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Statement by the Hon. G.L. PEIRIS ,
Governor of the Fund and the Bank for SRI LANKA ,
at the Joint Annual Discussion

Statement by Hon. Prof. Gamini Lakshman PEIRIS
Governor of the Fund and the Bank for SRI LANKA
at the Annual Meetings
Washington, DC October 7, 1998

It is my privilege and pleasure to address the Fifty-Third Joint Annual Meetings of the International Monetary Fund and the World Bank on behalf of the Government of Sri Lanka, especially in this year as my country celebrates the Golden Jubilee of its independence.

Mr. Chairman, let me join my fellow Governors in congratulating you on your assumption of chairmanship of the 1998 Annual Meetings.

World Economy

We meet at a time of considerable turmoil and uncertainty in the international financial markets and the world economy is facing severe economic problems and challenges. International economic and financial conditions have deteriorated sharply, to a far greater extent than was projected at our last meeting. The period of recovery appears to be more protracted than anticipated. Mr. Chairman, we are concerned that world economic growth as well as the expansion in world trade have slowed down sharply and the short-term prospects are not encouraging. Recession has deepened in many Asian economies resulting in heavy economic and social cost with spillover effects on other countries. The situation has been further aggravated by declining commodity prices, the Russian financial crisis, sharp contraction of capital flows to low-income developing countries, as well as to emerging market economies. The capital market spreads have widened for all emerging markets and transition economies without any relationship to their own macroeconomic fundamentals.

Sri Lanka

Let me turn to my own country. Sri Lanka has managed to avoid the worst of the Asian crisis as many of the conditions which existed in the crisis-ridden countries did not prevail in my country. The policies in place and new policy responses helped mitigate, in substantial measure, the contagion effect. The domestic financial markets remained stable. The Sri Lankan economy grew by 6.4 percent in 1997, showing improved business confidence on account of significantly improved macroeconomic management. The rate of unemployment continued to fall for the fifth consecutive year and inflation declined sharply, reflecting the impact of our sustained efforts to improve price stability.

Even though some export products have been affected inevitably by the East Asian crisis, the provisional GDP estimate for the first half of 1998 indicated a 5.1 percent growth. Private investment is gradually improving, enhancing the growth potential of the economy.

Under difficult conditions, fiscal reforms are continuing. The overall fiscal deficit has been brought down consistently during the last three years by containing the growth of expenditures. The Goods and Services Tax (GST) was introduced in 1998; as expected, tax compliance has improved, while expanding the tax base. A large part of the privatization proceeds was used to retire public debt, with the beneficial consequence of reducing the government debt burden.

The balance of payments position improved, diminishing the current account deficit and augmenting the external assets position of the country. Our managed float exchange rate system and improved monetary management have helped maintain the domestic financial

market in a relatively stable condition in a difficult external environment. In monetary management, we have increased our reliance on market-oriented monetary policy measures.

Despite challenging circumstances, substantial progress has been made in the implementation of structural reforms, as we strongly believe that they are crucial in importance in improving the country's economic performance, future prospects and strengthening the economy's resilience against external shocks. These reforms include several successful divestitures, further liberalization of foreign investment, continuing encouragement of private sector participation in infrastructure development activities, improvement in tax administration, tighter controls on government employment and improvement of financial sector surveillance. The privatization program has been accelerated and extended into key areas such as plantations, telecommunications and aviation.

In the political sphere, considerable progress has been made in the effort to re-establish normal life in the liberated areas in the North, the consolidation of the security situation, restoration of civil society in the North by the holding of elections and the revival of grassroots organizations and the presentation to Parliament of a comprehensive constitutional reform package as a major step in the process of arriving at a political resolution of the ongoing conflict.

Bretton Woods Institutions

Turning to the Bretton Woods institutions, we understand the inclement environment within which these bodies have to operate today. We commend their efforts to help minimize the adverse effect of the recent crises. We believe that it is extremely important to have a

more coordinated approach by international and regional financial institutions with private sector creditors to face the present challenges more effectively.

My country deeply appreciates the progress made with regard to the ESAF and HIPC Initiatives and continuing assistance to post-conflict countries. We strongly support the continuation of these programmes and encourage the Fund and the Bank to mobilize more substantial resources to fill the existing gap between financial requirements and available resources at present under the aegis of these programmes. Country ownership as well as due recognition of country specific situations are indispensable for ESAF programmes to be more effective.

We commend the Fund for the steps taken to enhance its resource availability and its liquidity position through quota increases, SDR allocation and augmenting the new arrangements to borrow. I am acutely aware of the complex legislative initiatives required in member countries on these matters; I urge my colleagues here to complete these processes as rapidly as possible, as the Fund liquidity position has declined to an unprecedentedly low level, while the demand for Fund resources remains high. Quotas, which are at the heart of the operation of the Fund, should be increased as and when necessary to enable the Fund to play its role in the international economy. An early resumption of new SDR allocation giving due consideration to the rising shares of developing countries in the world economy is also essential in this regard.

We appreciate the initiatives taken by the Fund and the Bank to combat corruption and improve transparency and governance in all contexts including their own activities. The preparation of the draft manual on fiscal transparency, publication of information on the

Fund's liquidity position and activities and encouragement of publishing more country specific information are steps in the right direction. Similarly, we support Fund initiatives in respect of private sector involvement, especially with regard to forestalling and resolving financial crises, as burden sharing is improved. It is encouraging that the Fund is studying in detail the possible impact of introduction of the euro in January 1999 and related Fund operational issues, and closely working with the EMU to maximize benefits and minimize any potential risks.

We appreciate the Bank's financial assistance to crisis-ridden countries, notwithstanding its difficult financial situation. The crucial role of IDA channeling assistance to low-income countries cannot be overemphasized in the context of continually declining ODA resources. We, therefore, urge the timely completion of the IDA-12 replenishment process which is now in its closing stages.

We commend the expansion of IFC and MIGA activities which are crucial to improve the private capital flows to developing countries, particularly in the present setting where private investors are showing greater inhibition.

We strongly support improvement of closer Bank-Fund collaboration as it enhances resource utilization efficiency and increases the effectiveness of programmes. The importance of closer collaboration, given the increasing complexity of economic issues and increasing demand pressure on limited resources, should not be underestimated.

Strengthening the Architecture of the International Monetary System

Let me make a few concluding remarks on strengthening the architecture of the international financial system. The process of globalization and recent financial crises in some

parts of Asia, Russia and previously in South America underscore the need to strengthen national and international financial systems. It is necessary to minimize the likelihood of crises in the future and to improve strategies and techniques for handling crises if they occur. A cooperative effort by all major players, i.e., governments, private sector, regional agencies and international institutions is necessary to address effectively such crises, as the impact may spill over from country to country and from market to market in a globalized economy, bringing about grave economic and social dislocation. Similarly, reforms should aim at achieving an appropriate balance between adjustment and financing and ensure that measures are in place to handle crises at their inception.

Thank you, Mr. Chairman.