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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. **SARATH LEELANANDA BANDARA AMUNUGAMA**,
Governor of the Fund and the Bank for **SRI LANKA**,
at the Joint Annual Discussion

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Governor of the Fund and the Bank for Sri Lanka,
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Mr. Chairman, Ladies and Gentlemen,

It is encouraging that there has been a firming of the global economic recovery. The buoyant global demand has led to a pick up in commodity prices that have benefited many emerging economies. However, the high price of oil and its volatility are a major concern to oil importing countries, such as my own. Co-operative efforts by suppliers and consumers are required to mitigate the adverse effects. The world is entering a period of higher inflation and interest rates. The policy responses by many countries have helped to bring about orderly changes in interest rates. Nevertheless, the transition to the new phase needs to be carefully managed so as not to stifle the on going recovery.

There are significant vulnerabilities in both industrial and emerging market countries. If the current positive developments in the world economy are to be sustained, fundamental problems such as difficult fiscal positions, structural weaknesses, financial vulnerabilities and global current account imbalances need to be addressed. This requires a further strengthening of international cooperation, particularly in macroeconomic policy co-ordination, by the industrial countries.

The Fund and the Bank have important roles to play in strengthening the global economy, and we appreciate the efforts being made by these institutions. We welcome the cooperative efforts by the Fund and the Bank to support multilateral trade liberalization and

in this regard, we welcome the activation of the Trade Integrating Mechanism by the Fund to help ease the related temporary balance of payments pressures. In its Strategic Review, the Fund should critically examine how the streamlined conditionality has worked in the context of political realities in different countries and their stage of economic development. The attention being paid by the Fund and the Bank to assist countries to reduce poverty and achieve the Millenium Development Goals is extremely important. The Fund needs to make its resources more flexibly available to support stabilization, growth and poverty reduction efforts of member countries. We would also stress the importance of having a contingent facility, which could be applied in covering all major types of contingencies, an example being the current rise in oil prices. All these imply that the Fund resource base needs a significant expansion.

Mr. Chairman, let me now focus on the economic and policy developments in my own country, Sri Lanka. The economic recovery has continued, although we have been affected by a severe drought and the very high international prices for oil. Growth in the first half has been 5.7 per cent and we expect the annual growth for 2004 to be in the region of 5-5.5 percent. The high oil prices have increased our expenditure by 50 percent and strained the balance of payments position.

Our government is committed to promoting regionally distributed pro-poor pro-growth within a consistent and sound macroeconomic framework. In particular, we are taking steps to ensure that the disadvantaged segments of our population would rapidly reap the benefits of economic growth. We envision that the public sector and the private sector

together will play proactive roles in developing our economy. We are increasing investment, particularly in infrastructure and in rural development. Increased emphasis is being placed on developing agriculture, small and medium scale enterprises and tourism. We are deeply conscious of the fact that a significant portion of our population is in poverty and we are confident that we would succeed in our efforts to generate employment opportunities necessary to meet the needs of a growing labor force, achieve a steady reduction of poverty and provide the necessary safety net for vulnerable segments of our population. We are convinced that generating productive employment could be a rapid means of alleviating poverty and are happy to note that the G-24 in its communiqué has called on the Bretton Woods Institutions to stress this aspect in their programs.

Our government is making a determined effort to carry forward the Peace Process and establish a permanent peace through a negotiated process. Those of you who come from conflict affected countries would understand the difficulties that my country faces from the ill effects of war. We are resolute in our efforts to achieve peace and thus create an environment conducive to sustainable economic growth and improved well being of our people. In this process, the role of the donor community in supporting the reconstruction and economic development as part of the Peace Process is greatly appreciated.

In all these efforts, we appreciate the support that we have been receiving from the international community, including the Bank and the Fund.

Thank you.