



IMF: 2nd REVIEW

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IMF PROGRAM STATUS

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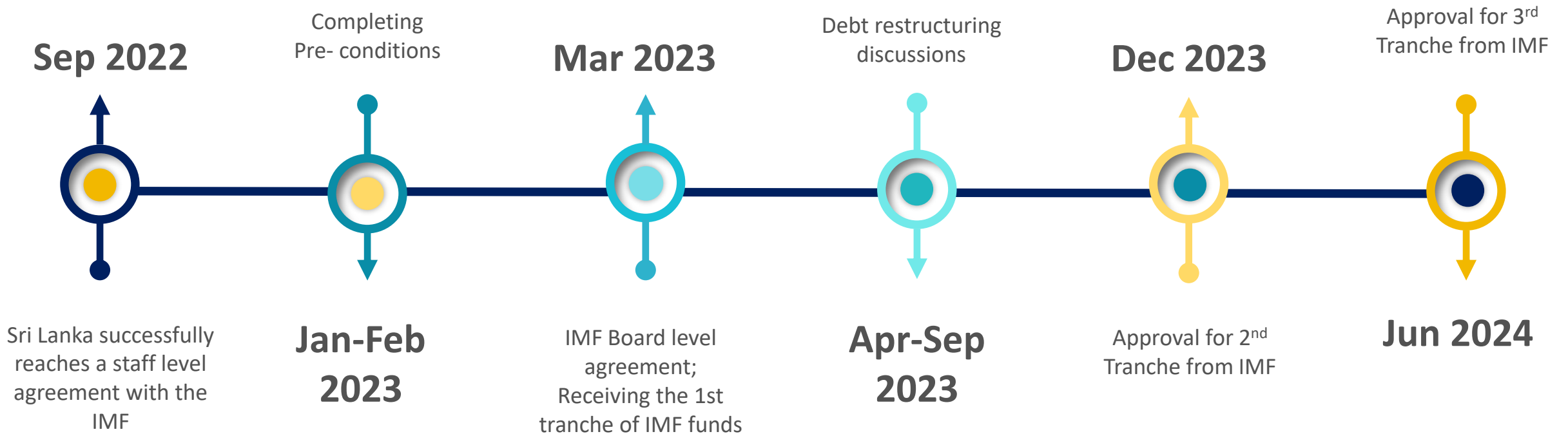
- IMF completed the Second Review under the 48-month Extended Fund Facility (EFF) for Sri Lanka on June 12, 2024
- About USD 336.0Mn will be disbursed under the 3rd tranche, bringing the total disbursed to around USD 1.0Bn, to date
- Total amount of Sri Lanka's EFF is about USD 3.0Bn as of the IMF approval on Mar 20, 2023

3rd Tranche
USD 336.0Mn

→

Total Disbursed
USD 1.0Bn

IMF Timeline



Note: The IMF timeline has consistently aligned with the projections made by First Capital Research, and as expected, the approval for the 3rd tranche occurred in mid Jun 2024.

Key Takeaways – 2nd Review

1

Debt Treatments and Sustainability

Calls for strengthening of:

- Macroeconomic policies to restore stability and growth
- Debt management framework

- Finalization of the MoU with official creditors and final agreements with China Exim Bank

2

Reform Priorities for Swift Recovery

Emphasis on prioritizing key reforms:

- i. Liberalization of trade
- ii. Improvement of SOE governance and efficiency
- iii. Reduction of gender gaps in the labor market
- iv. Mitigation of climate vulnerabilities
- v. Reduction of corruption vulnerabilities
- vi. Electricity sector reforms

3

Revenue-Based Fiscal Consolidation

Calls for:

- Maintaining a sustainable primary balance path, supported by revenue mobilization

- Furthering tax reforms and limiting tax exemptions

- Introduction of imputed rental income tax

4

External Buffers and Price Stability

Maintenance of price stability by:

- Anchoring inflation expectations
- Refraining from monetary financing
- The gradual unwinding of government security holdings

Building external buffers by:

- Maintaining exchange rate flexibility
- Strengthening CBSL independence

5

Financial Sector Stability

Calls for:

