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Statement by the Hon. **MANGALA SAMARAWEERA**,
Governor of the Bank and the Fund for **SRI LANKA**

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Governor of the Bank and the Fund for Sri Lanka**

Mr. Chairman,

The global economy continues its recovery. The relatively favorable growth performance offers an opportunity to effectively tackle key challenges to the global economy.

This requires adapting the multilateral system to the changing global economy through active dialogue and cooperation among the international community while addressing valid country specific concerns and ensuring mutual benefits.

In the context of the IMF, we look forward to the completion of the 15th General Review of Quotas and a new formula that further shifts quota shares to emerging market and developing economies to reflect the new realities in the global economy.

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

Although still growing below potential, Sri Lanka's economy is expected to grow by around 4.5 per cent in 2017 and projected to move to a higher growth path of around 7.0 per cent by 2020 with the ongoing broader structural reforms and enhanced investor confidence.

The reform initiatives towards this direction are supported by the 3-year arrangement under the Extended Fund Facility (EFF) of US\$ 1.5 billion that Sri Lanka entered in to with the IMF in June 2016. The program aims to strengthen the external and fiscal balances of the economy.

Although headline inflation remained above the envisaged mid-single digit levels, core inflation decelerated gradually, reflecting the containment of demand driven inflationary pressures in the economy resulting from restrictive monetary policy measures adopted since end 2015.

On the fiscal front, there was a significant improvement, reflecting the government's strong commitment towards revenue based fiscal consolidation.

Sri Lanka's external sector recorded a mixed performance during the first half of 2017. The country's gross official reserves improved to US\$ 7.3 billion by end-September 2017 which was equivalent to about 4.5 months of imports.

The Sri Lankan rupee has depreciated by 2.2 per cent against the US dollar so far during the year. The exchange rate regime is now flexible and market-oriented.

The financial sector continued its growth momentum during the first half of 2017 with improved stability and soundness with improved capital adequacy, liquidity and asset quality of the banking sector.

Mr. Chairman, our broad development strategy focuses on a three-pillared agenda i.e. democratization, reconciliation, and sustainable and equitable development with employment generation that transmits the benefits of growth across the wider society.

Sri Lanka's growth model would be private sector driven with exports and FDI as key pillars, supported by technological advancement and innovation.

In this process, we are committed to improve human capital and skills, set up globally recognized regulatory mechanisms and investment practices, in addition to the improvement of physical infrastructure, and create the best possible enabling environment for Sri Lanka to attract more businesses, trade and investment to become a higher income country.

We will continue to work with the UN and other institutions by aligning the government's policy strategy with the "Sustainable Development Goals (SDGs) and Targets" to be achieved by 2030.

We have introduced three well thought-out frameworks to manage the country's fiscal policy, monetary policy and foreign exchange operations to ensure sound macroeconomic policies.

State Owned Enterprises are also being reformed to ensure efficient management and strengthen financial viability.

We are working, with commitment, to move to a flexible inflation targeting regime in the medium term to ensure sustained low inflation and to an exchange rate regime based on clear parameters to achieve a competitive currency.

Mr. Chairman, expanding exports is a key priority. In addition to the restoration of preferential access to the EU markets, measures are being taken to boost market access through deepening and widening the current FTA with India; invigorating the FTA with Pakistan; signing new economic partnership agreements with China and Singapore.

This will result in preferential access to markets with over 3 billion people, which is expected to boost domestic and foreign investments going forward through leveraging the trade/investment nexus.

Foreign Direct Investments (FDI) related reforms are also being introduced to improve the doing business environment.

The broader objective of this process is to position Sri Lanka as an export-oriented economic and financial hub at the center of the Indian Ocean, effectively leveraging its strategic location.

Mr. Chairman, Sri Lanka has achieved significant progress in its social development indicators due to the government's continued efforts and the support of the development partners.

I take this opportunity to thank the World Bank Group for their continued support to Sri Lanka in terms of financial assistance for development projects and technical assistance for analytical and advisory services.

I believe that its Country Partnership Framework for 2017 - 2020 would help reinforce the Bank's financing arrangements, thereby enhancing its role in the country's development.

The government is keenly working on addressing significant regional growth and income disparities in the country through a well-focused development program. Financial inclusion is being strengthened and labor force participation of women is being improved.

In order to achieve the desired objectives however, it is essential that more concessionary financial assistance through innovative financial tools and products from international financial institutions is available to develop infrastructure facilities of the lagging regions and also to provide basic needs, such as health, education and sanitary facilities.

We strongly believe these are essential ingredients for development with reconciliation.

Sri Lanka has now been graduated from "IDA eligible" status to "IBRD eligible" status and has access to both the IDA and IBRD credits under the IDA Transitional Support Facility during the IDA 18 cycle.

IDA graduation with transitional support will ensure smooth and successful graduation, avoiding an adverse impact on the country's development momentum through a sharp reduction in IDA financing and also preventing unnecessary pressure on the country's balance of payments.

In the above context, I take this opportunity to express gratitude to the temporary suspension of the accelerated repayments and look forward to the confirmation of this decision during the IDA 18 Mid Term Review, which is to be held in November 2018.

Also, we look forward to a World Bank shareholding formula that moves towards equitable voting power, enhancing voice and representation of developing countries while protecting the Interests of the poorest and smallest countries.

Thank you, Mr. Chairman!