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INTERNATIONAL MONETARY FUND

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. **FAIZ MOHIDEEN**,  
Alternate Governor of the Fund and the Bank for **SRI LANKA**,  
at the Joint Annual Discussion



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1. The delegation from Sri Lanka joins other delegations in congratulating you Mr. Chairman on your assumption of Chairmanship of the 2000 Annual Meetings.

2. We also congratulate Mr. Horst Köhler on his appointment as the Managing Director to steer the affairs of the IMF. We are confident that his rich experience and creativity will provide the necessary stewardship to the Fund at this crucial juncture in international monetary and financial affairs. We wish him all success in his most challenging tasks ahead.

**World Economy and Policy Challenges**

3. It is encouraging that the world economic expansion and conditions in the international financial market have improved since our last Annual Meetings and prospects for 2001 are promising. Continuation of high growth in the United States, robust growth momentum in Europe, recovery in Asia and Latin America, and improved economic activity in Africa are all contributory factors. We are particularly encouraged by the fact that this strong performance owes much to the concerted efforts of policymakers across the globe, including sound macroeconomic policies in industrial countries, prudent macroeconomic management and continuation of structural reforms in developing countries, and determined adjustment efforts by crisis affected countries.

4. There is, however, no room for complacency. The rather positive world economic outlook is in fact masking many disparities that exist today, both among regions and within regions. Furthermore, significant risks and vulnerabilities emanating from large and persistent economic and financial imbalances remain high, posing challenges to policymakers. These include lopsided growth patterns among industrial countries resulting increases in their external sector imbalances, misalignment among the major currencies and over-valuation in asset markets. The recent sharp increases in oil prices with sluggish recovery in most other primary commodity prices may hamper global economic growth prospects and increase inflationary pressures, with severe terms of trade shocks for oil-importing developing countries. Furthermore, despite recent improvements, net capital flows into developing countries and transition economies still remain low and costly. Meanwhile, continuation of tariff and non-tariff barriers (NTBs) in industrial countries creates difficulties for expansion in developing country exports.

5. These concerns underscore the necessity of strengthening macroeconomic policy coordination among major industrial countries and opening their markets for developing country exports. Similarly, the international community should make every effort to

minimize large fluctuations of commodity prices as they create severe terms of trade shocks, resulting in unbearable difficulties in developing countries.

### **Sri Lanka**

6. Turning to my own country, Sri Lanka registered an economic growth of 4.3 percent in 1999 despite the continuation of adverse effects of the international financial crises and depressed global market conditions on the country's major exports, reflecting improved resilience in the economy and benefits of prudent macroeconomic management. The inflation rate further declined owing to improved domestic food supplies, lower import prices and containment of monetary expansion. The unemployment rate continued its downward trend for the seventh consecutive year, reflecting expansion of job opportunities mainly in the private sector, demonstrating the benefits of economic liberalization. The investment-to-GDP ratio further increased, augmenting the country's production capacity. Meanwhile, domestic savings continued to increase containing the investment-savings gap. The budget deficit-to-GDP ratio, both current as well as overall, declined in 1999, while the external current account deficit-to-GDP remained at a sustainable low level reflecting the benefits of prudent macroeconomic management.

7. Economic recovery, which began in mid-1999, continued, recording an impressive growth of about 7 percent during the first half of 2000 responding positively to the improved external economic environment. Accordingly, the economy is expected to register an annual growth of 6 percent in 2000. The rate of unemployment further declined in early 2000 reflecting benefits of expanding economic activities. However, the declining inflationary trend which continued in the first half of this year is expected to turn around temporarily in the second half reflecting the impact of rising petroleum prices, upward revisions of other administered prices and depreciation of exchange rates. The inflation rate for the year as a whole, is expected to be at around 7.5 percent.

8. Even under difficult conditions, improvements in macroeconomic management and implementation of structural reforms have been continued. Economic management has been made more open, fair and transparent. The role of the government in economic development has been clearly defined, concentrating its economic activities only in areas where market mechanisms fail to function effectively, such as education, health, the environment, rural and small sector activities, safety needs for the poor, and social and cultural development. During the second half of 1999, the Government reiterated its market-friendly economic policy framework when it outlined the Vision for the 21<sup>st</sup> Century.

