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

**Statement by Hon Dr. Sarath Amunugama,
Governor of the Fund and the Bank for Sri Lanka
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It has been more than 5 years since the global financial crisis. Yet, even with enormous policy efforts, the global economic performance remains much below the pre-crisis level. Despite some slow down, Emerging Market and Developing Countries are contributing significantly to global growth, while euro area countries, remain largely stagnant. However, global growth in the coming years is projected to be positive and encouraging. Nevertheless, there are significant downside risks. Potential risks arising from normalization of the U.S. monetary policy, including possible sudden reversal of capital flows, risks from protracted low inflation in euro area, volatility in global financial markets and intensified geopolitical tensions continue to remain as major risks.

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

Mr. Chairman, let me now briefly highlight recent economic developments in my own country.

Sri Lanka's economic growth remains satisfactory despite the uneven global recovery. The Sri Lankan economy grew by 7.7 per cent in the first half of 2014 compared to the 6.4 per cent in the same period of the previous year. This growth momentum reflects increased domestic economic activity as well as rising external demand. The Industry sector grew by 12.4 percent with the continued high growth in the construction and manufacturing sectors. Supported by continued expansion in the wholesale and retail trade, transport and communication and tourism, the Services sector grew by 6.1 percent. Due to severe drought, the Agriculture sector grew only moderately. The growth momentum is expected to strengthen further in the second half of the year recording a growth of 7.8 per cent for the year 2014.

Mr. Chairman, with growing economic opportunities the unemployment rate in Sri Lanka is declining. It declined to 4.1 percent in the first quarter of 2014. This is remarkable as unemployment rates in many advanced and EMDCs continue to remain elevated. Moreover, unemployment among females has come down to 6.1 per cent in the first quarter of 2014 from 7.0 per cent in the corresponding period of the previous year. The unemployment rate among males has declined to 3 percent.

Mr Chairman, inflation in Sri Lanka has been contained. Effective management of demand pressures and timely measures to address supply constraints helped to maintain inflation at single digits since 2009. The Year-on-year inflation decelerated to 3.5 per cent in September 2014 from 4.7 percent in December 2013, while the core inflation declined to 3.2 per cent. Going forward, our target is to maintain headline inflation at around mid-single digit levels.

Mr. Chairman, we have been successful in containing the fiscal deficit to a sustainable level from around a very high level of 10 percent of GDP in 2009. Reflecting the Government's commitment to fiscal consolidation, the fiscal deficit reduced to 3.7 per cent of GDP in the first half of 2014 from the 4.3 per cent in the corresponding period of 2013. Though it is a challenging task, we are confident that we will be able to contain the overall deficit to the targeted 5.2 per cent of GDP in 2014 and significantly below 5 percent in the medium term. In this respect, we are aware that much attention needs to be paid on revenue generation.

The external sector resilience improved further in 2014 with a robust growth in exports of goods and services and increased financial inflows. With improved competitiveness and the gradual recovery of our trading partner economies, export earnings grew by a healthy rate of 16.8 per cent during the first half of 2014. I am pleased to highlight that services mainly travel and tourism, ICT and ports and aviation are growing faster in Sri Lanka, thanks to significant investments in infrastructure in these areas. With these developments and steadily increasing remittances the current account deficit is expected to be around 2.1 per cent of GDP in 2014. The Balance of Payments (BOP) is expected to generate a surplus in 2014, reflecting increased FDIs and portfolio investments. The gross international reserves of the country increased to US dollars 9 billion by end August 2014, which was equivalent to 6.1 months of imports.

Sri Lanka's financial sector remains well capitalized, healthy and profitable. A proactive consolidation process of financial institutions through mergers and acquisitions is in progress to further strengthen the financial system.

Sri Lanka has made significant progress in meeting the Millennium Development Goals. We look forward to firm recommendations on post 2015 Development Agenda and implementation. I take this opportunity to thank the World Bank Group for the continued engagement that helped in realizing these goals. We believe that organizational reforms at the World Bank Group and new Country Partnership Framework would help to reinforce Bank's financing arrangements.

However, Mr. Chairman, there is an urgent need of enhancing availability of development financing for EMDCs as current access to such funding is limited or constrained. Hence, we support new initiatives such as BRICS' New Development Bank and Asia Infrastructure Investment Bank as that would help to increase access to development financing.

Sri Lanka is set to become an upper middle income country within the next few years. Hence, the challenge today is to further strengthen macroeconomic stability, build comfortable policy buffers, implement appropriate structural reforms and continue the infrastructure development drive so as to sustain the high growth trajectory and to avoid a potential middle-income trap. The ongoing government efforts to promote regional development would help to ensure an inclusive and equitable growth. Nevertheless, the challenges arising from population aging and changing labor market dynamics also need to be addressed appropriately while the existing social safety nets for vulnerable groups is strengthened further.