PRESS RELEASE

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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

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The IMF Executive Board completed the 2024 Article IV Consultation and Second Review under the 48-month Extended Fund Facility with Sri Lanka, providing the country with immediate access to SDR 254 million (about US $336 million) to support Sri Lanka's economic policies and reforms. The IMF issued the following press release on 12 June 2024, which can be accessed from the link below.

https://www.imf.org/en/News/Articles/2024/06/12/pr-24214-sri-lanka-imf-concludes-2024-article-iv-consultation-completes-2nd-review-under-eff

IMF Executive Board Concludes 2024 Article IV Consultation with Sri Lanka and Completes the Second Review Under the Extended Fund Facility

- The IMF Executive Board completed the 2024 Article IV Consultation and Second Review under the 48-month Extended Fund Facility with Sri Lanka, providing the country with immediate access to SDR 254 million (about US $336 million) to support its economic policies and reforms.
- Performance under the program has been strong. All quantitative targets for end-December 2023 were met, except the indicative target on social spending. Most structural benchmarks due by end-April 2024 were either met or implemented with delay. Nevertheless, the economy is still vulnerable and the path to debt sustainability remains knife-edged. Sustaining the reform momentum and efforts to restructure debt are critical to put the economy on a path towards lasting recovery and debt sustainability.
- The Article IV Consultation focused on wide-ranging reforms to restore macroeconomic stability and debt sustainability, maintain price stability, safeguard financial stability, rebuild external buffers, and implement growth-oriented structural reforms, including by strengthening governance.

Washington, DC: The Executive Board of the International Monetary Fund (IMF) completed the second review under the 48-month Extended Fund Facility (EFF) Arrangement, allowing the authorities to draw SDR 254 million (about US$336 million). This brings the total IMF financial support disbursed so far to SDR 762 million (about US$1 billion). [1] The Executive Board also concluded the 2024 Article IV Consultation with Sri Lanka. [2]

The EFF arrangement for Sri Lanka was approved by the Executive Board on March 20, 2023 (see Press Release No. 23/79 https://www.imf.org/en/News/Articles/2023/03/20/pr2379-imf-executive-board-approves-under-the-new-eff-arrangement-for-sri-lanka) in an amount of SDR 2.286 billion (395 percent of quota or about US$3 billion. The first review of the EFF was completed by the Executive Board on December 12, 2023 with disbursements of SDR 254 million (about US$337 million; see Press Release No. 23/439 https://www.imf.org/en/News/Articles/2023/12/12/pr23439-sri-lanka-imf-executive-board-completes-first-review-under-eff-arrangement).

The EFF-supported program aims to restore Sri Lanka's macroeconomic stability and debt sustainability, mitigate the economic impact on the poor and vulnerable, rebuild external buffers, safeguard financial sector stability, and strengthen governance and growth potential.

Signs of economic recovery are emerging. Real GDP expanded by 3 percent (y-o-y) in the second half of 2023. May 2024 inflation was 0.9 percent and gross international reserves increased to US$5.5 billion by end-April 2024. The primary balance improved to a surplus with tax revenue increasing to 9.8 percent of GDP in 2023. Despite improvements in non-performing loans, pockets of vulnerabilities remain in the banking sector.

The recovery remains gradual, and the medium-term growth potential hinges on appropriate policy settings. Growth is projected to recover moderately in 2024-25 given constrained bank credit and fiscal consolidation, while facing uncertainties around the debt restructuring and policy direction following the elections. Inflation is expected to temporarily increase due to one-off factors. The current account is expected to remain positive in 2024, driven by improved tourist arrivals and remittances. Domestic risks could arise from waning reform momentum, especially on revenue mobilization. External risks are associated with intensified regional conflicts, commodity price volatility, and a global slowdown. Slow progress in debt restructuring could widen financing gaps.

Following the Executive Board's discussion, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair, issued the following statement:

"Sri Lanka's performance under its Fund-supported program remains strong. All quantitative targets were met, except for the marginal shortfall of indicative target on social spending. Most structural benchmarks were either met or implemented with delay. Reforms and policy adjustment are bearing fruit. The economy is starting to recover, inflation remains low, revenue collection is improving, and reserves continue to accumulate. Despite these positive developments, the economy is still vulnerable and the path to debt sustainability remains knife-edged. Important vulnerabilities associated with the ongoing debt restructuring, revenue mobilization, reserve accumulation, and banks' ability to support the recovery continue to cloud the outlook. Strong reform efforts, adequate safeguards, and contingency planning help mitigate these risks.

"To restore fiscal sustainability, sustained revenue mobilization efforts, promptly finalizing the debt restructuring in line with program targets, and protecting social and capital spending remain critical. Advancing public financial management will help enhance fiscal discipline, and strengthening the debt management framework is also needed.

