

# PRESS RELEASE

✉ Communications Department, 30, Janadhipathi Mawatha, Colombo 01, Sri Lanka

☎ +94 11 2477424 / +94 11 2477669 📠 +94 11 2346304

@ communications@cbsl.lk / dcommunications@cbsl.lk 🌐 www.cbsl.gov.lk



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CENTRAL BANK OF SRI LANKA

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An International Monetary Fund (IMF) Mission led by Senior Mission Chief Mr. Peter Breuer visited Sri Lanka from July 25 to August 2, 2024, to discuss recent macroeconomic developments and progress in implementing economic and financial policies under Sri Lanka's economic reform program supported by the IMF's Extended Fund Facility (EFF) arrangement. The Mission issued the following statement, which can be accessed from the link below.

<https://www.imf.org/en/News/Articles/2024/08/02/pr24298-sri-lanka-imf-staff-concludes-visit>

## IMF Staff Concludes Visit to Sri Lanka

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.

- *The economic reforms implemented by the Sri Lankan authorities have continued to support the recovery with three consecutive quarters of real GDP growth, low inflation, increased revenue collection, and a build-up of external reserves.*
- *Decisive progress on the reform agenda is necessary to ensure a broad-based and stable economic recovery benefitting all of Sri Lanka's people.*
- *Progress in meeting key commitments under the IMF-supported program will be formally assessed in the context of the third review of the Extended Fund Facility (EFF) arrangement.*

**Sri Lanka, Colombo – August 2, 2024:** An International Monetary Fund (IMF) mission team led by Senior Mission Chief Mr. Peter Breuer visited Sri Lanka from July 25 to August 2, 2024, to discuss recent macroeconomic developments and progress in implementing economic and financial policies under the authorities' economic reform program supported by the IMF's Extended Fund Facility (EFF) arrangement.

At the end of the mission, Mr. Breuer issued the following statement:

“The economic reform program implemented by the Sri Lankan authorities is yielding commendable outcomes. The recovery continues with real GDP posting three consecutive quarters of expansion, and growth accelerating to 5.3 percent year-on-year in the first quarter of 2024. Inflation remains contained below the Central Bank of Sri Lanka's (CBSL) 5 percent target and domestic borrowing rates have declined. Gross international reserves increased by US\$ 1.2 billion during the first half of

2024 and reached US\$ 5.6 billion. Fiscal revenue collections increased during the same period. Going forward, these improvements need to translate into better living conditions for all of Sri Lanka's people.

“With Sri Lanka's knife-edged recovery at a critical juncture, sustaining the reform momentum and ensuring timely implementation of all program commitments are critical to cement the hard-won economic progress to date and put the economy on a firm footing. Maintaining macroeconomic stability and restoring debt sustainability require further efforts to raise fiscal revenues. The 2025 Budget needs to be underpinned by appropriate revenue measures and continued spending restraint so as to reach the medium-term primary balance objective of 2.3 percent of GDP—a key requirement for restoring Sri Lanka's debt sustainability. The planned relaxation of import restrictions on motor vehicles will support revenue mobilization in 2025. Tax administration reforms could further improve compliance, including by establishing a properly functioning VAT refund system for exporters by April 2025. Any proposed measure eroding the fiscal position needs to be offset by compensating measures of high quality. Avoiding new tax exemptions will not only reduce corruption risks and fiscal revenue leakages, but also ensure a more predictable and transparent tax system. Continuing to maintain energy prices at cost-recovery levels is critical to avoid potential fiscal costs. Protecting the poor and the vulnerable through improved targeting and better coverage of cash transfers remains critical. Policy slippages could jeopardize the recovery.

“The recent parliamentary approval of two key pieces of legislation—the Public Financial Management Act and the Public Debt Management Act—is a milestone that will improve fiscal discipline and prudent debt management, bolstering transparency and accountability. Developing a holistic debt management strategy and establishing a well-structured and integrated Public Debt Management Office will help lower the government's financing risks.

“Inflation has been well-contained. Monetary policy should remain prudent and prioritize the anchoring of inflation expectations. Maintaining price stability also hinges on safeguarding CBSL's independence. Continued reserve accumulation and exchange rate flexibility remain key priorities.

“The recent amendments to the Banking Act and the related implementing regulations will help safeguard financial stability. To allow the financial sector to contribute to economic growth, the authorities need to ensure the banking sector is adequately capitalized.

“The recently formulated National Anti-corruption Agenda, building on the authorities' earlier governance action plan, is a welcome step. A steadfast implementation of governance reforms outlined in the Governance Diagnostic Report, prioritizing near-term commitments under the EFF program, is critical to addressing corruption risks and promoting a break from past policy missteps. Ensuring an enabling environment for governance reforms is key to bolstering public confidence and facilitating implementation of these important efforts.

“The authorities have made commendable progress with putting debt on a path towards sustainability. The execution of the domestic debt restructuring and finalizing the agreements with the Official Creditor Committee and China EXIM Bank are major milestones. IMF staff assessed the “Joint Working Framework” announced at the conclusion of the second round of restricted discussions with the bondholder committee and have provided this assessment to the authorities

and, on their request, the financial advisors of the bondholders. We encourage a swift resolution of the remaining steps to achieve debt sustainability and regain investor confidence. We will continue to support Sri Lanka's ongoing debt restructuring efforts.

"Progress in meeting key commitments under the IMF-supported program will be formally assessed in the context of the third review of the EFF. The timing of the third review will be discussed with the government after the recently announced presidential elections.

"The IMF team held meetings with President and Finance Minister Ranil Wickremesinghe, Central Bank of Sri Lanka Governor Dr. P. Nandalal Weerasinghe, Secretary to the Treasury Mr. K M Mahinda Siriwardana, and other senior government and CBSL officials. The IMF team also met with Parliamentarians, representatives from the private sector, civil society organizations, and development partners.

"We would like to thank the authorities for the excellent collaboration during the mission and reaffirm our commitment to support Sri Lanka for a full and inclusive economic recovery."