



## **IMF Staff Concludes Visit to Sri Lanka to Discuss Progress of Economic Reform Program**

March 7, 2017

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

A staff team from the International Monetary Fund (IMF) led by Jaewoo Lee visited Colombo during February 21-March 7, 2017 to hold discussions on the second review of the Sri Lankan authorities' economic program that is being supported by a three-year Extended Fund Facility (EFF). The program aims to support the authorities' ambitious reform agenda to put public finances on a sustainable footing and create space for its social and development program. At the end of the visit Mr. Lee made the following statement:

“The mission made significant progress toward reaching a staff level agreement with the government on completion of the second review. Discussions will continue in April in Washington D.C. during the Spring Meetings of the IMF and World Bank.

“Overall, macroeconomic performance in the second half of 2016 was mixed with gradually recovering growth and an uptick in inflation due to the impact of drought and the VAT increase. The current account remained stable, but the financial account weakened with the resumption of capital outflows. A more prolonged drought could raise food and oil imports with adverse impact on growth, inflation, and the balance of payment.

“The mission commends the authorities for strong efforts in implementing their IMF-supported economic reform program with all fiscal quantitative targets through end-December being met. Substantial progress has been made in stepping up revenue collections and automating revenue administration, which has been the basis for meeting fiscal targets. However, net international reserves fell short of the target and progress on implementing structural benchmarks was somewhat uneven with some of the reforms lagging behind intended timelines. Accordingly, the mission and the authorities have discussed decisive actions to maintain the reform momentum in light of uncertain external environment.

“To this end, it is important for the government to continue on the revenue based fiscal consolidation and generate adequate resources to support its social and development objectives while maintaining debt sustainability. Notably, advancing the legislative process for the new Inland Revenue Act, with effective public consultations, is a critical step towards rebalancing the tax system toward a more predictable, efficient and equitable structure.

“The mission encourages the Central Bank of Sri Lanka (CBSL) to remain vigilant in monitoring inflation pressures and stand ready to tighten monetary policy if inflation or credit growth does not abate. In light of mounting external pressures, the mission encourages the CBSL to take stronger actions towards rebuilding international reserves and maintaining exchange rate flexibility. In this regard, the mission and the authorities discussed IMF technical assistance to facilitate transition to flexible inflation targeting framework.

“The mission also encourages the government to accelerate implementation of structural reforms in public financial management and state owned enterprises (SOEs), building on the substantial technical assistance received so far. In this regard, finalizing and publishing Statements of Corporate Intents for large SOEs is the first necessary step for enhancing transparency and accountability in the reform process. The mission also supports the ongoing work to design reforms in the business environment and competitiveness which are supported by a number of development partners.”

The mission met with Prime Minister Wickremesinghe, Finance Minister Karunanayake, Governor of the Central Bank of Sri Lanka Coomaraswamy, parliamentarians, other public officials, and representatives of the business community, civil society and international partners.