- Completion in restructuring of domestic law, foreign currency loans, and recapitalization of commercial and state-owned banks

- Securing of revenue overperformance from 2023

- Strengthening of anti-money laundering and counter-terrorism financing framework

6

Social Safety Net (SSN) and Social Spending Protection

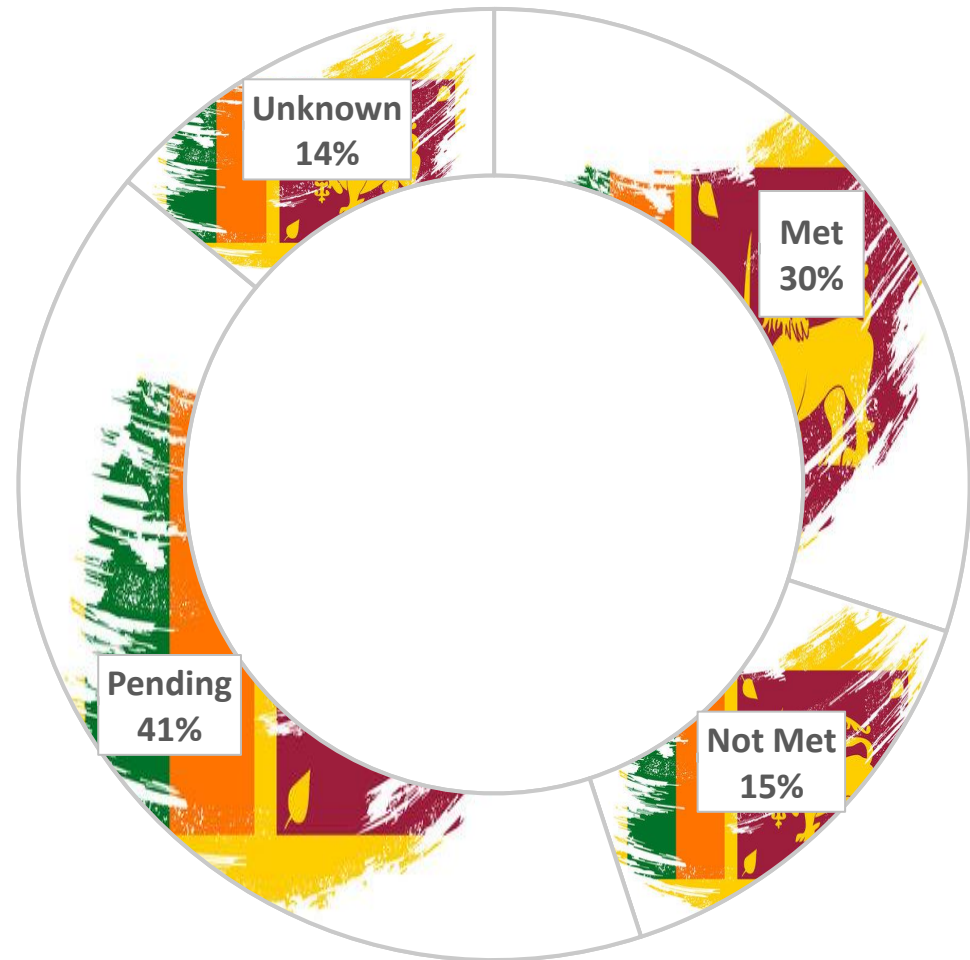
Calls for:

- Protecting social spending and improving the social safety net

- Continuation of SSN reforms to protect the poor from the adverse effects of the crisis

IMF Tracker

- As of May 2024, Sri Lanka has met 30 out of 100 IMF commitments and has failed to meet 15 IMF commitments



Source: Manthri

IMF TARGETS

IMF Targets (2024/2025)

