



## IMF – EFF STAFF LEVEL AGREEMENT ON THE COMBINED 5<sup>TH</sup> AND 6<sup>TH</sup> REVIEW

### FLASH NOTE

## IMF REACHES STAFF-LEVEL AGREEMENT ON THE COMBINED 5<sup>TH</sup> AND 6<sup>TH</sup> REVIEW UNDER SRI LANKA'S EXTENDED FUND FACILITY ARRANGEMENT

### Overview

The International Monetary Fund (IMF) and the Sri Lankan authorities have reached a staff-level agreement on the policies required to complete the combined 5<sup>th</sup> and 6<sup>th</sup> Review of Sri Lanka's reform program under the Extended Fund Facility (EFF). Upon approval by the IMF Executive Board, the country will gain access to approximately USD 700Mn in financing, bringing the total IMF financial support disbursed under the arrangement to SDR 1,778Mn (about USD 2.4Bn).

### IMF Executive Board approval would be contingent on:

1. The restoration of cost-recovery electricity and fuel pricing while protecting the vulnerable.
2. The completion of the financing assurances review, to confirm multilateral partners' financing contributions and assess adequate progress with debt restructuring.

### Recap of events that transpired leading to a postponement of the original 5<sup>th</sup> review

The 5<sup>th</sup> Review initially reached staff-level agreement on 09-Oct-2025, with key prior actions including parliamentary approval of the 2026 Budget in line with program targets, completion of financing assurances, and continued progress on debt restructuring, alongside reforms in revenue mobilization, energy pricing, and SOE governance. This staff level agreement was to render a total of USD 347Mn in financing to Sri Lanka.

However, the review was **subsequently deferred** following the impact of Cyclone Ditwah, which struck Sri Lanka on 28-Nov-2025, and created significant humanitarian, fiscal, and Balance of Payments (BOP) pressures. The disaster resulted in widespread infrastructure damage, displaced over 230,000 individuals according to the World Health Organization, and generated urgent reconstruction needs, prompting the IMF to provide emergency financing of **c.USD 206Mn under the Rapid Financing Instrument (RFI)**.

Given the scale of the shock and the need to reassess macroeconomic conditions and program parameters, the IMF deferred completion of the 5<sup>th</sup> Review to allow time for impact assessment and policy recalibration, with discussions resuming in early 2026.

### Key Reasons for Postponement:

- **Cyclone Ditwah impact:** Following Cyclone Ditwah, the IMF executive board approved emergency funding under the Rapid Financing Instrument (RFI) to address rehabilitation requirements, causing the IMF to prioritize this over the fifth review.
- **Shift in policy priority:** IMF focus temporarily shifted from program review completion to crisis response and stabilization efforts.
- **Fiscal slippages and recalibration:** The additional expense, along with the government's shift to a 2026 budget, meant that the previously agreed upon staff-level agreement (expected to conclude in Dec-2025) needed revisions to accommodate the higher spending.
- **Need for impact assessment:** Additional time was required to fully assess the macroeconomic and BOP impact of the disaster before proceeding with the review.

The current **combined 5<sup>th</sup> and 6<sup>th</sup> Review** therefore reflects a consolidation of pending program assessments, supported by: improved macroeconomic performance, continued reserve accumulation, stronger fiscal outturns, and progress in debt restructuring, enabling Sri Lanka to realign with the IMF program trajectory.



It was further highlighted that in order to obtain IMF Executive Board approval Sri Lanka should:

- Restore and maintain **cost-recovery fuel and electricity pricing**, while ensuring targeted support for vulnerable groups.
- Complete the financing assurances review and demonstrate adequate progress in debt restructuring, including finalization of remaining bilateral agreements.
- Strengthen revenue mobilization through **improved tax compliance, broadening the tax base, and minimizing leakages**, while maintaining **prudent expenditure management**.
- Enhance **public financial management** and ensure transparent, well-targeted, and time-bound fiscal support, particularly in response to exogenous shocks.
- Continue to protect vulnerable groups by improving the targeting, adequacy, coverage, and responsiveness of social safety nets.
- Maintain **monetary policy independence** with a data-dependent approach to safeguard price stability, including avoiding monetary financing.
- Rebuild external buffers through **reserve accumulation** while allowing **exchange rate flexibility**.
- Safeguard **financial sector stability** by resolving non-performing loans, promoting sound credit growth, and addressing vulnerabilities in smaller finance companies.
- Advance governance and structural reforms, including strengthening anti-corruption frameworks, ensuring independence of oversight institutions, and improving legislation on SOEs, PPPs, procurement, and public asset management.

#### Commentary on program performance so far:

“Sri Lanka’s ambitious reform agenda continues to deliver commendable outcomes. The economy grew by **5%YoY** in 2025. Inflation has returned to positive territory and rebounded to **2.2%YoY** in March, and gross official reserves reached **USD 7Bn** in end-March 2026. Fiscal performance in 2025 was strong, primarily supported by **taxes on motor vehicle imports**. Debt restructuring is nearing completion, with the **successful completion of Sri Lankan Airlines’ debt exchange** and further progress in finalizing remaining bilateral agreements.”



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