"Monetary policy should continue prioritizing price stability, supported by a sustained commitment to refrain from monetary financing and safeguard central bank independence. Continued exchange rate flexibility and gradually phasing out the balance of payments measures remain critical to rebuild external buffers and facilitate external rebalancing.

"Restoring bank capital adequacy and strengthening governance and oversight of state-owned banks are top priorities to revive credit growth and support economic recovery.

"The authorities need to press ahead with their efforts to address structural challenges to unlock long-term potential. Key priorities include steadfast implementation of the governance reforms; further trade liberalization to promote exports and foreign direct investment; labor reforms to upgrade skills and increase female labor force participation; and state-owned enterprise reforms to improve efficiency and fiscal transparency, contain fiscal risks, and promote a level playing field for the private sector.

Executive Board Assessment[3]

Executive Directors commended the authorities' strong performance under the Fund-supported program, noting that reforms are bearing fruit. The economy has started to recover, inflation remains low, revenue collection is improving, and reserves continue to accumulate. Directors underscored, however, that important vulnerabilities and uncertainties remain, including with respect to the ongoing debt restructuring and the upcoming elections. Against this backdrop, they called on the authorities to continue strengthening macroeconomic policies to restore economic stability and debt sustainability and to sustain the reform momentum to promote long-term inclusive growth.

Directors underscored that restoring fiscal sustainability requires additional revenue measures underpinning the 2025 Budget, further tax administration reforms, as well as limiting tax exemptions and making them more transparent. They called for protecting growth-enhancing and social spending, and for improving the social safety net. Directors welcomed the submission of the new Public Financial Management bill to Parliament, which would strengthen fiscal discipline and establish a solid fiscal framework. They noted that further efforts to strengthen the debt management framework are also needed. Directors welcomed the progress on achieving cost-recovery in energy pricing, noting its criticality for containing risks from state-owned enterprises (SOEs).

Directors welcomed the progress made to advance debt restructuring to restore Sri Lanka's debt sustainability. They called for a swift finalization of the Memorandum of Understanding with the Official Creditor Committee and final agreements with the Export-Import Bank of China. Directors stressed the importance of seeking comparable, transparent, and timely completion of restructurings with external private creditors consistent with program targets.

Directors emphasized that maintaining price stability remains the top priority for monetary policy, which requires anchoring inflation expectations, continuing to refrain from monetary financing, and the gradual unwinding of government security holdings as markets allow. They also stressed the importance of strengthening central bank independence. Directors underscored the need to continue building external buffers, while maintaining exchange rate flexibility to facilitate external rebalancing and preserve the credibility of the inflation targeting regime. They called for gradually phasing out the balance of payments measures.

Directors underscored the need to strengthen financial sector resilience to support the recovery. They called for swift completion of the restructuring of remaining domestic law, foreign currency loans and for adequate recapitalization of commercial and state-owned banks. Directors welcomed the enactment of the Banking Act amendments and emphasized the importance of their effective implementation to enhance supervision and the governance of state-owned banks. They also called for further efforts to strengthen the anti-money laundering and counter-terrorism financing framework.

Directors stressed that pressing ahead with governance and structural reforms, supported by development partners and IMF capacity development, is crucial to unlock growth potential. They welcomed the publication of the authorities' action plan on the key governance reforms recommended in the Governance Diagnostic Report and called for its steadfast implementation. Directors also recommended prioritizing reforms to further liberalize trade, improve the investment climate and SOE efficiency, reduce gender gaps in the labor market, and mitigate climate vulnerabilities.

Sri Lanka: Selected Economic Indicators 2021–2029

	2021	2022	2023 Prel.	2024 Projections	2025	2026	2027	2028	2029
GDP and inflation (in percent)									
Real GDP	4.2	-7.3	-2.3	2.0	2.7	3.0	3.1	3.1	3.1
Inflation (average) 1/	6.0	45.2	17.4	7.0	5.8	5.4	5.2	5.1	5.0
Inflation (end-of-period) 1/	12.1	54.5	4.0	6.9	5.5	5.4	5.2	5.1	5.0
GDP Deflator growth	8.0	47.5	17.5	9.8	6.9	5.4	5.2	5.1	5.0
Nominal GDP growth	12.6	36.6	14.8	11.9	9.8	8.5	8.5	8.3	8.3
Savings and investment (in percent of GDP)									
National savings	33.0	27.6	33.9	32.5	31.0	31.3	31.9	31.8	31.8
Government	-7.3	-6.4	-6.0	-3.4	-1.0	-0.1	0.3	0.7	0.7
Private	40.4	34.0	39.9	35.9	31.9	31.4	31.6	31.1	31.0
National investment	36.7	28.6	30.8	32.1	32.1	32.4	32.8	32.7	32.6
Government	7.4	5.5	3.7	5.0	5.1	5.2	5.1	5.2	5.2
Private	29.4	23.1	27.1	27.1	27.0	27.3	27.7	27.5	27.4
Savings-Investment balance	-3.7	-1.0	3.1	0.5	-1.1	-1.2	-0.9	-0.9	-0.8
Government	-14.7	-11.9	-9.6	-8.4	-6.0	-5.3	-4.8	-4.5	-4.4
Private	11.0	10.9	12.8	8.8	4.9	4.1	3.9	3.6	3.6
Public finance (in percent of GDP)									
Revenue and grants	8.3	8.4	11.1	13.6	15.1	15.3	15.4	15.4	15.4
Expenditure	20.0	18.6	19.4	20.9	20.3	19.9	19.5	19.2	19.2
Primary balance	-5.7	-3.7	0.6	1.0	2.3	2.3	2.3	2.3	2.3
Central government balance	-11.7	-10.2	-8.3	-7.3	-5.2	-4.6	-4.1	-3.8	-3.8
Central government gross financing needs	31.0	34.1	27.8	24.9	23.7	20.5	16.6	13.1	11.9
Central government debt	102.7	115.9	109.8	108.8	108.4	108.3	106.6	103.2	100.1
Public debt 2/	114.8	126.3	115.7	114.2	113.1	112.5	110.2	106.5	103.1