	DATE	STATUS
NEWLY PROPOSED AND REFORMULATED		
Submission to Parliament of revenue measures to support fiscal consolidation	End-Jun 2024	Pending
Parliamentary approval of revenue measures to support fiscal consolidation in 2025	End-Jul 2024	Pending
Operationalize the BSTA to determine cost-recovery based electricity tariff and government transfer requirement	End-Jun 2024	Pending
Collect information from a representative sample of 5,000 standard properties	End-Aug 2024	Pending
Obtain cabinet approval of an (IT) strategic plan to deliver RAMIS version 3.0	End-Aug 2024	Pending
Obtain a cabinet approval of the repayment schedule of CEB's legacy debts, starting in April 2025	End-Dec 2024	Pending
Establish and fully operationalize a digital SPRR that is accessible by IRD, the land registry, and public	End-Mar 2025	Pending
Completion of the recapitalization for two largest State-owned banks; restructure CPC FX loans	End-Aug 2024	Pending
Completion of the recapitalization for private sector banks	End-Dec 2024	Pending
Establish Public Debt Management Agency (PDMA)	End-Dec 2024	Pending
Develop implementation plans to launch a program of anti-corruption measures in revenue departments	End-Aug 2024	Pending
Publish a strategic plan for the CIABOC with IMF Consultation	End-Oct 2024	Pending
Submission to parliament amendments to the SDP Act, with IMF technical assistance	End-Feb 2025	Pending

IMF Targets (2024/2025)

	DATE	STATUS
FISCAL, SOE, AND SOCIAL SAFETY NET REFORMS		
Cabinet approval of revenue measures for fiscal consolidation during 2024	End-Jul 2023	Not met
Completion of the rollout of the ITMIS	End-Sep 2023	Not met
Improve the Bulk Supply Transaction Account (BSTA) to accurately measure the electricity subsidy	End-Dec 2023	Not met; Reformulated
Submission to Parliament of a new Public Financial Management (PFM) law	End-Feb 2024	Not met (prior action for the second review)
Cabinet approval of revenue measures to support fiscal consolidation during 2025	End-Sep 2024	Not Met; Reformulated to end-June 2024
FINANCIAL SECTOR		
Cabinet approval of a full revision of the Banking Act	End-Jun 2023	Not Met; Reformulated (In Progress)
Implementation of the amendments to the Banking Act	End-Mar 2024	Not met; Expected for June 2024
GOVERNANCE		
Enact new anti-corruption legislation and integrate it with the UN Convention Against Corruption	End-Jun 2023	Not Met; Implemented with delay in July, lacks transparency
Enact Asset Recovery Law to integrate with the UN Convention Against Corruption	End-Apr 2024	Not Met; Reprogrammed End-Nov 2024

