



Brighter prospects ahead of the 3rd review

Event Update

CURRENT PROGRESS

- **Recap of the 2nd review:** With the successful completion of the 2nd review under the 48-month Extended Fund Facility on the 12th Jun-24, Sri Lankan authorities received access to USD 336.0Mn which was disbursed under the 3rd tranche, bringing the total disbursed amount to around USD 1.0Bn, to date. Following the completion of the above, the country awaits for the 3rd review, followed by the 4th tranche.
- **Recent visit to Sri Lanka:** An International Monetary Fund (IMF) mission team led by Senior Mission Chief Mr. Peter Breuer visited Sri Lanka from Jul 25th to Aug 2nd 2024, to discuss recent macroeconomic developments, implementation and progress of the economy and the financial policies under the IMF's External Fund Facility (EFF) arrangement.
- **Recovery through sustained growth:** The economic reforms implemented by the government has continued to support the country's post crisis recovery with three consecutive quarters of real GDP growth, low inflation, increased revenue collection, and a build-up of external reserves,
 - ✓ **Recovery in GDP:** The GDP displayed continuous recovery for three consecutive quarters whilst displaying a growth of 5.3%YoY during 1Q2024 compared to the contraction of 10.7%YoY during 1Q2023
 - ✓ **Deceleration in Inflation:** Inflation remains below the 5.0% target, as latest CCPI inflation was recorded at 2.4% for Jul-24 compared to 6.3% during Jul-23
 - ✓ **Deterioration of borrowing rates:** The country has been able to maintain domestic borrowing rates at a lower level with AWPR broadly remaining below the 9.0% territory during Jul-24.
 - ✓ **Increased reserves:** Gross international reserves increased by USD 1.2Bn during 1H2024 and reached USD 5.6Bn
 - ✓ **Increased revenue collection:** Fiscal Revenue collection too witnessed an increase during the same period where the IMF board commended "satisfactory" in terms of the positivity surrounding the country's macro environment.

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FUTURE OUTLOOK AND EXPECTATIONS

- **Debt sustainability:** In aid of maintaining the reforms in a positive momentum in a guaranteed timely execution, the External debt restructuring (EDR) plays a crucial role upon finalization which is yet to be announced paving the way to achieve debt sustainability and regain investor confidence.
- **Budget Financing Restrictions:** The 2025 Budget needs to be underpinned by appropriate revenue measures and continued spending restraints to reach the medium-term primary balance objective of 2.3% of GDP which will be important to restore the country's debt sustainability.
- **Relaxation of import restrictions:** The planned relaxation of import restrictions on motor vehicles is anticipated to support revenue mobilization in 2025E.
- **Revenue-Based Fiscal Consolidation:** Reforms in tax administration is anticipated to enhance compliance, particularly by setting up an effective VAT refund system for exporters by Apr-25 whilst further improving compliance measures.
- **Reform Priorities for Swift Recovery:** Maintaining energy prices at cost recovery levels will be essential to prevent possible fiscal burdens, this will safeguard the poor and vulnerable.
- **Enhancing Accountability through legislations:**
 - ✓ The recent parliamentary approval of two key pieces of legislation namely, the Public Financial Management Act and the Public Debt Management Act will further bolster transparency and accountability creating a just debt management strategy in the coming years
 - ✓ The recent changes to the Banking Act and the associated regulations are set to enhance financial stability, enabling the financial sector to better support economic growth
 - ✓ The recently formulated National Anti-corruption Agenda will access in addressing corruption risk and breaking the past policy missteps which will bolster public confidence in the country's regulatory system.

The long-awaited 3rd review of the Extended Fund Facility will be announced after thorough discussions with the government, and the recently announced presidential election. This review is expected to benefit the country with access to another USD 336.0Mn which will bring the total funds received to around USD 1.4Bn to date.

As of Jun-24, Sri Lanka has fulfilled 43.0% of its IMF commitments, with the remaining 57.0% either pending, unmet, or unknown. Despite this, the IMF board has acknowledged the country's progress as 'satisfactory,' setting the stage for a potentially positive outcome in the upcoming third review.



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