

SRI LANKA UPDATE | 2- 8 SEPTEMBER 2022

Politics & Policy:

The US to support Sri Lanka's debt restructuring: The U.S. Treasury Secretary Janet Yellen, has [assured](#) her country's support toward Sri Lanka's debt restructuring and extended financing efforts including future discussions with the IMF, other U.S. government agencies, the World Bank and the Asian Development Bank.

Sri Lanka's Paris Club creditors ready to [engage](#) in debt talks: The Grouping consisting of mainly Western creditors has noted the IMF's assessment of the need for a debt treatment process and reiterated its willingness to coordinate with non-Paris Club official bilateral creditors to provide the necessary financing assurances to ensure fair burden sharing. IMF Mission Chief Peter Breuer has [stressed](#) that without assurances from those countries, the Fund's money cannot be disbursed. Further, he noted that the IMF is not part of the negotiations between Sri Lanka and the creditors, adding that it remains neutral.

China will be a [key factor](#) in deciding the timing of the IMF's loan disbursement: Although China has agreed to help Sri Lanka through the crisis, no commitments were given for any debt restructuring plan, China has instead proposed a refinancing strategy. Experts opine that a delay in debt restructuring by China could compel the Government to decide to restructure local rupee-denominated bonds.

IMF deal remains undisclosed: The recently agreed upon staff level agreement between Sri Lanka and the IMF is yet to be [disclosed](#) and discussed in Parliament. Critics charged that representatives elected by the people should agree on whether the public can bear the impact of the conditions mentioned in the agreement. The Central Bank Governor insists that information will be [publicized](#) at the time of implementation given the presence of market-sensitive information in the program.

Sri Lanka seeks a US \$ 6 billion [fuel credit line](#) from Saudi Arabia: The Government has initiated discussions with the Saudi government last week seeking a five-year credit line of US \$ 6 billion for the supply of fuel on a Government to Government basis.

The Ceylon Electricity Board (CEB) is to be reformed. A framework to [reform](#) the State-run institution is expected to be developed and presented to the Cabinet for Ministers in a month. Reforming State Owned Enterprises (SOEs), including the CEB, has been discussed extensively in Parliament last week during the debate on the interim budget.

37 State Ministers [appointed](#): The swearing-in of 37 State Ministers was held on 8th August at the Presidential Secretariat. Notably, a majority of the MPs represent Sri Lanka Podujana Peramuna Party which is presently the governing Party.



The Economy:

Fitch Ratings Agency cautions risk of Sri Lanka defaulting on local bonds: Fitch Ratings's 'CCC' rating on long-term local currency debt that was affirmed in May "reflects a high risk that local-currency debt will be included in debt restructuring". According to experts, local currency debt needs to be restructured too in order to reach what the IMF would see as sustainable levels. The agency perceives public support for the government as "weak," and anticipates risks to reforms from political instability.

A surging tax could take sales tax over 22 per cent: According to Opposition MP and economist Harsha de Silva, A 2.5 per cent cascading turnover tax that is set to be legislated may take sales taxes over 22 per cent. A turnover tax is set to be charged on some businesses with larger turnover. Previously, VAT was raised to 15 per cent following the finalization of the staff-level agreement with the IMF.

Sri Lanka foreign reserves at US\$1.7bn in August: It is reported that most of the remaining gross reserves are from a swap line from the People's Bank of China and with borrowed reserves from deferred payments to India under the Asian Clearing Union. The Central Bank of Sri Lanka continues to intervene in the market to ensure stability.

Poverty spreads among the employed: According to the Census and Statistics report of the year 2022, 70% of those engaged in employment are receiving a salary of less than Rs 62,000 per month, which is the minimum salary to escape poverty.

WHAT YOU NEED TO KNOW



International apparel firms continue to expand production capacities in Sri Lanka: The [Prym Group](#) is in the process of investing in machinery and training for its local teams, in preparation for expanding its footprint and enhancing the company's production capacity in Sri Lanka.

Fuel requirements and distribution mechanisms were [reviewed](#): The Power and Energy Minister stated that fuel requirements for September and October and fuel distribution were reviewed with the Ceylon Petroleum Corporation and the Ceylon Petroleum Storage Terminals on 3rd September. The Minister had previously affirmed that the recent increase in fuel queues are a result of distribution lapses and reiterated that there are sufficient fuel stocks in the country.

Decline in GSP-plus utilisation by exporters: The Department of Commerce (DoC) [reports](#) that exports are not heavily dependent on the GSP+ concessions. According to the DoC, the apparel sector's utilisation rate stands at 51.75 per cent. The low cost is attributed to the cost of compliance with the stringent Rules of Origin criteria (ROOs) which outweighs the benefit of the tariff concessions.

Disclaimer – This advisory is intended for circulation among JAAF stakeholders only. Please do not circulate or share on social media.

This twenty-third Advisory, written for our partners interested in developments in Sri Lanka against the backdrop of the current crisis, is an update on the one issued last week. This document summarises developments covering significant political and economic events.

The Advisory includes economic, political, social and governance perspectives. It draws on news reports, analyses, government announcements and documents, and other sources that we may be in contact with or have access to.

*This Advisory was prepared by the Strategic Communications Unit of Adfactors PR Lanka.
For inquiries, contact ganidhu.w@adfactorspr.com*