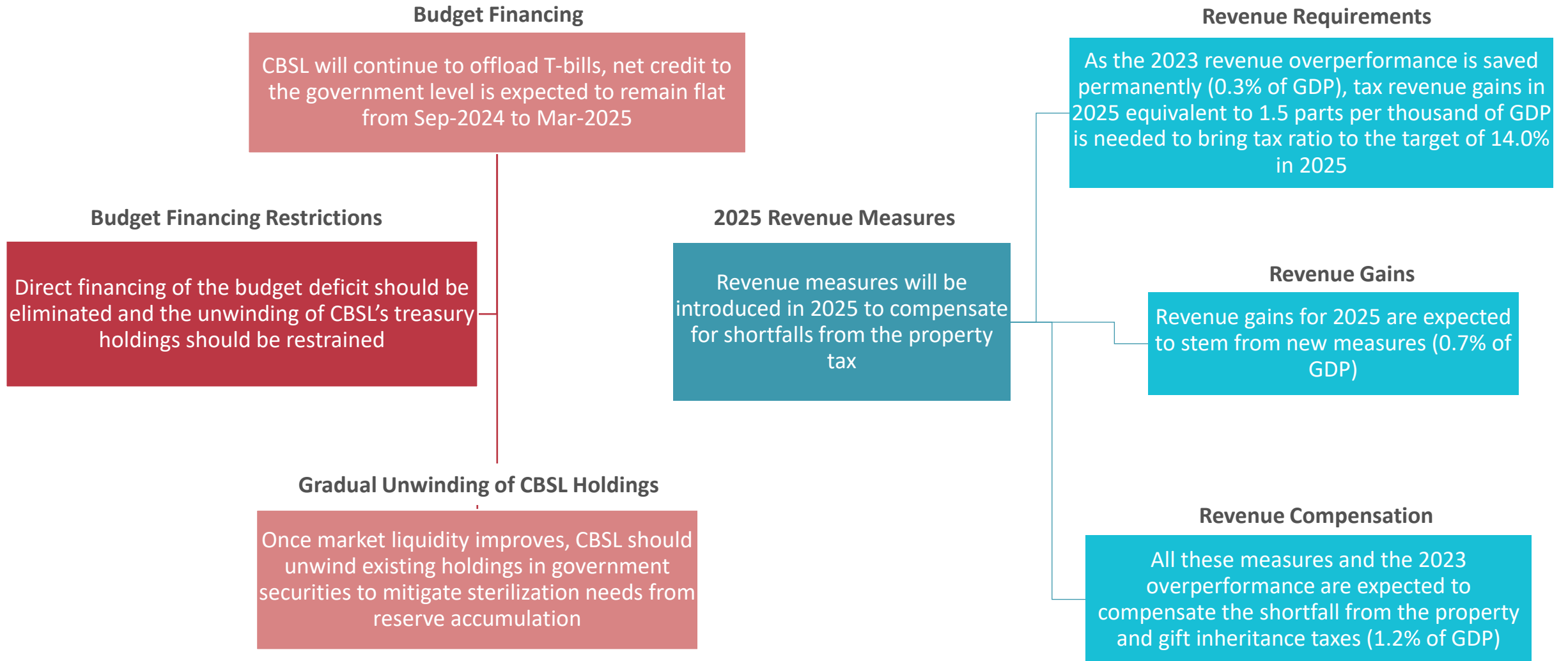
IMF PROGRAM PERFORMANCE

IMF PROGRAM PERFORMANCE

- Program performance at end-December 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

			Targets		Actual/Preliminary		Status
Quantitative Performance Criteria (QPC)							
Primary Balance (floor):							
End-Dec 2023	LKR	-209.0Bn		LKR	173.0Bn	Met	
Expenditure Arrears (ceiling):							
End-Dec 2023		0			0	Met	
Tax Revenue (floor):							
End-Mar 2024	LKR	750.0Bn		LKR	837.0Bn	Met	
Net credit to the government (ceiling):							
End-Dec 2023	LKR	2,800.0Bn		LKR	2,742.0Bn	Met	
Net International Reserves (floor):							
End-Dec 2023	USD	-2.4Bn		USD	-2.2Bn	Met	
Initial Target (IT)							
Primary Balance (floor):							
End-Mar 2024	LKR	70.0Bn		LKR	316.0Bn	Met	
Expenditure Arrears (ceiling):							
End-Mar 2024		0			-	-	
Tax Revenue (floor):							
End-Dec 2023	LKR	2,550.0Bn		LKR	2721.0Bn	Met	
Net credit to the government (ceiling):							
End-Mar 2024	LKR	2800.0Bn		LKR	2,691.0Bn	Met	
Net International Reserves (floor):							
End-Mar 2024	USD	-2.0Bn		USD	-1.4Bn	Met	

IMF PROGRAM PERFORMANCE



IMF PROPOSED CONDITIONS

Proposed Conditions To Strengthen IMF Program

1. To revise targets for end-June 2024—Net International Reserves
2. New quantitative targets for end-Sep 2024 (SBs)
3. New SBs for parliamentary approval of revenue measures for the 2025 budget
4. New IT ceiling on FX guarantees as of Sep 2024

