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INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
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Statement by the Hon. **G.L. PEIRIS**,
Alternate Governor of the Bank and the Fund for **SRI LANKA**,
at the Joint Annual Discussion

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1. It is a privilege for me to address the Fifty-Fourth Joint Annual Meetings of the International Monetary Fund and the World Bank on behalf of the Government of Sri Lanka.

2. Mr. Chairman, let me join my fellow Governors in congratulating you on your assumption of the chairmanship of the 1999 Annual Meetings.

World Economy and Policy Challenges

3. Global economic and financial market conditions have improved since the last Annual Meeting, allaying our earlier fears of a worldwide economic recession. Despite further prospects reflected by some factors, risks and uncertainties remain high, posing challenges to policy makers. A major concern in this regard arises from the imbalanced growth pattern among major industrial countries, leading to persistence of macroeconomic imbalances and aggravating systemic risks for potential sharp corrections in response to reassessment of market confidence and monetary policy changes. Furthermore, net capital flow into developing countries and transition countries remains low and costly. Continuation of depressed prices of non-fuel commodity prices creates terms of trade difficulties for commodity exporting countries. Furthermore, potential reactions to actual or perceived Y2K compliance in the run up to the year 2000 may create an additional risk factor.

4. These concerns underscore the necessity of strengthening of macroeconomic policy coordination among the major industrial countries. Such a policy coordination is also crucial to minimize sharp exchange rate fluctuations among major international currencies. Meanwhile, strengthening of non-inflationary demand in industrial countries and further opening of their markets for developing country exports are necessary to create a conducive external environment for developing countries.

5. Let me turn now to my own country. Despite the adverse impact of international financial crises, Sri Lanka achieved 4.7 per cent economic growth in 1998, reflecting improved resilience in the economy and benefits of continuation of prudent macroeconomic management. The policies in place and new policy responses could not eliminate the completely adverse impact of external shocks but they mitigated the contagion effect to a large extent. The inflation rate further declined owing to improved supply conditions, lower import prices and successful monetary management. The rate of unemployment continued its downward trend for the sixth consecutive year, reflecting expansion of job opportunities mainly in the private sector. Investment has expanded, reflecting improved investor confidence. Domestic savings increased at a faster rate,

reducing the investment-savings gap. Even though export revenue has been affected during the first half of 1999 on account of depressed commodity prices in the international markets, economic prospects are improving now in the second half as expected.

6. The Government has been actively pursuing its primary objectives, moving towards sustainable high economic growth, ensuring fair distribution of benefits of such growth. Improving macroeconomic stability, promoting private investment, strengthening international competitiveness and addressing directly the problems of poverty and unemployment are the main elements of our strategy. Within this strategy, special emphasis has been placed on structural reforms in order to address deep-rooted growth-hinderent issues.

7. In the political sphere, considerable progress has been made in building consensus among all parties on major issues addressed by the proposed constitutional reform package in order to find a political solution to the ongoing conflict. I greatly appreciate the increasing support of the international community for this difficult but necessary endeavor.

Bretton Woods Institutions

8. Turning to the Bretton Woods Institutions, we commend their efforts to facilitate world economic recovery and to develop crisis-preventive and resolving measures. We appreciate the progress made by the IMF in improving the existing instruments and introducing new instruments, in order to provide faster and adequately necessary resources to crisis-affected countries. We also welcome the introduction of a facility to help members to meet their balance of payments need, related to Y2K compliance problems. My country strongly supports efforts for improving the effectiveness of the ESAF and enhancing the HIPC Initiative to provide deeper, broader and faster debt relief. I am happy to state that my country has decided to make available its balance in the SCA-2 as an interest-free deposit for the HIPC financing.

9. While noting recent improvements in the Fund's liquidity position following the Quota Increase, under the Eleventh General Review, we underscore the necessity of early completion of the amendment to Article 2 for a one-time "selective" SDR allocation. We welcome the appointment of the Quota Formula Review Committee, necessary as it is to improve the quota allocation of the Fund by taking into account developments in the world economy. Given the increasing demand for the Fund's resources, an early resumption of new "general" SDR allocation under the current Articles of Agreement giving due recognition to increasing the share of developing countries in the world economy is also an essential step.

10. We welcome the Fund's efforts in expanding external evaluations to improve its surveillance and research activities. I am confident that implementation of constructive

proposals in these evaluations will strengthen the Fund's surveillance activities and its role as policy adviser.

11. While commending the successful accomplishment of IDA-12, I wish to emphasize the necessity of ensuring proper burden sharing in mobilization of therequired resources. We appreciate the World Bank's efforts in poverty alleviation activities. However, we underscore the necessity of mobilizing a more bilateral contribution for financing the enhanced HIPC Initiative in order to ensure resource availability for the World Bank's normal development credit facilities.

12. Given the increasing demand for World Bank resources, it is essential to explore all equitable options, including a general capital increase.

13. I welcome the World Bank Group's innovative approach to facilitating and encouraging private sector investment in developing countries.

14. We welcome the progress made so far on a number of fronts by the IMF and the World Bank in collaboration with other institutions in their efforts to strengthen the international financial system. However, I wish to reiterate the necessity of adequate and effective involvement of developing countries in this process in order to develop measures acceptable to all of us.

15. We welcome the World Bank's increasing efforts together with other international organizations to provide the necessary assistance to strengthen institutional capabilities in developing countries to handle trade-related issues. Developing countries look forward to the outcome of the ongoing work of the task force led by the World Bank to formulate a new initiative for stabilizing and hedging commodity prices.