9. On the fiscal front, the Budget 2000 has been designed to further consolidate the recent fiscal improvements within a sustainable medium-term framework. Further measures have been taken to expand the tax base and improve tax administration. On the monetary front, reliance on more market-oriented policy measures have been further strengthened by expanding open market operations (OMO) activities. Meanwhile, the

exchange rate band was broadened in June 2000 in order to further improve the market-orientation in the determination of the exchange rate. Despite the challenging circumstances, implementation of structural reforms has been continuing as we strongly believe that they are crucial in improving the country's economic performance and future prospects as well as in strengthening the resilience of the economy against external shocks. These reforms mainly include continuation of public enterprise reforms, further liberalization of trade and foreign investment, encouragement of private sector participation in infrastructure development, improvement in tax administration, rationalization of government expenditure and strengthening of financial sector regulation and surveillance.

10. In the political sphere, further progress has been made in building consensus through the continuation of the discussions with all parties on major issues in order to ensure broader support for the proposed constitutional reform package designed to find an effective political solution to the on-going conflict. In this context, we greatly appreciate the increasing support of the international community for this challenging but necessary endeavor.

### **Bretton Woods Institutions**

11. Turning to the Bretton Woods Institutions, we commend their efforts to facilitate world economic expansion and improve stability in the international financial system. Similarly, we welcome their tireless efforts to strengthen the architecture of the international monetary and financial system and undertake reforms in their own institutions. In this context, the initiative to define their vision for the Fund and the Bank is a timely step as it would provide an opportunity to identify necessary changes in their activities in order to strengthen their role in the international monetary and financial system by taking into account changes in the world economy, financial markets and member country requirements. However, we underscore the necessity of preserving the basic principles as defined in their Articles of Agreements.

12. We understand the need to review Fund facilities from time to time in order to improve their efficiency and effectiveness by taking into account changes in requirements of member countries. However, we strongly underscore the necessity of making available facilities with a sufficient flexibility to meet the diverse demands of the heterogeneous membership. Similarly, attention has to be given to capacity limitations in member countries, particularly when specifying program conditions in order to strengthen the members' ownership of programs and ensure feasibility of effective program implementation.

13. The necessity of adequately augmenting the overall size of quota and improving its distribution by taking into account developments in the world economy, and changes in international trade and financial flows is well recognized. The recent Report of the Quota Formula Review Group (QFRG) provides an excellent opportunity for a correction that has long been overdue.

14. We also welcome the progress made in enhancing the Fund's surveillance activities, developing a private sector involvement (PSI) strategy, macro-prudential indicators (MPI) and standards/codes in order to prevent financial crises and resolve them when they occur. However, in implementing them it is necessary to preserve the principle of voluntary participation by member countries giving due consideration to capacity limitations in developing countries and providing the necessary time and resources for them to build up required institutions and skills. While accepting the usefulness of transparency, we cannot underestimate the potential adverse impact of it on the role of the Fund as a confidential and candid policy adviser to member countries.

15. We welcome the Fund's efforts to expand evaluation of its activities with a view to identify weaknesses, and improve efficiency and effectiveness of its activities. The decision to establish an Independent Evaluation Office (EVO) is a further step in the right direction as it would enable the institutions to better understand lessons for improvement in its future work.

16. We strongly support the efforts for improving the effectiveness of the Poverty Reduction and Growth Strategy (PRGF) and accelerating the implementation of the HIPC initiative. I am happy to state that Sri Lanka has granted its balance in the SCA-2 as an interest-free deposit for the HIPC financing.

17. Recent efforts to strengthen the collaboration between the Bank and the Fund activities and their collaboration with other institutions are steps in the right direction. While welcoming the World Bank Group increasing efforts to address poverty issues and strengthen institutional capabilities in member countries, we underscore the necessity of continuing the Group's role in assisting in development of infrastructure facilities in developing countries and encouraging private capital inflows to them. In this context, we welcome the work underway in the World Bank to better customize its assistance to the specific conditions of different groups of clients in the light of their changing requirements. It is also essential to explore all equitable options, including a general capital increase of the Bank Group, in order to ensure availability of sufficient resources to meet the increasing demand for its resources.