

The contents of this document are preliminary and subject to change.

GRAY/10/1956

May 27, 2010

**Statement by Mr. Virmani and Mr. Krishnan on Nepal
(Preliminary)
Executive Board Meeting 10/54
May 28, 2010**

We thank staff for the set of interesting papers and Mr Dhua and Mr Thapa for their detailed buff statement.

Nepal is at a delicate stage in its process of political transition. The focus at this time needs to be on the near term and to ensure that the country is supported through this phase in order for it to emerge with strong and effective political institutions leading to sustainable economic growth. In that context we are happy to support the authorities' request and staff proposal for disbursement under the Rapid Credit Facility.

We are broadly in agreement with the staff's assessment of the macro-economic situation and their recommendations. In the near term, the focus really has to be on infusing confidence in the financial sector. It is heartening to note from Mr Chua's and Mr Thapa's statement that the authorities have taken staff advise in the right spirit and are focusing on strengthening the financial system, tightening supervision and enforcing prudential norms in the financial sector. We would urge the authorities to exercise continued vigilance and ensure effective enforcement of the recently announced measures.

The fiscal performance of the authorities even these difficult times deserves commendation and should be a source of confidence in supporting their request for the disbursement under the RCF.

We would also support longer term engagement with the Fund once the process of transition is completed. We wish the authorities of Nepal success in their future endeavours.