

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 Bank and the Fund for **SRI LANKA**,
at the Joint Annual Discussion

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World Economic Outlook and the Role of Bretton Woods Institutions`

Mr. Chairman, Ladies and Gentlemen,

It is encouraging that this year's Annual Meeting of the Fund and the Bank is being held in an environment where existing uncertainties regarding the outlook for the global economy have now considerably diminished, and the world economy is showing signs of recovery.

This ray of hope for a recovery of growth has been a result of reduced geopolitical tensions, accommodative monetary and fiscal policy responses, corrective structural policies by countries, open trade regimes, and the recent easing of oil price escalations. Painstaking economic adjustments and structural reforms made in some low-income countries, and emerging market economies, including my own country, have strengthened their fiscal foundations, and have improved resilience to set-backs.

We need to ensure that the positive developments are sustained and built upon. Support from the Bretton Woods Institutions for economic adjustments and reforms by countries who are making genuine efforts to promote growth and reduce poverty through market friendly and pro-poor policies needs to be enhanced.

I appreciate the role being played by the Fund and the Bank in this regard and in making globalization work better for all. The Fund needs to strengthen its capacity to identify and reduce economic and financial vulnerabilities, covering all systemically important countries for this purpose.

With our own experience, we feel the PRSP/PRGF/PRSC approach is an appropriate vehicle for helping low-income countries. In this regard I urge that IDA allocations be increased to countries making genuine efforts to strengthen their socio and economic infrastructures, while also assisting them in their efforts to improve aid utilization.

Sri Lanka – Recent Developments and Prospects

Mr. Chairman, I now desire to give an overview of the economic developments and prospects of my own country, Sri Lanka, since we met at our Annual Meeting in Washington last year. Economic progress is on target. Consequently, prospects are promising, and we are working on a Regaining Sri Lanka Programme, which has received endorsement from both our multi-lateral and bi-lateral donors.

Last year, in 2002, we substantially met our budgetary goals. The preceding year's negative growth of 1.5% was turned into a positive growth of 4.0% in 2002. The budget deficit was reduced from 10.8% in 2001 to 8.9% in 2002. Inflation brought down from 14.2% to a single digit of 9%.

For the current year 2003, the Asian Development Bank has forecast an average growth of 6% for South Asia. Sri Lanka has set its target for the year at 5.5%. In the first quarter, we have achieved 5.5%. The projected fiscal deficit is a reduction from the 2002 figure of 8.9% to 7.5%. Our Consumer Price Index has decreased. The unprecedented levels of the turnover recorded by the Colombo Stock Exchange has earned for itself recognition as one of the best performing stock markets in the region. Our currency has remained stable over the last 18 months. Cumulative exports have grown by 18% in U.S. Dollar terms in the first half of this year. Foreign exchange reserves are now at 5½ months of imports of goods and services. The output of major agricultural products, particularly rice, reached a new peak. FDI inflows increased by 300% over 2001, the third highest in South Asia during the past 12 months. The State had reduced its liability to the banking sector, thus making more money available for productive private sector development. The Central Bank's policy rates have been reduced. Consequently, commercial lending rates have declined. We have been able to reduce direct corporate taxation. The resulting position is that the private sector, which the Government desires to take the lead in the road to growth, has expanded industrial activity by 7%.

The Government has concentrated on the recurring question of improvement of aid utilization. The utilization in the first 8 months of the 2003 has increased by 76% over the same period in the previous year.

Our Parliament has enacted the Fiscal Management (Responsibility) Law, which fixes the GDP growth requirement and the fiscal deficit figures to be maintained annually up to the year 2006. The Minister of Finance is required to report thrice each year to Parliament on the Government's budgetary management. This fiscal discipline supported by structural reforms enabled the Government to implement certain bold but politically unpopular economic measures, which in the event proved beneficial.

The up-shot of our efforts is that Sri Lanka gained substantial international confidence from its multilateral and bilateral donors at the Sri Lanka Aid Conference held in Tokyo last June. We also won for the first time a PRGF facility from the IMF, and a PRSC from the World Bank.

Sri Lanka is making a determined effort to establish a permanent peace within its borders, improve its own resources, and achieve economic independence, as we have politically. The prevailing peaceful conditions in the country have also helped greatly. However, we foresee the need for more time to maximize our progress.

In view of the fact that we have received both assistance and guidance from the Fund, the Bank, the ADB, and our bi-lateral donors, to achieve what I have just stated, I thought it fit to place before this Meeting the consequential progress we have made.