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WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL FINANCE CORPORATION  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES  
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Statement by the Hon. **KAIRSHASP NARIMAN CHOKSY**,  
Governor of the Fund and the Bank for **SRI LANKA**,  
at the Joint Annual Discussion

**Statement by Hon. K.N. Choksy,  
Minister of Finance of Sri Lanka,  
At the Fund-Bank Annual Meetings  
in Washington D.C.  
(September 29, 2002)**

Mr. Chairman,

I am pleased that we have been able to gather today for this important annual event of the IMF and World Bank at this critical stage when the world economy is experiencing major challenges and in the wake of heightened uncertainty regarding global economic prospects, while solutions are being tested and further options explored to address the problems of the world economy.

**World Economic Outlook**

We are concerned that the near-term outlook for the world economy is not promising and risks are still on the downside. The advanced countries, that lead the growth in the rest of the world by absorbing exports and provide financing, including official development assistance, are unlikely to reach the rates of growth that were experienced in the 1990s.

What is called for in this environment of increased interdependence among countries is credible policy responses from all parties concerned i.e. the Fund, the Bank, other multilateral and regional financial institutions, governments and the private sector to manage globalisation for the benefit of all. There is also the need to provide adequate social safety nets to protect the poor and other vulnerable groups.

Many developing countries including Sri Lanka have undertaken painful adjustment measures either in the context of Fund/Bank supported programmes or on their own. Country experiences show that there is no alternative to sound fiscal policies and improved governance to effectively face these challenges. For many low-income countries, notwithstanding their own efforts, there are other problems such as capacity limitations, severe resource constraints, inclusive of human resource and market access limitations.

I share the view that the role of the IMF needs to be re-assessed in the context of increased complexities of the global economy. While the size of the IMF needs to be enlarged in terms of its financial base, both the Bank and Fund need to redouble their efforts to help in the promotion of growth and poverty alleviation in support of the Millennium Development Goals (MDG), strengthening their partnership with the rest of the donor community.

## **Sri Lanka**

Finally, I wish to mention a few words on my own country, Sri Lanka. Economic prospects have improved considerably both with the peace process moving forward and the strengthening of economic reforms under the United National Front Government. Our Government's revived economic stabilisation programme started in early 2002, and the final review of the Stand-By Arrangement was successfully completed earlier this month. The GDP is estimated at 3 percent in 2002 from the negative growth of 1.4 per cent last year. Inflation has been reduced from approximately 12 percent at end 2001 to 10 percent in mid 2002. Interest rates have declined, and the exchange rate remains stable. The budget deficit of 10.8 percent in 2001 is being curtailed to about 9 percent this year. We are planning to enter into a PRGF arrangement by the end of this year.

Economic reforms by freeing business and industry from excessive bureaucratic control, rationalisation of taxes and Customs tariffs, the introduction of Value Added Tax and the establishment of a Revenue Authority with IMF expertise are being further progressed to facilitate private sector led growth. Privatisation of State controlled business enterprises and the liberalisation of the petroleum and power sectors have already commenced. Market borrowing by the Government is being limited, and the prevailing cease-fire has enabled reduction of defence expenditure. State financed education is being restructured by shifting concentration from academic education to job oriented technical training. We expect to raise the growth potential of the economy with greater private sector participation and increased flow of concessional funding and FDI.

Recognising the need for financial discipline, we are leaning towards Zero-based budgeting, and a Fiscal Management Responsibility Law to mandate fiscal discipline in all sectors of the Government is now ready for presentation to Parliament.

The Government has taken certain necessary bold, though politically unpopular, decisions to reduce public dependence on subsidies and to educate the public upon the medium and long term benefits of doing so.

Our Government's own views on reforms tallies with the observations made by the Executive Board of the IMF and Mr. Shigemitsu Sugisaki, Deputy Managing Director, at the conclusion of the Article IV Consultation earlier this month. We intend moving towards deeper structural reforms and prudent management of the country's monetary policy.

Sri Lanka recognises with appreciation the assistance and guidance given to it by the Fund, the Bank, the ADB and our many bilateral donors.