



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

September 27, 2018

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. This mission will not result in a Board discussion.

- A strong policy mix and exchange rate flexibility are critical to strengthen the economy's resilience to market volatility, while supporting competitiveness and growth.
- Advancing revenue-based fiscal consolidation in the 2019 budget can support Sri Lanka's ambitious social and development goals while reducing public debt.
- The authorities should sustain reform efforts to support trade, investment, and inclusive growth.

A staff team from the International Monetary Fund (IMF) led by Manuela Goretti visited Colombo during September 13-27, 2018 to hold discussions on the fifth review of the Sri Lanka's economic program supported by a three-year Extended Fund Facility (EFF). At the end of the visit Ms. Goretti made the following statement:

"The mission made significant progress toward reaching a staff-level agreement with the government on completing the fifth review of the EFF. Discussions will continue during the Annual Meetings of the IMF and World Bank in October.

"Macroeconomic performance has been mixed in the first half of 2018, with growth recovering gradually and inflation stabilizing in the mid-single digits. The current account deficit widened on the back of higher fuel imports, despite strong export performance, while international reserves declined from their peak level in April, amid volatile global market conditions. Growth is projected to remain below 4 percent in 2018, and gradually reach 5 percent over the medium-term.

“The mission commended the authorities on their continued efforts to advance their economic reform program. The quantitative performance target on the primary surplus for end-June 2018 was met and inflation remained within the CBSL’s band, although reserve accumulation and tax revenues fell short of program targets due to the weaker economic environment and delays in policy implementation.

“Reforms need to accelerate to strengthen the Sri Lankan economy’s resilience to domestic and external shocks, given still significant vulnerabilities. In the face of greater market volatility in emerging markets, the authorities have maintained a strong policy stance with prudent monetary policy and further fiscal consolidation.

“The mission welcomes the authorities’ commitment to amend the Central Bank’s Monetary Law Act supporting the transition to inflation targeting and strengthening CBSL’s governance and accountability frameworks. Renewed efforts by the CBSL to strengthen reserve buffers and a clear commitment to exchange rate flexibility are critical to enhance external competitiveness and protect against adverse global market conditions.

“The CBSL’s efforts should be supported by a strong 2019 budget, a well-defined Medium-Term Debt Strategy, and a sound fiscal rule to secure debt on a downward sloping path and support investors’ confidence. With revenues falling short of targets, the focus should remain on implementing the new Inland Revenue Act and other tax policy measures, supported by modernized business processes to strengthen tax compliance. Greater revenue mobilization can make space for critical spending needs, including broader coverage of vulnerable families under the social safety net based on well-defined selection criteria.

“Structural reforms need to accelerate to bring transparency, accountability, and cost-efficiency to large state-owned enterprises. In this regard, the mission commended the successful implementation of the fuel pricing reform and encouraged the introduction of an automatic pricing mechanism for electricity.

“The authorities should push ahead with their *Vision 2025* to support Sri Lanka’s rapid and inclusive growth through sustained efforts to promote trade openness and investment, fight corruption, enhance social protection, and encourage female labor force participation.”

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