

Interview of IMF Resident Representative Alexander Pitt with the Kathmandu Post (Wednesday, February 20, 2008)

‘Reforms have seriously slowed down’

The Nepal Donors Consultation Meeting is set to open in Kathmandu on Thursday. The meeting is expected to chalk out future strategies on development and assistance for Nepal. On the eve of the meeting, the Post talked to Alexander Pitt, resident representative of the International Monetary Fund (IMF) in Nepal. Excerpts:

What can Nepal expect from the donors meeting?

There is a consensus among the donor community that this should not be a pledging meeting. For the IMF, it is a good opportunity to discuss the Three-Year Interim Plan and the performance of the economy with the government. It is a good chance for both the government and the donor community to chalk out strategies to move ahead.

The donors' major concern at this juncture has been the slowed reforms. How do you look at the situation?

Political leaders are preoccupied with political agendas. While it is clear that the peace process has priority, the economy must not be neglected. Unfortunately, reforms have seriously slowed down, for example, in the case of the two state-owned banks and on the issue of fuel prices.

Is the economy facing serious cracks in the fiscal position?

Overall, the fiscal position is solid; but we are facing new challenges. Revenue collection has exceeded the target. On the expenditure side, capital spending - mostly development expenses which normally remain low in the initial months of every fiscal year - has already picked up this time. These are positive developments. However, the government has to find an additional eight billion rupees to meet the expenditure arising out of the 23-point agreement and the liability caused by the Nepal Oil Corporation's swelling deficit.

How are you assessing the emergence of a liquidity crunch in the banking system?

Far from indicating trouble, this seems to be a blessing to the economy. Interest rates have begun to rise, becoming, for the first time, positive in real terms - that is, higher than inflation. This will encourage saving, which could be channeled into productive investments. It will also check in prices of assets, mainly housing and shares that have been growing very fast. Furthermore, in light of the fast growth in the number of banks, it would compel them to be more efficient, which may result in consolidation through mergers and acquisitions. Lastly, the rising interest rate will contain demand, and consequently ease down inflation, which improves the competitiveness of the export sector.

How efficient do you find the regulatory and supervisory work of Nepal Rastra Bank?

The legal framework is very good; and the BAFIA (Banking and Financial Institution Act), which is already in Parliament, will further improve it. However, the challenge remains with

implementation. The supervisors should be feared by commercial banks, but too often the NRB is obstructed. The one big problem is the indictment of the governor and the head of the supervision department. This is preventing the NRB from fulfilling its role effectively, and it needs to be solved as soon as possible.

Why haven't the people been able to enjoy the peace dividend?

It is difficult to deliver a quick peace dividend. In the end, it is the private sector which delivers the peace dividend in the form of economic growth and jobs. But a sense of insecurity, labor disputes and political uncertainty have impeded its growth. In addition, there is a leadership vacuum in the VDCs, and the central level bureaucracy is not moving quickly enough. Above all, there is still considerable political instability, and the peace dividend will only come periodically, if political stability is achieved and the economy recovers.