

**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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**INTERNATIONAL MONETARY FUND**

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Statement by the Hon. **G.L. PEIRIS**,  
Governor of the Bank and the Fund for **SRI LANKA**,  
at the Joint Annual Discussion

Statement by the Hon. Mr G.L. Peiris  
Minister of Justice and Constitutional Affairs,  
Ethnic Affairs, National Integration &  
Deputy Minister of Finance, Sri Lanka at  
the 1997 Annual Meetings, Hong Kong, China

Mr Chairman,

I join my colleagues in expressing our most sincere gratitude to the Government and the people of the People's Republic of China, in particular to the Government of the Hong Kong Special Administrative Region and the Hong Kong Monetary Authority for the excellent arrangements made for these meetings in this magnificent city and for their most gracious hospitality.

2. It is encouraging that the world economy has continued to grow steadily with relatively low inflation. The commitment to contain inflation by many countries, including our own, through a reduction of fiscal deficits has shown positive results. This would suppress inflationary expectations, lead to more stable financial and exchange markets, and help sustain the high growth rates.
  
3. The proposed European Monetary Union (EMU) with the Euro becoming the single currency in the region with the dawn of 1999 would undoubtedly be a milestone and a turning point in the world economic and monetary relations. We hope that it would promote an economically stronger Europe and make a greater contribution to global prosperity. The implications of EMU and Euro on international exchange and financial markets need to be carefully watched.

4. Mr. Chairman, we believe that the risks and challenges due to rapid globalization need to be addressed through sound macroeconomic management and strengthening of the financial system. We welcome the timely efforts of regional and multilateral cooperation in assisting affected countries recently. In particular, we commend the Fund for its prompt response in extending assistance to such countries under its emergency procedures. Nevertheless, let me emphasize that it is extremely important to have in place a more coordinated approach by the multilateral and regional financial institutions in this area.

5. Turning to the Bretton Woods Institutions, Mr. Chairman, we note with great satisfaction the progress achieved by the Fund and the Bank in 1996 and in 1997. We congratulate the two institutions for their commendable performance, in particular the Managing Director of the Fund and the World Bank Chairman for their able leadership.

6. We are also very encouraged by the progress the two institutions have been able to achieve, in collaboration with other multilateral and bilateral creditors, in implementing the HIPC Initiative. However, despite the great enthusiasm and the hard work that has been put into this Initiative by the Fund and the Bank, and the excellent cooperation they have got from other creditors, there is the risk that delivery of relief might not materialize as envisaged ultimately if adequate funds are not mobilized in time for this Initiative. Furthermore, we are deeply concerned that paucity of resources might derail not only the HIPC Initiative but also the interim ESAF. I would therefore urge my colleagues here to make a firm commitment of their assistance to the Initiative as early as possible, so that the momentum created for delivery of relief under this most innovative Initiative would not be dissipated.

7. Mr Chairman, we commend the Fund Board for reaching a consensus on the issue of a special one time allocation of SDRs. We are pleased that a resolution to amend the articles to give effect to this one time allocation for a more equitable distribution of SDRs among the participants has been already adopted in this Assembly. We wish to reiterate, however, that this amendment should in no way diminish the existing power of the Fund to make general allocations in future when the need arises.

8. We also commend the Fund for reaching an agreement on a quota allocation under the Eleventh General Review. We are, however, somewhat disappointed that under the proposed formula for allocation of quotas, the voting power of the developing countries would decline. We would, therefore, urge strongly that any future allocation of quotas should adequately reflect the increasing weight of the developing countries in the global economy. To this end, we would encourage the Fund to evolve a more rational formula for calculation of quotas before the next General Review.

9. As regards two other important issues on which the Fund Board is presently conducting deliberations, i.e. capital account convertibility and governance, while appreciating the progress so far made, we would caution the Board to proceed very carefully in these two complicated and sensitive areas.

10. While we support in principle the present efforts of the Fund to amend the articles to bring capital account transactions too under its jurisdiction, we wish to voice some concerns in this regard. As we are aware, the financial systems in most of our developing member countries, particularly the banking systems, are not yet fully developed. These have to be further developed and strengthened before countries could open up their capital accounts.

The amendment should therefore provide for a gradual process of liberalization, in tandem with a country's progress in its structural reforms. Moreover, even after liberalization of its capital account, a country should have the liberty to re-impose such controls in times of financial turmoil or in the interest of national or international security. Also, we believe that foreign direct investment is not an area that should come under the Fund's jurisdiction under the contemplated amendment.

11. With regard to the issue of governance, we are aware that the World Bank and several other international financial institutions are also presently deliberating on this issue. While we support, in principle, the Bretton Woods institutions placing increasing emphasis on governance issues in their relations with member countries, we would caution that their attention should be confined to such aspects of governance as would have a bearing on the economic performance of a country; they should also steadfastly adhere to the principle of even-handedness of treatment in dealing with such sensitive issues.
12. Turning to the World Bank, we wish to express a special word of appreciation for the tremendous efforts the President, Mr. Wolfensohn, has been making under his Strategic Compact to change the culture of this Institution and to convert it into a highly dynamic organization, fully sensitive to the aspirations and needs of the millions it is mandated to serve. We appreciate the many innovative improvements he has introduced to the system and in particular the integration of social aspects of development in all Bank-funded programmes. We wish him all success in these efforts.

13. In view of the rapid decline of ODA over the years, the crucial role IDA has to play as a vehicle of assistance to the poor hardly needs emphasis. We would therefore urge the donor community to support it to adequately discharge this increasing burden.

14. Finally, Mr. Chairman, let me speak a few words about my own country, Sri Lanka. Our economy has continued its steady growth in the first half of this year after its pick-up in the latter half of 1996. Investor confidence, both domestic and foreign, has strengthened resulting in a rapid expansion of investment. Manufacturing and service sectors are growing steadily and export performance is robust. At this rate, we hope we would be able to achieve the projected growth rate of 6.1 percent this year in contrast to a 3.8 percent rate last year. Inflation is on a downward trend and is currently at 7 percent. Both the fiscal deficit and external current account deficit are projected to decline progressively. On the structural front, privatization and financial sector reforms have been accelerated. In particular, financial institutions including banks are being strengthened through closer supervision. We have been able to retire a significant portion of our public debt recently with the proceeds from privatization. We would be making every effort to sustain these positive trends in the economy in the medium term, and indeed, to improve upon them.