



IMF – EFF STAFF LEVEL AGREEMENT ON THE 7TH REVIEW

FLASH NOTE

IMF REACHES STAFF-LEVEL AGREEMENT ON THE 7TH 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 economic policies required to conclude the 7th Review of Sri Lanka's reform program under the Extended Fund Facility (EFF), and have concluded the 2026 Article IV Consultation discussions. Upon approval by the IMF Executive Board, the country will gain access to **SDR 254Mn (about USD 345Mn)** in financing. This brings the total IMF financial support disbursed under the arrangement to SDR 2,032Mn (about USD 2.7Bn), out of the total EFF of SDR 2.3Bn (about USD 3.0Bn) approved on 20-Mar-2023.

IMF Executive Board approval would be contingent on:

1. The presentation by the Minister of Finance to Parliament of the 2027 Budget, in line with program parameters.
2. The completion of the financing assurances review, to confirm multilateral partners' financing contributions and assess adequate progress with debt restructuring.

Recap of program progress since the combined 5th and 6th review

The combined 5th and 6th Review reached staff-level agreement on 09-Apr-2026. It merged the original 5th Review, which had been deferred in order to **reassess the macroeconomic conditions and program parameters following Cyclone Ditwah**, with the 6th Review. The IMF Executive Board subsequently completed the review in May 2026, unlocking an immediate disbursement of **USD 695Mn** and bringing total IMF support under the program to approximately **USD 2.4Bn**.

Sri Lanka **met all end Dec-2025 quantitative targets**, though some conditions on external arrears and import restrictions were missed. The IMF also allowed **temporary fiscal easing in 2026** for reconstruction, with a commitment to return to the primary surplus target from 2027.

Key changes in the 7th review and risks ahead

Compared with the previous review, the Board-approval condition has shifted from energy pricing to the **2027 Budget**. This mirrors the original 5th Review, which was tied to the 2026 Budget. Energy pricing remains central, but it is now framed around passing through international fuel price movements arising from the **war in the Middle East**.

Key Risks Highlighted by the IMF:

- **Middle East war:** Uncertainty over the duration and intensity of the conflict tilts risks to the downside. It could pass through to domestic fuel prices and cause second-round inflationary effects.
- **Global trade policy:** Uncertainty surrounding global trade policy remains a further external headwind.
- **El Niño:** The potential impact of El Niño adds a further source of downside risk.
- **Shock-prone environment:** Safeguarding stability requires continuing with prudent policies and bold reforms to protect the hard-won gains of the program.

The 7th Review therefore reflects **continued program delivery and resilience to successive shocks**. It also signals that energy pricing, fiscal support and monetary policy will need active management if the Middle East war is protracted.

Key IMF policy recommendations highlighted in order to obtain IMF Executive Board approval:

- Allow domestic fuel prices to adjust in line with international fuel price movements and preserve **cost-recovery** energy pricing while protecting the vulnerable.
- Ensure any support is **well-targeted, on budget, carefully costed and time-bound**, to avoid jeopardizing fiscal and debt sustainability, eroding confidence and reversing the recovery.
- Leverage **poverty-targeted cash transfers** and intensify efforts to improve the coverage, targeting and responsiveness of **social safety nets**.
- Keep **monetary policy** ready to tighten in the event of stronger second-round inflationary effects that may arise from the Middle East war, to mitigate the risk of expectations becoming de-anchored.
- Develop and implement a **medium-term revenue strategy** to sustain revenue mobilization, enhance the efficiency and fairness of the tax system, and provide policy certainty to investors.
- Strengthen **public investment** management to address bottlenecks in capital spending execution, including to accelerate Cyclone Ditwah-related recovery and reconstruction.
- Allow greater **exchange rate flexibility** to absorb shocks and support **reserve accumulation**.
- Preserve the integrity of the **anti-corruption** legislative framework to enhance public trust.
- Create an **enabling environment for growth** by liberalizing trade, modernizing business and labor regulations, broadening access to finance, advancing digital public infrastructure and closing infrastructure gaps.

IMF Commentary on program performance so far:

“Sri Lanka’s economy has proved remarkably resilient to successive shocks. Economic activity expanded by **4.2%YoY** in 2Q2026, marking **eleven** consecutive quarters of strong growth. At **8.0%YoY** in September, headline inflation remains in single digits. Gross official reserves have increased, reaching **USD 6.9Bn** at end-August 2026. Banks remain well capitalized and profitable. Fiscal outturn in 1H2026 was strong and debt restructuring is largely completed.”



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