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May 27, 2010

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

We thank staff for a well-written paper and Messrs. Chua and Thapa for their insightful Buff statement.

We broadly concur with staff's assessment and with their recommendation. **We can support the requested disbursement under the Rapid Credit Facility.** We would like to make the following comments for emphasis.

While we welcome the progress made since the end of the conflict four years ago, the political situation remains difficult. For this reason, we are very pleased with staff's prudent gradual approach by which the RCF constitutes a first step towards greater Fund engagement in the future. As most of the issues Nepal is facing are structural by nature, we believe that this engagement could take the form of an ECF. However, negotiations with members of the Paris Club should be resolved before any further Fund engagement. *We would appreciate it if staff could indicate where the parties stand.*

We commend the prudent management of the fiscal and the exchange rate policies. Given the exchange rate regime, fiscal prudence helped to limit the pressures coming from the global crisis and the recent appreciation of the Rupiah. The impact of the crisis has been relatively modest and lagged behind, but a large financing gap has emerged. *Could staff elaborate on the financing needs going forward?*

Risks are, however, on the downside, in particular regarding the stability of Nepal's financial system. In this respect, we welcome the recent implementation of staff's recommendation regarding the NRB's regulation and supervision. However, we recommend that the authorities take due account of the severe systemic problems faced by domestic banks and urge them to move forward with contingency planning, starting with the approval of the Banks and Financial Institutions Act (BAFIA) by the Parliament. To ease the way for the authorities during this period, technical assistance will be of crucial importance.

We take note that the Financial Action Task Force (FATF)'s International Cooperation Review Group has identified deficiencies in Nepal's anti-money laundering/combating terrorist financing (AML/CFT) system. We urge the authorities to take the necessary action in order to enact all relative legislations.

Finally, like other colleagues, we seek clarification on the jurisdictional implications of certain foreign exchange measures and a potential multiple currency practice.