natural disasters, and the effects of climate change.
12. Nepal is among the 20 countries most vulnerable to climate change. Nepal encountered extensive damage to lives and property in this September due to rapid rain bursts, landslides, and floods. According to a preliminary estimate, the losses are estimated at around 350 million US dollars, highlighting significant disruptions to public infrastructure and various social and economic sectors, which require urgent recovery and reconstruction efforts. Given the adverse impacts of climate change on our biodiversity and well-being, despite our minimal contributions, I emphasize the need for flexible and easy access to external funding for biodiversity and nature protection, which would serve as compensation and justice for less contributing countries like Nepal.
13. Nepal is a relatively young federal country. Three layers of the government are in place to deliver public service and to stimulate potential economic activities across the country. People have high aspirations for swiftly overcoming poverty and advancing towards prosperity in the country. In line with the Constitution, we have enacted several laws that protect our citizens' fundamental rights. Now, with a solid democratic framework and decentralized governance under the federal system, we have democratically elected representatives at all levels of government. This has created an unprecedented opportunity for us to ensure inclusive development and a prosperous society.
14. It is imperative to achieve a sustained high growth rate to overcome the challenges of a low growth trajectory by addressing the structural bottlenecks. Sustained high growth is crucial not only for graduating from LDC status at the soonest but also for meeting the SDGs and achieving middle-income country status by 2030. With a clear roadmap stipulated in the 16<sup>th</sup> five-year plan, it is time to translate this plan into action through enhanced resource mobilization and capacity building for program implementation. In addition to financial resources, appropriate human and

technological resources will be essential to achieve tangible results. To maintain this growth momentum, the government is dedicated to maximizing development financing through legal, regulatory, and operational reforms across all sectors.

15. The government of Nepal is also committed to reforming domestic revenue mobilization and consolidating effective public spending. The government has emphasized a broad-based tax system based on international standard laws and practices. We started the implementation of the green tax in the current fiscal year to discourage carbon emissions, which is a testament to our commitment to the international community. We have reformed our tax system by rationalizing tax incentives, reducing tax exemptions, and reengineering the tax compliance process. However, a significant resource gap remains in financing SDGs and the implementation of fundamental rights. I believe multilateral institutions like the World Bank Group can be crucial in addressing the resource shortfall.
16. We recognize that public spending alone does not suffice to achieve the country's developmental goals. Therefore, we encourage private and cooperative sectors to mobilize resources for high economic growth and inclusive development. We have recently initiated legal reform to leverage private sector investment and hosted the third Investment Summit earlier this year to increase private sector involvement in our investment and growth processes. We have also decided to mobilize innovative financing, such as blended finance, to channel private investment towards high-risk, low-return SDGs. This approach can leverage additional funding for countries' priorities and special needs. A journey towards Innovative financing not only secures additional resources but also comes up with reforms at the front of policy approaches and regulatory mechanisms. To this end, we hope that the World Bank Group will provide technical and capacity development support to pilot blended finance initiatives in Nepal.
17. At this moment, I recall the IDA 21 replenishment meeting in Kathmandu, and I anticipate the conclusion of the IDA 21 replenishment this year. Nepal strives to raise domestic revenue as well as innovative financing to sustain its development momentum. However, with increasing debt servicing obligations and the need for additional financing to address the challenge of climate change and achieve SDGs. Nepal still requires concessional financing from our valued development partners. Hence, I request that the IDA to consider its policy on transitioning from concessional financing tailored to low-income countries. We are firmly committed to utilizing these scarce resources in the sector with the highest priority and addressing the issues existing of public investment. We also advocate for transitional arrangements for the countries graduating from LDC status, allowing them continued access to concessional financing even after graduation.
18. Budgetary reform is a top priority of the government. We prioritize the efficient allocation of resources, ensuring that every rupee spent yields the expected results. We have done the public expenditure and financial accountability

assessment and will soon formulate a new public finance management reform strategy. Major public finance management reforms include revising public procurement laws and regulations, contract management reform, a real-time expenditure reporting system, tracking expenditures, and monitoring results. These initiatives are expected to enhance transparency, effectiveness and efficiency in public service delivery.

19. Recently, the government formed a high-level economic reform recommendation commission to address the structural bottlenecks, unlock new opportunities, and navigate the measures to implement an economic reform agenda. We have abundant renewable energy resources that can transform our economy and even export clean energy to the neighboring countries. In this regard, we have an agreement with India and Bangladesh to export hydropower. Additionally, we have significant potential in nature-based tourism, information and communication technology, agriculture, and manufacturing that can drive economic transformation. We are committed to turning this potential into reality and thus we propose international community to collaborate with us and materialize the vast potentials.
  
20. We recognize that a stable, resilient, and credible financial sector is essential for economic development. To this end, we have been implementing reforms with the support of our development partners. Through financial development policy credits from the World Bank, we have made significant progress in financial sector development. We also engage with the International Monetary Fund (IMF) to implement financial sector reform. We are focusing on the financial health of banks and financial institutions but also expanding financial networks to enhance access to finance, adopting IT-friendly services, fostering digital payment systems, and implementing international financial reporting standards. We have made substantial progress in introducing standardized banking regulations and supervision based on international best practices.
  
21. In conclusion, I would like to acknowledge the vital roles of the World Bank Group and the International Monetary Fund in stabilizing and guiding the global economy. I foresee an even more significant role for these institutions in addressing today's trade and investment challenges. It is also a timely reminder of our shared responsibility to achieve the SDGs, ensuring no one is left behind and fostering societal transformation for future generations. I firmly believe that global socio-economic challenges can only be addressed through multilateralism, which recognizes and amplifies the voices of smaller countries like ours.

22. Finally, I express my gratitude for the financial and technical support from the World Bank Group and the IMF, which have been instrumental in Nepal's socio-economic development. On behalf of the Government of Nepal and myself, I sincerely thank the Bank and Fund for their ongoing engagement with Nepal. I look forward to a more strengthened cooperation to pursue our national goal of prosperity and happiness. I wish the Annual Meeting great success.

Thank you