

SRI LANKA UPDATE | 26 AUGUST – 1 SEPTEMBER 2022

Politics & Policy:

IMF staff-level agreement [reached](#) – The agreement was reached on 31st August for a 48-month Extended Fund Facility (EFF) with requested access for SDR 2.2 billion (equivalent to US\$2.9 billion). The agreement is subject to the approval of IMF management and the Executive Board. The Ministry of Finance has [announced](#) meeting creditors over the next few weeks to update them on economic development and the agreed-upon reform package with the IMF. The agreement is considered an indication of the Government's commitment to implement necessary reforms which are reflected in the proposed interim budget currently being debated in Parliament.

Japan to organise a Sri Lanka [creditors' conference](#) - President Wickremesinghe is expected to discuss this with Japan's Prime Minister next month when he is expected to attend the funeral of former Premier Shinzo Abe.

Formation of a [National Council](#) - During a meeting held on 29th August, Prime Minister Dinesh Gunawardena called on all political parties to expedite the formation of the National Council.

Governing Party [MP's defect to the Opposition](#) - Thirteen MPs of the Sri Lanka Podujana Peramuna (SLPP) including Dallas Alahapperuma (a candidate in the recent Presidential Election) have decided to sit among the opposition MPs in Parliament. According to SLPP Chairman GL Peiris, who also defected, the Government was not making progress toward the pledges given to the people by the SLPP.

The Asian Development Bank approves US\$ 200 mn [loan](#) - The ADB has approved an emergency assistance loan for Sri Lanka, with funds repurposed from other ongoing ADB projects, to improve food security and protect the livelihoods of the vulnerable. The ongoing economic situation has resulted in a record 90 per cent food inflation.

The Economy:

The Government's proposals under the [interim budget](#) - The interim budget has set the path for prioritizing the consolidation of public spending.

- Proposals include the expansion of Value Added Tax to 15 per cent, to identify spending of higher income earners whilst safeguarding low-income earners by exempting items like essential foods.
- Broader public sector fiscal consolidation will also be attempted via state enterprise privatization and reform, a separate department has been created for this purpose. Notably, the Ceylon Petroleum Corporation will be restructured and Sri Lankan Airlines will be privatized. Further, selling large State Owned Enterprises is planned to reduce debt-to-GDP levels and bring back debt sustainability.
- Additionally, nine new [laws](#) are expected to be introduced to stabilize the economy and facilitate the growth process.
- Parliamentary Debates on the interim budget began on 30th August and will continue until 2nd September.

Plans to de-politicise the Central Bank – President Wickremesinghe plans to implement a new Central Bank Act as a key legislation to strengthen the monetary sector. The new law will be enacted to insulate the Central Bank from the politicization of monetary policy decisions.

Sri Lanka manages imports without bridge financing - Following the August monetary policy decision on 28th August, Central Bank Governor Nandalal Weerasinghe stated that the Government is able to continue importing goods without bridge financing as the balance of payments was corrected given the decline in private credit.

Inflation rates continue to rise – According to State statistics, Sri Lanka's inflation in the 12- months to August 2022 accelerated to 64.3 per cent in August from 60.8 per cent in July. Further to this, the Colombo Consumer Price Index grew 2.5 per cent during the month to 235.8 points from 230.1 points and food prices rose 93.7 per cent in the 12 months to August.

WHAT YOU NEED TO KNOW



Import controls are temporary - The Central Bank Governor has indicated that the recent import controls are temporary and can be removed when the external situation improves. The latest import bans, especially on machine parts and some industrial items have caused concern. Subject matter experts have recommended reversing the ban as it would hurt small businesses which are already badly hit and create distortions in the economy

Sri Lanka's merchandise exports continue to grow - Merchandise exports have sustained the growth momentum in July, increasing 2.25% to an all-time high of \$ 1.28 billion propelling the first seven months' performance by 12% to over \$ 7.6 billion. This growth has been largely attributed to the apparel and textiles sector, underscoring the resilience of the private sector-led industry.

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This twenty-second 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.

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