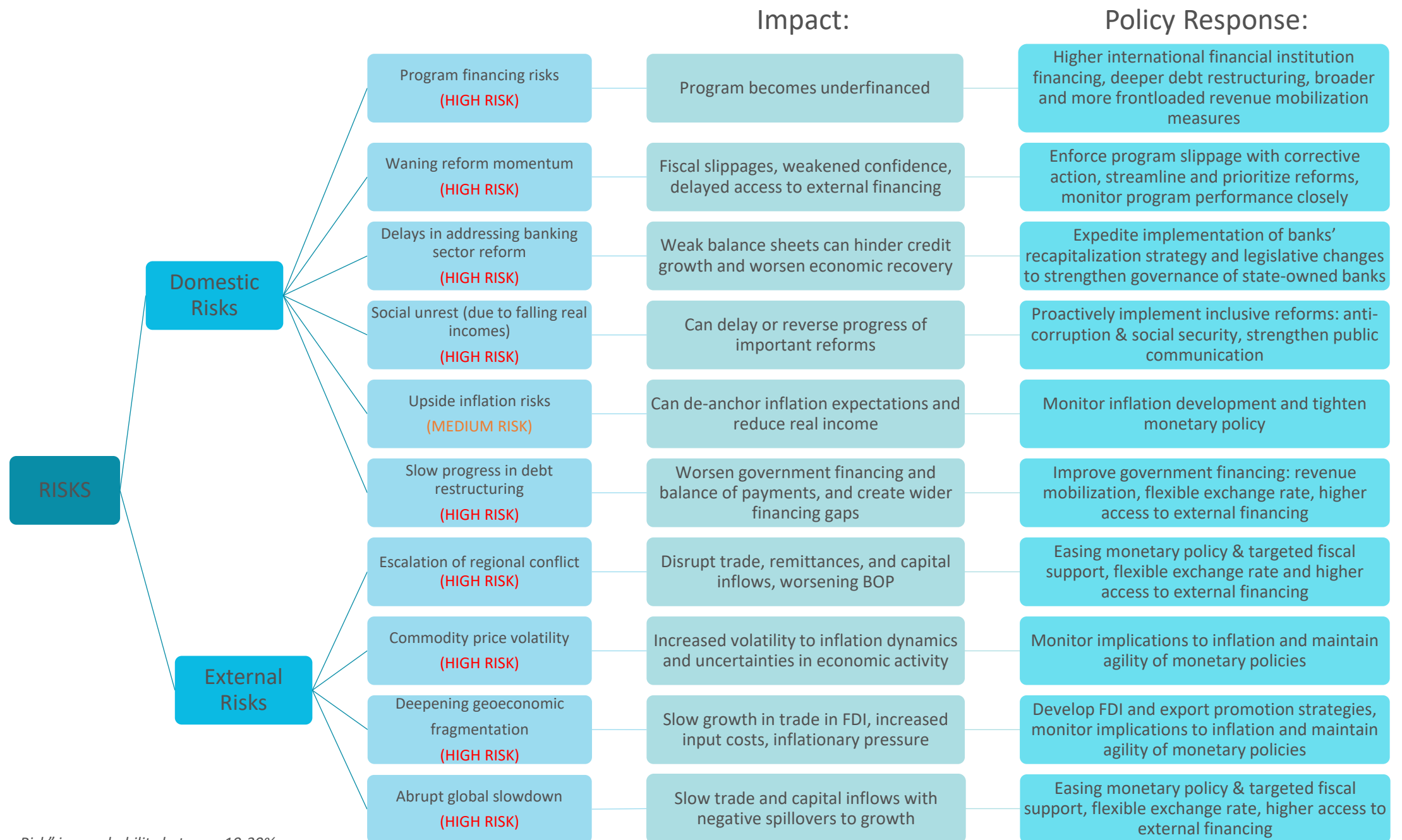
External Financing Gap and Program Financing, 2022-2027
(in millions of US dollars)

	2022	2023	2024	2025	2026	2027	Total 2022-27
Financing Gap (A)	-2,834	-5,670	-4,621	-4,800	-3,206	-4,400	-25,532
Program Financing (B)	<u>2,834</u>	<u>5,670</u>	<u>4,621</u>	<u>4,800</u>	<u>3,206</u>	<u>4,400</u>	<u>25,532</u>
IMF EFF	0	678	679	682	683	342	3,064
IFI program financing support	<u>0</u>	<u>1,220</u>	<u>768</u>	<u>740</u>	<u>558</u>	<u>550</u>	<u>3,836</u>
World Bank*	0	570	368	270	258	250	1,716
ADB	0	650	400	470	300	300	2,120
Other	0	0	0	0	0	0	0
Debt moratorium: external arrears accumulation	2,834	3,772	0	0	0	0	6,606
Debt relief	0	0	3,174	3,378	1,965	2,008	10,526
Sovereign bonds (market access)	0	0	0	0	0	1,500	1,500
Shortfall (A+B)	0	0	0	0	0	0	0
Memorandum:							
Gross International Reserves	1,898	4,387	5,605	7,174	9,262	13,466	
Project loans	1,473	680	1,000	1,556	1,603	1,651	

