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PRESS RELEASE NO. 22/295



## IMF Staff Reaches Staff-Level Agreement on an Extended Fund Facility Arrangement with Sri Lanka

September 1, 2022

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

- IMF staff and the Sri Lankan authorities have reached a staff-level agreement to support Sri Lanka's economic policies with a 48-month arrangement under the [Extended Fund Facility](https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/56/Extended-Fund-Facility) (<https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/56/Extended-Fund-Facility>) (EFF) of about US\$2.9 billion.
- The objectives of Sri Lanka's new Fund-supported program are to restore macroeconomic stability and debt sustainability, while safeguarding financial stability, protecting the vulnerable, and stepping up structural reforms to address corruption vulnerabilities and unlock Sri Lanka's growth potential.
- Debt relief from Sri Lanka's creditors and additional financing from multilateral partners will be required to help ensure debt sustainability and close financing gaps. Financing assurances to restore debt sustainability from Sri Lanka's official creditors and making a good faith effort to reach a collaborative agreement with private creditors are crucial before the IMF can provide financial support to Sri Lanka.

**Colombo, Sri Lanka – September 1, 2022:** An International Monetary Fund (IMF) mission led by Mr. Peter Breuer and Mr. Masahiro Nozaki visited Colombo from August 24 to September 1, 2022 to continue discussions on IMF support for Sri Lanka and the authorities' comprehensive economic reform program.

At the end of the mission, Messrs. Breuer and Nozaki issued the following statement:

"The Sri Lankan authorities and the IMF team have reached staff-level agreement to support the authorities' economic adjustment and reform policies with a new 48-month Extended Fund Facility (EFF) with a requested access of about SDR

2.2 billion (equivalent to US\$2.9 billion).

“The new EFF arrangement will support Sri Lanka’s program to restore macroeconomic stability and debt sustainability, while safeguarding financial stability, reducing corruption vulnerabilities and unlocking Sri Lanka’s growth potential. The agreement is subject to the approval by IMF management and the Executive Board in the period ahead, contingent on the implementation by the authorities of prior actions, and on receiving financing assurances from Sri Lanka’s official creditors and making a good faith effort to reach a collaborative agreement with private creditors. Debt relief from Sri Lanka’s creditors and additional financing from multilateral partners will be required to help ensure debt sustainability and close financing gaps.

“Sri Lanka has been facing an acute crisis. Vulnerabilities have grown owing to inadequate external buffers and an unsustainable public debt dynamic. The April debt moratorium led to Sri Lanka defaulting on its external obligations, and a critically low level of foreign reserves has hampered the import of essential goods, including fuel, further impeding economic activity. The economy is expected to contract by 8.7 percent in 2022 and inflation recently exceeded 60 percent. The impact has been disproportionately borne by the poor and vulnerable.

“Against this backdrop, the authorities’ program, supported by the Fund, would aim to stabilize the economy, protect the livelihoods of the Sri Lankan people, and prepare the ground for economic recovery and promoting sustainable and inclusive growth.

“Key elements of the program are:

- Raising fiscal revenue to support fiscal consolidation. Starting from one of the lowest revenue levels in the world, the program will implement major tax reforms. These reforms include making personal income tax more progressive and broadening the tax base for corporate income tax and VAT. The program aims to reach a primary surplus of 2.3 percent of GDP by 2025.
- Introducing cost-recovery based pricing for fuel and electricity to minimize fiscal risks arising from state-owned enterprises. The team welcomed the authorities’ already announced substantial revenue measures and energy pricing reforms;
- Mitigating the impact of the current crisis on the poor and vulnerable by raising social spending, and improving the coverage and targeting of social safety net programs;
- Restoring price stability through data-driven monetary policy action, fiscal consolidation, phasing out monetary financing, and stronger central bank autonomy that allow pursuing a flexible inflation targeting regime. A new Central Bank Act is a cornerstone of this strategy;
- Rebuilding foreign reserves through restoring a market-determined and flexible exchange rate, supported by the comprehensive policy package under the program;
- Safeguarding financial stability by ensuring a healthy and adequately capitalized banking system, and by upgrading financial sector safety nets and regulatory standards with a revised Banking Act; and
- Reducing corruption vulnerabilities through improving fiscal transparency and public financial management, introducing a stronger anti-corruption legal framework, and conducting an in-depth governance diagnostic, supported by IMF technical assistance.

“The IMF team held meetings with President and Finance Minister Ranil Wickremesinghe, Prime Minister Dinesh Gunawardena, Central Bank of Sri Lanka Governor Dr. P. Nandalal Weerasinghe, Secretary to the Treasury K M Mahinda Siriwardana, and other senior government and CBSL officials. It also met with Parliamentarians, representatives from the private sector, civil society organizations and development partners.

“We would like to thank the authorities for their candid approach and warm hospitality and are looking forward to continuing our engagement in support of Sri Lanka and its people.”

#### REFERENCE:

Sri Lanka country page <https://www.imf.org/en/Countries/LKA> (<https://www.imf.org/en/Countries/LKA>)

IMF Office in Sri Lanka <https://www.imf.org/en/Countries/ResRep/LKA> (<https://www.imf.org/en/Countries/ResRep/LKA>)

IMF Lending <https://www.imf.org/en/About/Factsheets/IMF-Lending> (<https://www.imf.org/en/About/Factsheets/IMF-Lending>)

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