Money and credit (percent change, end of period)									
Reserve money	35.4	3.3	-1.5	18.8	11.0	8.5	8.5	8.3	8.3
Broad money	13.2	15.5	7.3	14.9	10.4	8.5	8.5	8.3	8.3
Domestic credit	19.5	18.8	-1.2	9.3	3.6	2.5	2.3	2.4	6.7
Credit to private sector	13.1	6.4	-0.8	7.2	9.2	9.3	9.5	9.4	9.3
Credit to private sector (adjusted for inflation)	7.2	-38.8	-18.2	0.2	3.4	4.0	4.3	4.3	4.3
Credit to central government and public corporations	26.5	31.1	-1.6	11.0	-0.9	-3.4	-4.7	-5.5	3.2
Balance of Payments (in millions of U.S. dollars)									
Exports	12,499	13,106	11,911	12,913	13,624	14,261	14,903	15,591	16,384
Imports	-20,638	-18,291	-16,811	-20,059	-22,565	-23,706	-24,362	-25,255	-26,363
Current account balance	-3,285	-744	2,644	412	-926	-1,031	-804	-819	-840
Current account balance (in percent of GDP)	-3.7	-1.0	3.1	0.5	-1.1	-1.2	-0.9	-0.9	-0.8
Current account balance net of interest (in percent of GDP)	-2.1	0.1	4.3	2.8	1.3	1.1	1.5	1.6	1.5
Export value growth (percent)	24.4	4.9	-9.1	8.4	5.5	4.7	4.5	4.6	5.1
Import value growth (percent)	28.5	-11.4	-8.1	19.3	12.5	5.1	2.8	3.7	4.4
Gross official reserves (end of period)									
In millions of U.S. dollars	3,139	1,898	4,387	5,605	7,174	9,262	13,466	15,105	15,286

In months of prospective imports of goods & services	2.0	1.2	2.4	2.7	3.3	4.1	5.8	6.2	6.3
In percent of ARA composite metric	24.7	16.3	37.8	47.9	58.6	73.1	100.2	108.7	108.5
Usable Gross official reserves (end of period) 3/									
In millions of U.S. dollars	1,565	462	2,951	4,169	7,174	9,262	13,466	15,105	15,286
In months of prospective imports of goods & services	1.0	0.3	1.6	2.0	3.3	4.1	5.8	6.2	6.3
In percent of ARA composite metric	12.3	4.0	25.4	35.6	58.6	73.1	100.2	108.7	108.5
External debt (public and private)									
In billions of U.S. dollars	58.4	57.4	52.7	53.6	55.6	58.0	62.3	64.0	65.8
As a percent of GDP	65.9	77.0	62.5	61.1	64.4	65.7	68.5	67.2	65.0
Memorandum items:									
Nominal GDP (in billions of rupees)	17,612	24,064	27,630	30,917	33,958	36,839	39,959	43,287	46,869
Exchange Rate (period average)	198.8	322.6	327.5	…	…	…	…	…	…
Exchange Rate (end of period)	200.4	363.1	323.9	…	…	…	…	…	…

Sources: Data provided by the Sri Lankan authorities; and IMF staff estimates.

1/ Colombo CPI.
2/ Comprising central government debt, publicly guaranteed debt, and CBSL external liabilities (i.e., Fund credit outstanding and international currency swap arrangements). The debt statistics currently assume the external debt restructuring to have been completed at end 2023.
3/ Excluding PBOC swap ($1.4bn in 2022) which becomes usable once GIR rise above 3 months of previous year's import cover.

[1] SDR figures are converted at the market rate of U.S. dollar per SDR on the day of the Board approval.

[2] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.