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Statement by the Hon. **SARATH AMUNUGAMA**,
Governor of the Fund and the Bank for **SRI LANKA**

**Statement by Hon Dr. Sarath Amunugama,
Governor of the Fund and the Bank for Sri Lanka**

Mr. Chairman, Fellow Governors, Ladies and Gentlemen;

The weakened economic position in advanced economies has posed daunting challenges to the entire international community. Intensification of the sovereign debt crisis in the euro area, continued sluggish growth in advanced economies, and weakened domestic demand in emerging market economies is clearly seen. In addition, it is my view that lack of a clear strategy and policies to rebuild the much needed confidence in economic prospects, especially in advanced economies, is largely responsible for the sluggish recovery in the global economy. It is also important to be vigilant on downside risks such as further escalation of euro area crisis, outcome of the so called fiscal cliff in the US, heightened geo-political uncertainties in certain regions and further rise in commodity prices, including oil prices. It is also important to ensure that strategies adopted to stimulate these economies would not impose an unwarranted burden on emerging and low income countries. However, we are encouraged by the continued efforts made by the crisis hit euro area countries to address immediate issues.

We welcome the commitment shown by the IMF for quota and governance reform as agreed by the Board of Governors. This includes the comprehensive review of the quota formula by January 2013 and the completion of the Fifteenth General Review of Quotas by January 2014. We believe that this reform would better reflect the growing role of emerging and developing countries while enhancing the voice and representation of the poor, small and vulnerable states. It is important that the new formula would lead to an increase in the calculated and actual quota shares of emerging and developing countries in line with their relative positions in the world economy.

Mr. Chairman, let me now briefly highlight developments in my own country. Sri Lanka continues to harness the dividends of ending a 30 year long conflict in 2009. Despite a difficult global and domestic environment, the Sri Lankan economy grew by 7.1 per cent in the first half of 2012 following two consecutive years of robust growth of over 8 per cent. The moderation of the growth in 2012 is due the weakening global economy, in particular the US and the euro region, our major trading partners, which has adversely affected the demand for our exports. On the domestic front, coordinated policy action by the Government and the Central Bank during the first quarter of 2012 to address emerging imbalances in certain sectors of the economy caused by high credit growth and a widened trade deficit, has had some impact on the growth momentum. Considering the developments so far in the global and domestic environment and the outlook for the rest of the year, the economy is projected to grow at around 7 per cent in 2012.

Mr. Chairman, prudent demand management policies as well as supply side improvements enabled Sri Lanka to maintain inflation at single digit levels for over 3 years from February 2009. Inflation gradually edged up in recent months after declining to a low level of 2.7 per cent in February 2012, mainly due to the upward adjustment of several administratively determined prices, including petroleum, electricity and public transport. Core inflation continues to remain broadly within targeted levels. To rein in possible demand driven inflationary pressures arising from high credit and monetary expansion, the Central Bank tightened its monetary policy stance by raising policy interest rates. In addition, with a view to bring about a more rapid curtailment of credit growth, in March 2012, the Central Bank called for all licensed banks to restrict their credit growth. These measures are yielding the desired outcome.

The government has expressed its strong commitment to fiscal consolidation. Fiscal policy in 2012 was based on fiscal consolidation as articulated in the Medium Term Macro Fiscal Framework (MTMFF) with a further reduction in the overall budget deficit to 6.2 per cent of GDP from 6.9 per cent of GDP in 2011. Fiscal consolidation is mainly expected through increasing government revenue, rationalizing recurrent expenditure and maintaining public investment at a level to support high economic growth in the medium term. Nevertheless, maintaining fiscal targets during 2012 is challenging amidst slowing economic activities.

The external sector of the economy has been improving, benefiting from policy measures adopted by the Central Bank and the Government. Policy reforms were mainly aimed at reducing the widening trade deficit and improving export competitiveness, while attracting capital inflows by enhancing investor confidence and relaxing exchange control regulations. The improvement in the trade account as well as a healthy growth in workers' remittances and higher earnings from tourism coupled with inflows to the capital and financial account, including foreign direct investment and proceeds from the fifth Sovereign Bond issue helped the BOP record a surplus by end August 2012. As a result, the gross official reserves increased and now stand at over US dollars 7 billion.

Mr. Chairman, I am delighted to note that Sri Lanka's accomplishments in reducing unemployment and poverty has been remarkable. Unemployment and poverty rates are steadily coming down reflecting the success of the Government's high emphasis on inclusive and broad-based growth. During the first quarter of 2012, the unemployment rate was estimated to have declined to 4.0 per cent. The poverty level, as measured by the head count poverty index, declined rapidly to 8.9 per cent in 2010 from 15.2 per cent in 2006. We have already achieved the Millennium Development Goal (MDG) in relation to reducing poverty. The implementation of various infrastructure development projects at national, regional and rural levels including rehabilitation and reconstruction activities in the conflict affected Northern

and Eastern provinces, creation of self-employment opportunities and increased economic activities have contributed to the steady decline in unemployment and poverty in the country. We recognize the support extended by bilateral and multilateral development partners on various projects that helped realise these achievements.

Mr. Chairman, I am pleased to place in record the successful completion of the IMF-SBA facility in July 2012. The completion of the SBA marks the longest engagement Sri Lanka has had with the Fund and the single largest facility Sri Lanka has ever obtained from a multilateral institution. The facility helped Sri Lanka strengthen its macroeconomic stability, enhance investor confidence and implement important structural changes that are required for sustained economic growth. While I take this opportunity to thank all those who were involved in the successful completion of the SBA, we look forward to continued close engagements with the IMF.

Thank you!