Statement by the Hon. SARATH LEELANANDA BANDARA AMUNUGAMA, Governor of the Bank and the Fund for SRI LANKA, at the Joint Annual Discussion
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Chairman, Fellow Governors, Ladies and Gentlemen,

We are meeting at a time when the global economy is performing strongly. But the high risks and vulnerabilities which we noted at our meeting in Singapore a year ago, have become more apparent today. The turbulence in the sub-prime loan mortgage market in the United States has caused some degree of turmoil in financial markets in many other parts of the world. Fortunately, the adverse impact of this volatility on financial markets has been contained. It also did not exert an adverse impact on emerging economies. However, these market events have delivered a very strong message to policy makers, both in developed and developing economies, that they cannot afford to be complacent.

The events also demonstrate that financial globalization, which has brought about many benefits through an efficient allocation of international savings, can also be a source of vulnerability for small nations like Sri Lanka. In view of such circumstances, it is in our interest to call for increased surveillance of the financial sectors of countries, particularly the large advanced economies, by both domestic regulators and the international lending organizations.

We firmly believe that time has now come for both IMF and World Bank to critically review their long-followed strategies relating to emerging economies. The past development strategies adopted by these institutions by supporting public initiatives have overburdened many governments with fiscal constraints and ever-rising debt ratios. Instead, as an alternative, we should look for new development strategies which harness the possibilities of private initiatives for sustainable development. This could be achieved through public private partnerships, also known as the PPP model, for development. Donors, specially the World Bank and its subsidiary IFC, could facilitate this process by linking their country programs to such home driven strategies.

Let me now turn to my own country of Sri Lanka. Although we are an island, we are certainly not insulated from the developments around us. The unprecedented high price of oil in international markets has taken a heavy toll. Volatility in major markets and any slow down in world output would certainly bring about a deleterious impact on our economy. Rising food prices is also a significant challenge. The recent price hike of wheat grain in the international market has added to our problems, even though we are self-sufficient in rice. Despite the challenges we face, our economy grew strongly, by 7.4 per cent, last year. The growth in 2007 is expected to be around 6.5 per cent, but in the
medium term, the economy envisages to grow around 7-8 per cent per annum. We have been successful in bringing down unemployment to around 6.5 per cent, which is a historically low level. The Sri Lankan Government is committed to fiscal prudence and sound macro economic policies. We appreciate the need for continued investment to sustain our economic growth and eradicate poverty.

Given the limitations of domestic resources for continued high growth, we are encouraging international investors to come to Sri Lanka. I am happy to report that in 2006 Sri Lanka received the highest ever foreign direct investment inflows. This trend is expected to continue in a similar fashion in this year as well as in the near future.

We are focusing on measures to reduce poverty and bring about broadbased, regionally equitable economic growth. This is an important aspect of a just and lasting settlement to the ethnic conflict in the country. The multi-ethnic Eastern Province of Sri Lanka, which has recently been cleared of all terrorist activity will be developed on a priority basis.

Sri Lanka was recently able to make successful debut bond issue, which was over subscribed by more than 3 times, and is a mark of confidence in the resilience of our economy. This has paved the way for the Sri Lankan private sector to tap this global market for infrastructure development. In the sea around Sri Lanka, a vast off-shore oil field has now been discovered. There has been considerable international interest in the venture and bidding will begin early next year.

Let me now conclude by stressing the need for economic policy makers everywhere to be vigilant and willing to take concerted action to ensure that the dynamism experienced by the world economy is continued and its growth momentum maintained.

Thank you