IMF Reaches Staff-Level Agreement on the Fourth Review of Sri Lanka's Extended Fund Facility

April 20, 2018

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 findings so far, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

- Further revenue mobilization can make space for social spending while reducing public debt. Reforms of state-owned enterprises are critical to minimize fiscal risks.
- Greater exchange rate flexibility and reserve buffers would strengthen resilience against external shocks.
- Strengthening institutions and accelerating structural reforms is key to lay the foundation for more sustainable and inclusive growth in Sri Lanka.

After constructive discussions with the authorities in Colombo and during the Spring Meetings in Washington DC, Manuela Goretti, the IMF mission chief for Sri Lanka, issued the following statement:

"The IMF team reached a staff-level agreement with the Sri Lankan authorities on the fourth review under an economic reform program supported by a three-year Extended Fund Facility (EFF) arrangement. All the end-December quantitative performance criteria under the program were met, as the authorities have successfully advanced fiscal consolidation and strengthened international reserves. Due to a weather-related spike in food prices, inflation exceeded the upper limit for the inner band for December, but has since fallen back within the inner band. The authorities are taking actions to implement all the pending structural benchmarks for this review, despite some delays."

"Following subdued growth in 2017 due to the lingering effects of weather-related shocks, a recovery is underway as agriculture has started to rebound and food prices decelerated. Real GDP growth is expected to reach 4 percent and inflation to remain below 5 percent in 2018.

Exports are also recovering and the recent sovereign bond issuance was successfully oversubscribed. However, the economy remains vulnerable to adverse shocks given the still sizable public debt, large refinancing needs, and low external buffers."

"Subject to cabinet approval of an automatic fuel pricing mechanism—consistent with the EFF-supported program, the Board is expected to consider Sri Lanka's request for completion of the fourth review in June 2018. The measure would represent a major step towards completing energy pricing reforms in 2018. Further efforts remain needed to strengthen governance and mitigate fiscal risks from state-owned enterprises (SOEs). Progress in implementing the Inland Revenue Act (IRA) and other revenue measures in the 2018 budget remains essential for meeting social goals and improving debt dynamics. The central bank should continue to remain vigilant in guarding against inflationary pressures, while continuing to build reserves and supporting greater exchange rate flexibility."

"Under the EFF-supported program, sustaining the reform momentum is critical to strengthen the resilience of the economy to shocks and promoting inclusive and strong growth. The authorities should push ahead with their Vision 2025 objectives, by further advancing fiscal consolidation through stronger fiscal rules and SOE governance; modernizing monetary and exchange rate frameworks; accelerating their inclusive growth reform agenda, through trade liberalization, climate, and gender budgeting; as well as better-targeted social protection programs."