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Statement by the Hon. **SARATH AMUNUGAMA**,
Governor of the Bank and the Fund for **SRI LANKA**

**Statement by Hon Dr. Sarath Amunugama,
Governor of the Fund and the Bank for Sri Lanka**

Mr. Chairman,

We note that the Emerging Market and Developing Countries (EMDC) continue to be the major contributors to global growth though some of these economies have moderated in recent years. Important policy measures taken by advanced economies during the past several years have helped reducing the tail risk and in continuing the recovery process. It is encouraging to see signs of recovery in the United States and the pick-up in the Japanese economy. This would enhance much needed investor and consumer confidence and would help to lift global demand, though downside risks still remain.

We are greatly concerned about the ongoing delays in implementation of 2010 IMF Quota and Governance Reforms. This delay could adversely affect timely implementation of the 15th General Quota Review as well. While we urge swift implementation of 2010 Quota and Governance reforms, we also call for agreement on quota formula for timely implementation of the 15th review. We believe that the Quota reform should reflect enhancement of voice and representation of EMDCs including the poor as well as small, low and middle income countries.

Mr. Chairman, let me now briefly highlight recent economic developments in my own country, Sri Lanka. Our development strategy is laid out in the Mahinda Chintana policy document issued in 2010. Doubling of per capita income to US dollar 4,000 by 2016 is one of the key goals of this strategy. While strengthening macroeconomic stability, we have embarked on various programmes to develop infrastructure, promote investments and improve the business climate.

Despite a challenging global and domestic environment, the Sri Lankan economy grew by an encouraging 6.3 per cent during the first half of 2013 with a 6.8 percent growth in the second quarter. The average growth during the last three years was 7.5 per cent per year. While subdued global economic activity has had an adverse impact on external demand, tight monetary and fiscal policies adopted in early 2012 to strengthen macroeconomic stability and production losses in the agriculture due to adverse weather had a dampening effect on domestic demand in 2013. Economic activity is expected to accelerate during the second half of the year with improved external demand, a more accommodative monetary policy and favorable weather conditions.

The unemployment rate continues to remain low at 4.4 percent in the second quarter of 2013. This is remarkable given the fact that many advanced and EMDCs are experiencing high unemployment, particularly youth unemployment.

Mr. Chairman, we have been successful in containing inflation. Prudent demand management policies helped maintaining inflation within single digit levels since

February 2009, the longest period in recent times. Our goal is to maintain inflation at around mid single digit level. Despite sizable adjustment in administered prices, including energy prices, inflation moderated to 6.2 per cent in September 2013, enabling the Central Bank to further ease its monetary policy stance.

Fiscal management remained challenging in 2013 with revenue generation affected largely by slowdown in imports, although public expenditure was maintained in line with targets. However, the government is committed to contain the fiscal deficit to a targeted 5.8 percent of GDP in 2013.

Mr. Chairman, one of the perennial problems we encountered had been significant financial imbalances in two key state owned enterprises namely; the Ceylon Petroleum Corporation (CPC) and the Ceylon Electricity Board (CEB). I am pleased to highlight that as a result of price adjustments, these two SOEs have now turned around to report operational profits; a success we couldn't achieve even during the IMF-SBA period.

Mr. Chairman, Sri Lanka's external accounts reflect improvements in 2013. The trade deficit has narrowed, while services exports and workers' remittances increased resulting in a decline in the current account deficit. With increased inflows, including FDIs and portfolio investments, the balance of payments is in surplus, although valuation losses due to excessive currency movements in most recent months has had some negative impact on our international reserves. Due to prudent management of capital flows, we had no significant impact from the Fed's announcement of possible tapering of unconventional monetary policy (UMP) in May 2013. However, Mr. Chairman, advanced economies need to be mindful of possible serious spillover effects of UMP exit program. At the same time, early action is needed to reduce uncertainties arising from fiscal policy shifts, debt sustainability issues and vulnerabilities in the financial sectors of many advanced economies.

With the emphasis placed on the regional development, inclusive growth and financial inclusion, poverty in Sri Lanka has been reduced significantly. Income levels of formerly conflict affected Northern and Eastern provinces are growing fast with special attention paid by the government to develop those areas. We have made great progress in post conflict resettlement, reconstruction, and rehabilitation and in the reconciliation process including a recent election in the Northern Province.

At the same time, Sri Lanka has made progress in meeting most of the Millennium Development Goals. The UNDP has identified Sri Lanka as an early achiever on a number of MDG indicators. I take this opportunity to thank the World Bank Group for the support given to enhance our social infrastructure that helped to realize these achievements. I am confident that the World Bank Group's Country Partnership Strategy would further strengthen our collaboration.

However, there is an urgent need of enhancing availability of development financing for relatively larger infrastructure projects in developing countries. Hence, we

support new initiatives by the World Bank Group as well as other organizations to increase access to large scale development financing.

Nevertheless, going forward, Sri Lanka faces some challenges. Global economic uncertainties and high volatility in financial and commodity markets would pose some challenges for domestic economic management. We need to create more fiscal space to support growth enhancing public investment by strengthening revenue generation. At the same time, we have to implement appropriate reforms to strengthen our export base, especially focusing on regional trade, to create comfortable external buffers.

Thank you.