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Press Release

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SRI LANKAN AUTHORITIES DECIDE NOT TO PURSUE A NEW IMF FUNDING PROGRAMME

Since completion of the Stand-by-Arrangement successfully with the IMF in July 2012, the Sri Lankan authorities and the IMF have been engaging in a dialogue on the future relationship between Sri Lanka and the Fund.

In the meantime, Sri Lanka has moved to a more market oriented exchange rate determination regime and the country's reserves have increased to a much higher level when compared to the position at the beginning of the Stand-By Arrangement. In fact, Sri Lanka's external reserves have now reached a level of approximately US\$ 7 billion, from just over US\$ 1 billion in early 2009 when Sri Lanka commenced the Stand-By Arrangement with the IMF. Accordingly, there appears to be a very limited need to build up a further cushion in external reserves through traditional IMF Balance of Payment support programmes, such as Stand-By Arrangements and Extended Fund Facilities. In that background, the Sri Lankan authorities had expressed their interest in a future IMF programme, only if such programme entailed support to finance the budget within the announced fiscal consolidation process by which the Government has already committed to bring down the fiscal deficit to 5.8 per cent of GDP in 2013 and below 5 per cent of GDP in the medium term.

However, during consultations, the IMF has indicated that the Fund may not be in a position to consider any direct or indirect budget support to Sri Lanka, since the current improved status of Sri Lanka does not warrant unconventional and exceptional financial support to the Government of Sri Lanka from the IMF. The IMF has also been of the view that Sri Lanka has now developed well-established access to international capital markets and therefore budget support, if necessary, could be conveniently accessed from such market sources and hence there is no need to access the Fund for such budget financing.

In view of above circumstances, Sri Lankan authorities have decided not to pursue a new programme with the IMF, but to continue maintaining the close relationship with the Fund under standard consultation processes similar to many other member countries.