

SRI LANKA UPDATE | 14 - 20 OCTOBER 2022

Politics & Policy:

Sri Lanka will remain a middle-income country. Following mixed sentiments about the Cabinet's approval to voluntarily downgrade Sri Lanka's income status, the IMF issued a statement saying that Sri Lanka will remain a [middle-income country](#). Instead, Sri Lanka will seek a 'reverse graduation' with the International Development Association (IDA) to access concessional financing for its development programmes.

Sri Lanka is seeking a long-term credit line with Russia to ensure continued access to fuel. The Government believes such a [credit line](#) arrangement will establish some energy security via sufficient fuel supply at a reasonable price. In the coming months, it could also help minimise the burden on government expenditure stemming from fuel imports.

Japan is endeavouring to organize a [meeting](#) of Sri Lanka's creditors by the end of 2022. The objective is to swiftly identify measures to reduce debt payments and postpone repayment deadlines, among other related steps. Additionally, the [IMF](#) is working with other multilateral lenders on financing programs for Sri Lanka, while discussions continue with the WB and ADB to secure additional funding.

The [Cabinet's decision](#) to approve the establishment of a Secretariat for the People's Council was received positively by many political groups. The Secretariat is expected to strengthen participatory democracy, which is one of the demands made during the protests against the previous government in response to the current economic crisis. The Secretariat is a mechanism to assess public opinion for public policy formulation and implementation; community participation paving the way for political stability.

Sri Lanka will proceed with the new tax regime. The President has [expressed](#) his Government's willingness to discuss the background of the issues related to the proposed tax reforms. He emphasised the need to increase the country's income from 8.5% to 14.5% of the GDP, as securing income is vital to controlling the dramatic rise of inflation. This challenging task is expected to be achieved by 2026.

The Economy:

Parliament passed a bill liberalizing the petroleum sector. The Petroleum Products Special Provision Amendment [Bill](#) will give global suppliers an opportunity to access Sri Lanka's retail petroleum market. The Bill eliminates the Ceylon Petroleum Corporation's monopoly on jet fuel and enables outsourcing of the importation, supply and distribution of fuel to a wider market. This is expected to achieve long-term energy security which is vital for economic stability.

The outlook for the private sector over the next 12-18 months will be mixed. Fitch, the [rating agency](#), reports that significant cost inflation will affect demand and profitability, import restrictions may disrupt operations, and high-interest rates raise risks facing domestic corporates. Most rated corporates posted strong revenue growth and expanding margins in the quarter that ended June 2022; however, rising inventory costs and operating cost increases are expected to pose a significant challenge and will make costs for consumers steeper.

The Cabinet has approved raising the [debt ceiling](#) to address the widening budget deficit. This will help pay for the cost of government, among other expenses such as salaries, pensions, and interest payments while settling billions of rupees in arrears owed to contractors of state-funded projects. New borrowing is considered necessary to maintain essential services; regaining economic stability and preserving social safety net programmes remain essential, given that a majority of the population is in financial distress.

WHAT YOU NEED TO KNOW

Apparel exports continue to defy expectations of a slowdown. In September 2022, total apparel exports increased by 4.89% compared to September 2021. Exports to the EU increased by 15.71% in September 2022; exports to the UK also increased by 3.51% and exports to other countries increased by 12.93%.

	2021	2022	2021/2022 Change %
	US\$ Mn	US\$ Mn	
Total Exports	430.43	451.46	4.89
US	194.04	186.27	- 4.00
EU (Excl. the UK)	122.31	141.52	15.71
UK	54.75	56.67	3.51
Other	59.33	67.00	12.93

The government's insistence on the importance of export-oriented industries continues. Another [consultation](#) was held with business leaders representing export businesses across different segments of the apparel industry to gather insights, identify new opportunities and address challenges in engaging in international trade. Government officials affirm their commitment to assisting the private sector in realizing their economic and trade objectives.

JAAF continues to advocate for Free Trade Agreements. JAAF is actively [accelerating](#) engagements with senior Government and Foreign Ministry officials to expedite negotiations on FTAs that will help boost exports and strengthen the apparel industry's position as a critical component in the global supply chain. FTAs are necessary to reduce barriers, gain easier access to foreign markets and enable exporters to be more competitive.

The Katunayake Export Processing Zone received an honourable mention in fDi's Global Free Zones of the Year 2022 for reinvestment strategy. The zone has [focused](#) on attracting additional investments from existing companies, and four out of the thirty-three large firms in the EPZ have pledged investments totalling \$26.5 million that could create 1000 new employment opportunities.

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

This twenty-ninth 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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