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Statement by the Hon. **RAVI KARUNANAYAKE**,
Governor of the Bank and the Fund for **SRI LANKA**

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Mr. Chairman, let me first thank the Peruvian authorities for their warm hospitality and excellent arrangements for the annual meetings.

It has been more than 6 years since the global financial crisis, but the global economic recovery remains slow and uneven with divergences across countries and regions. The recovery in Advanced Economies is expected to pick up slightly, while activity in Emerging Market and Developing Economies (EMDEs) is expected to be slow. Despite slow growth in EMDEs, their contribution to global growth remains high. Slower growth in Euro area and Japan, distress in the Chinese economy, potential risks arising from normalization of the US monetary policy, protracted decline in commodity prices and increased geopolitical uncertainties are major challenges for the global economic recovery and the stability. At the same time, we believe that firming up of the recovery in the US economy would provide some leverage to the global economy.

Mr. Chairman, let me now briefly highlight recent developments in Sri Lanka. The new government that came in to power in 2015 inherited enormous challenges in firmly establishing an effective mechanism for reconciliation, setting up democratic institutions, improving governance, transparency & accountability, abolishing corruptions and formulating economic strategies for sustained high and inclusive growth. Sri Lanka's 30 year long conflict ended in 2009. Since then, massive government expenditure largely financed by foreign commercial loans was not so much for the benefit of the people, but it simply raised the country's debt burden. European Union withdrew GSP+ concessions for our exports and banned fish imports from Sri Lanka due to various lapses. Unemployment, particularly among youth increased. Therefore, people expected a transformation of the country's political and economic system by electing a new government. As a result, people elected a new president at the presidential election held in January 2015 and the present United National Party led government at the general election held in August 2015. The

new government is taking all necessary actions to re-establish democratic institutions and better management of the economy.

Mr.Chairman, the new government's economic policy strategy has been designed taking basic factors that place Sri Lanka in an advantageous position in terms of its geographical location, ample natural and human resources and the vibrant Sri Lankan culture.

Mr.Chairman, despite slow growth in Emerging market and Developing Economies, Sri Lanka achieved a healthy growth of 5.6 per cent during the first half of 2015. This growth was supported by all key sectors of the economy. The growth momentum is expected to strengthen further in the second half of the year to reach a growth of around 6.0 per cent for the year 2015. However, Sri Lanka's unemployment rate increased to 4.7 per cent during the first quarter of 2015 from 4.1 per cent in the first quarter of 2014, largely due to increased female unemployment. The new government is planning to create one million productive employment opportunities for the youth and women.

Mr.Chairman, inflation in Sri Lanka has been well contained. Appropriate monetary policy measures, low commodity prices, and improved domestic supply have helped to maintain inflation at low levels. The year on year inflation declined to negative territory in July 2015 and remained negative thereafter while the annual average inflation in September was 0.7 per cent.

Mr.Chairman, fiscal management in Sri Lanka has been challenging during the last several years due to low government revenue and high recurrent expenditure. As a result, fiscal deficit and government debt remains at relatively high levels. This requires a prudent public finance management going forward. The new government is committed to fiscal consolidation and proactive policy measures will be introduced in this respect in the forthcoming budget for 2016.

Mr. Chairman, Sri Lanka's external sector developments in the first half of 2015 remained challenging with the widened trade deficit largely due to increased import demand. Also, reflecting global uncertainties, inflows to the financial account slowed down resulting in a balance of payments deficit. With a view to strengthen the resilience of the external sector, the Central Bank of Sri Lanka entered into a swap arrangement with the Reserve Bank of India to an amount of US \$ 1.5 billion. Further, the Central Bank has decided to allow greater flexibility in determination of the exchange rate in September 2015.

Mr. Chairman, our new economic program consists of five point plan; building the economy, fighting corruption, ensuring freedom, developing infrastructure & investment and developing education. Our president, His Excellency Maithripala Sirisena also assured world leaders at the United Nations General Assembly on "Sustainable Development" during last month that Sri Lanka would act to achieve "**Sustainable Development Goals (SDGs) and Targets**" through the government's policy strategy. Accordingly, Sri Lanka will continue to work with the UN and other states to achieve global goals by 2030 with special focus on poverty alleviation, achieving food security, energy, education, minimizing income disparity and urban development. We will enhance trade and investment relationships with the USA, India, China, Europe, Japan, Korea, Singapore, South East Asia and other SAARC countries, widening the access to their markets thereby creating more job opportunities for Sri Lankans. We have initiated a comprehensive dialog with all stake holders to improve doing business environment in the country to attract investments and support Sri Lankan enterprises to be competitive. At the same time, mechanization, automation and digitalization will be given priority in our policy agenda to enhance productivity.

Mr. Chairman, the government will establish Economic Development Zones with all the required infrastructure facilities and services. To make our agricultural products globally competitive, 23 agricultural Development Mega Zones with all the facilities will be established. Also, priority will be given to the use of local and renewable energy, and

energy conservation towards achieving self sufficiency in energy. The government efforts to promote regional development would help to ensure an inclusive and equitable growth.

Mr.Chairman, I take this opportunity to thank the World Bank Group for their development assistance for countries like Sri Lanka. However, there is an urgent need of enhancing availability of development financing for EMDEs as current access to such funding is limited or constrained. Therefore, we expect credible financing framework from the World Bank and other Multilateral Development Banks (MDBs) as well as bilateral country support to enhance investment which is essential to achieve the Sustainable Development Goals. Also, we support new initiatives such as BRICS' New Development Bank and Asia Infrastructure Investment Bank as these would help to increase access to development financing.