

IMF Concludes Second Extended Fund Facility Review with Sri Lanka**Key highlights****Report date: 13.06.2024**

The IMF Executive Board completed the 2024 Article IV Consultation and the Second Review under Sri Lanka's 48-month Extended Fund Facility, granting the country immediate access to SDR 254 million (approximately US \$336 million) to support its economic policies and reforms. While performance under the program has been strong, with all quantitative targets for end-December 2023 met except for the indicative target on social spending, and most structural benchmarks due by end-April 2024 met or implemented with delay, the economy remains vulnerable with a precarious path to debt sustainability. The Article IV Consultation emphasized the importance of sustaining reform momentum and debt restructuring efforts to achieve lasting recovery and debt sustainability, focusing on macroeconomic stability, price stability, financial stability, rebuilding external buffers, and implementing growth-oriented structural reforms, including improved governance.

About the disbursement

The IMF Executive Board concluded the 2024 Article IV Consultation and Second Review under the Extended Fund Facility (EFF) for Sri Lanka, enabling the country to access SDR 254 million (approximately US\$336 million). This brings the total financial support provided by the IMF under this arrangement to SDR 762 million (about US\$1 billion). The EFF arrangement, approved in March 2023, allocates a total of SDR 2.286 billion (about US\$3 billion) to support Sri Lanka's economic reforms and policies.

Sri Lanka's performance so far

Sri Lanka's performance under the IMF-supported program has been strong, meeting all quantitative targets for end-December 2023 except for a minor shortfall in social spending. Structural benchmarks were largely met or implemented with delays. Key economic indicators show signs of recovery: real GDP grew by 3% year-on-year in the second half of 2023, inflation was low at 0.9% in May 2024, and gross international reserves increased to US\$5.5 billion by end-April 2024. Tax revenue also improved to 9.8% of GDP in 2023, contributing to a primary balance surplus.

Challenges to be faced

Despite positive developments, Sri Lanka's economy remains vulnerable with a precarious path to debt sustainability. The ongoing debt restructuring process, revenue mobilization, reserve accumulation, and banking sector stability present significant risks. The medium-term growth outlook is cautious, with uncertainties surrounding the debt restructuring, policy direction post-elections, and potential external shocks from regional conflicts, commodity price volatility, and a global economic slowdown.

Areas to further improve

To ensure lasting recovery, Sri Lanka must sustain reform momentum and enhance macroeconomic policies. Key areas for improvement include finalizing debt restructuring, increasing revenue through tax reforms, safeguarding social and capital spending, and enhancing public financial management. Strengthening central bank

independence and maintaining price stability are crucial. Additionally, reforms in trade liberalization, investment climate, state-owned enterprise efficiency, labor market gender gaps, and climate vulnerability mitigation are essential for unlocking long-term growth potential.

Summary of key indicators

	Preliminary			Projections					
	2021	2022	2023	2024	2025	2026	2027	2028	2029
Key indicators									
Real GDP growth	4.2%	-7.3%	-2.3%	2.0%	2.7%	3.0%	3.1%	3.1%	3.1%
Nominal GDP growth	12.6%	36.6%	14.8%	11.9%	9.8%	8.5%	8.5%	8.3%	8.3%
Inflation (average)	6.0%	45.2%	17.4%	7.0%	5.8%	5.4%	5.2%	5.1%	5.0%
Savings and investment (in percent of GDP)									
Savings-Investment balance	-3.7%	-1.0%	3.1%	0.5%	-1.1%	-1.2%	-0.9%	-0.9%	-0.8%
Government	-14.7%	-11.9%	-9.6%	-8.4%	-6.0%	-5.3%	-4.8%	-4.5%	-4.4%
Private	11.0%	10.9%	12.8%	8.8%	4.9%	4.1%	3.9%	3.6%	3.6%
Public finance (in percent of GDP)									
Government revenue and grants	8.3%	8.4%	11.1%	13.6%	15.1%	15.3%	15.4%	15.4%	15.4%
Primary balance	-5.7%	-3.7%	0.6%	1.0%	2.3%	2.3%	2.3%	2.3%	2.3%
Central government gross financing needs	31.0%	34.1%	27.8%	24.9%	23.7%	20.5%	16.6%	13.1%	11.9%
Central government debt	102.7%	115.9%	109.8%	108.8%	108.4%	108.3%	106.6%	103.2%	100.1%
Money and credit (percent change, end of period)									
Credit to private sector	13.1%	6.4%	-0.8%	7.2%	9.2%	9.3%	9.5%	9.4%	9.3%
Credit to central government and public corporations	26.5%	31.1%	-1.6%	11.0%	-0.9%	-3.4%	-4.7%	-5.5%	3.2%
External sector									
Current account balance (in percent of GDP)	-3.7%	-1.0%	3.1%	0.5%	-1.1%	-1.2%	-0.9%	-0.9%	-0.8%
Gross official reserves (USD Mn)	3,139	1,898	4,387	5,605	7,174	9,262	13,466	15,105	15,286
In months of prospective imports of goods & services	2.0	1.2	2.4	2.7	3.3	4.1	5.8	6.2	6.3
External debt as a percent of GDP	65.9%	77.0%	62.5%	61.1%	64.4%	65.7%	68.5%	67.2%	65.0%

Source: IMF

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