Source: CBSL and IMF Staff Projections

* World Bank CY 25-27 figures are indicative as WB CPF will be reviewed in FY 2025, and the size of IDA 21 is unknown.
An additional \$135 million disbursement from the WB on deposit insurance is not included in program financing, as it will be ringfenced.

IMF PROGRAM RISKS & POLICY RESPONSE



Note: “Medium Risk” is a probability between 10-30% and “High Risk” is a probability between 30-50%

Capacity to Repay the Fund

- There is a financial risk arising from:
 - i. Lower reserve accumulation
 - ii. Financing shortfall from external partners
 - iii. Difficulties in issuing longer term bonds
 - iv. Adverse effects from restructuring domestic FX debt; high interest burden
 - v. Higher than expected bank and CBSL recapitalization needs
 - vi. Lower tax revenue collection
- Fund credit outstanding would peak at 3.2% of GDP in 2027, corresponding to 13.4% of exports of goods and services and 22.5% of gross reserves
- EFF repurchases and charges would peak in 2031, at 2.5% of exports of goods and services and 3.8% of gross reserves



IMF PROGRAM POLICY RECOMMENDATIONS

Policy Recommendations

FISCAL POLICY

Sustained revenue mobilization, finalization of debt restructuring, protection of priority spending, enhancement of fiscal discipline and SOE reforms

ANTI-CORRUPTION AND GOVERNANCE REFORMS

Steadfast implementation of governance reforms in revenue collection and tax policy

MONETARY AND EXCHANGE RATE POLICY

Price stability, prohibition of monetary financing, safeguarding CBSL independence, exchange rate flexibility, phasing out of BOP

STRUCTURAL POLICY

Trade liberalization, labor reforms, SOE reforms, promotion of a level playing field for the private sector, mitigation of climate vulnerabilities

FINANCIAL POLICY

Restoration of bank capital adequacy, increased governance of state-owned banks

IMF OUTLOOK

Economy Outlook 2024

Projected Growth



2.0%-2.7%

Real growth is anticipated to recover from -3.6% in 2023 to 2.0%-2.7% in 2024-25. Growth is constrained by limited bank credit, fiscal consolidation, and uncertainties around debt restructuring and the upcoming elections

Inflation



> 5 %

To exceed the 5.0% target in 2024 due to new fiscal measures and base effects before returning to target after the transitory effects dissolve

Current Account Balance



+

To remain positive in 2024, driven by improved tourist arrivals and remittances. This is expected to be partially offset by FX deposits abroad amid the absence of domestic dollar generating investment opportunities

Gross International Reserves



USD
5.6Bn

To reach USD 5.6Bn in 2024 (vs. USD 5.3Bn at the first review), following improved tourism and worker remittances

Sri Lanka: Economic Indicators (2023-2025)

	2023 (Prel.)	2024 (Proj.)	2025 (Proj.)
Nominal GDP Growth (%)	14.8%	11.9%	9.8%
Real GDP (%)	-2.3%	2.0%	2.7%
Inflation (end of period %)	4.0%	6.9%	5.5%
Public Debt (% of GDP)	115.7%	114.2%	113.1%
Credit to Private Sector (% change, end of period)	-0.8%	7.2%	9.2%
Credit to central government and public corporations	-1.6%	11.0%	-0.9%
Gross Official Reserves	USD 4,387.0Mn	USD 5,605.0Mn	USD 7,174.0Mn
External Debt	USD 52,700.0Mn	USD 53,600.0Mn	USD 55,600.0Mn
Current Account Balance	USD 2,644.0Mn	USD 412.0Mn	USD -926.0Mn
Primary Balance (% of GDP)	0.6%	1.0%	2.3%
Expenditure (% of GDP)	19.4%	20.9%	20.3%



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MANAGING RISKS”***

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