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Press Release

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IMF Concludes the First Post Program Monitoring Discussion under the 2009 SBA

The Sri Lankan authorities note with satisfaction that the Executive Board of the IMF has welcomed the strong growth performance of Sri Lanka in recent years with inflation contained at single digit levels, after the review of the IMF staff reports on Post-SBA Program Monitoring (PPM) and Ex-Post Evaluation (EPE) on 27 November 2013. The IMF has also recognised the resilience demonstrated by the Sri Lankan economy in the face of recent high volatility in the global financial markets. Further, the IMF has noted the significant improvement in the external sector in 2013 with a decline in the current account deficit and a buildup of international reserves, despite the challenging external environment. The IMF Executive Board has also commended the Sri Lankan authorities on the current flexible exchange rate policy with limited intervention in the market and highlighted the importance of further strengthening external sector buffers to face possible shocks, with the gross official reserves increasing to US dollars 7.0 billion, equivalent to 4.4 months of imports by end September 2013.

At the same time, while the IMF has recognised the strong commitment of the Government on fiscal consolidation with sustained reduction of the fiscal deficit since 2009, the IMF has highlighted the reduction in government revenue as a percentage of GDP, as a concern. However, the Sri Lankan authorities note that the fiscal deficit target of 5.8 per cent for the year 2013, is likely to be met, and therefore is of the view that there need not be any concern of an imbalance growing in this regard. Towards such fiscal consolidation over the medium term, several measures have also been proposed in the 2014 budget to broaden the tax base and improve tax administration and compliance. The Sri Lankan authorities are also of the view that the substantial improvement in the financial performance of the Ceylon Electricity Board (CEB) and the Ceylon Petroleum Corporation (CPC) has also placed the economy on a more sustainable platform.

Overall, the authorities note that the EPE has recognised the successful completion of the SBA-supported program and strengthening of macroeconomic fundamentals while implementing structural reforms to improve efficiency, productivity and regulatory framework as envisaged under the program. The IMF Executive Board view that the current monetary policy stance is appropriate, and that the financial system remains strong and healthy although the non-performing loan (NPL) ratio has slightly increased in recent months mainly reflecting NPLs in the pawning sector, has also been noted.

However, the Sri Lankan authorities are of the view that several projections released by the IMF appear unrealistic. The growth forecasts of the IMF seem excessively pessimistic, particularly in the light of the acceleration of economic growth witnessed in the third quarter of 2013 and the significant improvement in exports that has been recorded in October 2013. Accordingly, in line with the improved export performance, the current account deficit is likely to moderate considerably. At the same time, the authorities also note that the recent sharp moderation in inflation has not been factored into the IMF's estimates. As a result, average and end period, headline inflation as well as core inflation are likely to be lower than the IMF projections, with the more appropriate projection for average headline inflation for 2013 being 6.9 per cent, while year-on-year headline inflation and core inflation being around 5.2 per cent and 2.1 per cent, respectively.

A comparison between the current IMF's projections and the Sri Lankan authorities' projections for 2013 are given below.

Sri Lanka: Selected Economic Indicators

	2013	
	IMF Projections	**Sri Lankan Authorities' Projections**
GDP and inflation (in per cent)		
Real GDP Growth	6.5	7.2
Inflation (average)	7.2	6.9
Inflation (end of period)	7.0	5.2
Core inflation (end of period)	6.1	2.1
Public finances (in per cent of GDP)		
Revenue	12.5	13.6
Grants	0.2	0.2
Expenditure	18.5	19.7
Central government balance	-5.8	-5.8
Central government domestic financing	4.4	3.5
Government debt (domestic and external)	76.6	76.0
Money and credit (per cent change, end of period)		
Reserve money	-3.3	3.2
Broad money	13.1	16.0
Domestic credit	17.0	12.3
Private sector credit	17.0	8.7
Public sector credit	17.0	18.7
Balance of payments (in millions of US dollars)		
Exports	9,826	10,278
Imports	19,406	19,046
Current account balance	-3,384	-2,714
Current account balance (in per cent of GDP)	-5.2	-4.0
Export value growth (per cent)	0.5	5.2
Import value growth (per cent)	1.2	-0.7
Gross official reserves (end of period)		
In millions of US dollars	6,661	7,129
In months of imports	3.2	4.5