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

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Mr. Chairman, Fellow Governors, Ladies and Gentlemen;

The current economic crisis has many dimensions, including the bursting of the housing bubble, high energy costs and food prices, large macro-economic imbalances among major players in the world economy, regulatory and supervisory failures and the weaknesses of our early warning systems. Although the latest financial market turmoil began in advanced financial markets, the contagion of this crisis will not be confined to the boundaries of developed countries. Due to the increased economic interdependency among nations through trade, investment and sophisticated capital markets, it is clear likely that many countries will have to go through a difficult period in the near future.

In that context, we believe that the IMF and the World Bank has an important role to play to safeguard global financial system stability and help maintain a sustainable level of development. At the country level all possible options should be explored to minimize the adverse consequences. In this regard a balanced approach of monetary, fiscal and other policies to help maintain productive investment is required. These policies need to be assisted by sufficient flexibility on the part of the Fund and the Bank to help those countries that may need urgent liquidity support and development assistance at this stage.

We take positive note of the progressive steps taken by the management of the IMF and the World Bank particularly in regard to its reforms and new development financing initiatives. We cannot stress enough the importance of a contingent liquidity support facility for emerging economies. Similarly, we are confident that the issues relating to quota reforms of the World Bank group will be resolved taking into consideration the claims of developing and emerging market countries who are under represented in the current quota structure.

Mr. Chairman, let me now turn to my own country of Sri Lanka. Given the high degree of openness of our economy we are by no means an exception to the pattern of our peers in the developing world. Sri Lanka is a net importer of commodities particularly oil. Our recent gains from commodity exports have been more than absorbed by the sharply increased cost of oil bill which showed a three fold increase within a matter of two years. High food and energy costs have been the main cause of high inflation in the country. Thanks to the tight monetary policy measures taken and good harvests, inflation which reached a peak a few months ago is now on the decline. A drop in oil prices to a reasonable level would be a great advantage.

Sri Lanka's financial system has shown strong resilience to adverse global developments. With the implementation of Basel II in 2008, the regulatory framework of banks has been further strengthened.

The comprehensive development programs that has been launched by the government to address the key constraints for more equitable growth has already raised the GDP growth rate to a satisfactory level of around 6.5 percent compared to the historical average of around 4.5 percent in the past. There has been a sharp reduction in unemployment. Our growth momentum is expected to continue and register around 7 percent in 2008, particularly benefiting from improved performance in the agriculture sector. The poverty indicators as well as many other indicators relating to MDGs in Sri Lanka have shown remarkable progress in recent years and we need to sustain these achievements. My country has achieved most of the MDG goals. We are pleased that the World Bank has already committed US$ 900 million through the new country Assistance Strategy.

I conclude with the wish that through the concerted efforts by all parties, particularly the key players in the world economy, we will be able to recover form this crisis and continue the effort to give a better life for all our people.

Thank you.