



First Capital
A Janashakti Group Company

IMF – EFF STAFF LEVEL AGREEMENT ON THE 5TH REVIEW

FLASH NOTE

IMF REACHES STAFF-LEVEL AGREEMENT ON THE 5TH 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 Fifth 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 347Mn in financing, bringing the total IMF financial support disbursed under the arrangement to SDR 1,524Mn (about USD 2.04Bn).

IMF Executive Board approval would be contingent on:

1. Parliamentary approval of the 2026 Appropriation Bill 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.

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

- ✓ The **2026 Budget should align with program parameters** by strengthening revenue through improved tax compliance, a broader tax base, and reduced leakages via tighter exemption frameworks.
- ✓ **Enhance public financial management** to prevent expenditure arrears and promote efficient, high-quality spending, particularly by **addressing under-execution in capital projects**.
- ✓ **Maintain cost-recovery energy pricing and strengthening the governance of state-owned enterprises**, including resolving legacy debts.
- ✓ Ensure that the upcoming legislation on public-private partnerships, SOEs, procurement, and asset management aligns with the Public Financial Management Act and adhere to international best practices.
- ✓ Protecting the poor and vulnerable should remain a key priority, with opportunities to enhance the welfare benefit payment scheme to improve targeting, adequacy, and overall coverage of social spending.
- ✓ **Central bank independence should be maintained**, including by avoiding monetary financing of the budget.
- ✓ **Efforts should continue to rebuild external buffers** through reserve accumulation while maintaining exchange rate flexibility.
- ✓ **Accelerate governance reforms**, including procurement improvements, AML/CFT enhancements, anti-corruption measures, digitalization, and **safeguard the independence of Commission to Investigate Allegations of Bribery or Corruption (CIABOC)**.

Commentary on program performance so far:

“Program performance is strong, underpinned by good fiscal revenue outcomes and improvements in external resilience. The reform momentum should be sustained to safeguard macroeconomic stability and enhance Sri Lanka’s resilience to shocks. This is particularly important given heightened downside risks to the economy from persistent trade policy uncertainty and geopolitical tensions.”



First Capital
A Janashakthi Group Company

First Capital Holdings PLC

No.2, Deal Place,
Colombo 3

Tel: +94 11 2145 000
Fax: +94 11 2145 050

RESEARCH

Dimantha Mathew	+94 11 2639 853	Akna Tennakoon	+94 11 2639 866
Ranjan Ranatunga	+94 11 2639 863	Dilhari Dias	+94 11 2639 866
Shahana Kanagaratnam	+94 11 2639 866	Manusha Kandanaarachchi	+94 11 2639 866
		Salaama Sanoon	+94 11 2639 866

GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Arun Kandasamy	+94 75 4861 506
Anushka Dissanayake	+94 77 2220 021		
Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

Tharusha Ekanayake	+ 94 77 7 809 154
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EQUITY SALES

CEO	Jaliya Wijeratne	+94 71 5329 602	Equity Branches		
Colombo			Negombo	Priyanka Anuruddha	+94 77 4546 070
Isuru Jayawardana	+94 76 7084 953			Priyantha Wijesiri	+94 77 9065 779
Nishantha Mudalige	+94 77 3204 929		Jaffna	Gratian Nirmal	+94 77 4510 000
Anushka Buddhika	+94 71 4310 600				
Thushara Pathiraja	+94 77 0076 314		Agents		
Dayan Fernando	+94 77 7354 081		Colombo	Kithsiri Jayasinghe	+94 77 7790 657
Anjelo LaBrooy	+94 77 7546 645		Anuradhapura	Amila Luwishewa	+94 71 0628 195
Dillon Lowe	+94 76 6160 647		Galle	Nuwan Abeynayake	+94 77 7288 274
Evelyn John	+94 77 779 2452		Kandy	Ajith Ihalawatta	+94 77 8477 530
Yudheshan Kannadasan	+94 77 415 5809		Embilipitiya	Ruwan Wanniarachchi	+94 77 3877 734
Yumeth Samarakoon	+94 72 4444 135				
Amash Ranasinghe	+94 77 7820 168				

UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799
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BRANCHES

Kandy	Kurunegala	Matara	Negombo
CSE Branch Office, No. 88, Dalada Veediya, Kandy 20000.	No.174/B2, Negombo Road, Kurunegala. Kurunegala 60000.	CSE Branch Office, 1st Floor, E.H.Coaray Tower, No.24, Anagarika Dharmapala Mawatha, Matara 81000.	Colombo Stock Exchange Negombo Branch Office, No. 72 A, 2/1, Old Chilaw Road, Negombo 11500.
Manager: Salinda Samarakoon	Manager:	Manager: Rohana Jayakody	Manager:
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 4937 072

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