

## SRI LANKA UPDATE | 28 OCTOBER – 3 NOVEMBER 2022

### Politics & Policy:

**Public approval of the government is growing.** According to a national [poll](#) conducted by Verité Research, the government's approval rating has risen to 10% in October in comparison to the 3% in June 2022. However, the public's confidence in the condition and trajectory of the economy remains negative.

**The debt restructuring process is making progress.** A [meeting](#) between the IMF and Sri Lanka's creditors will be held on November 3rd. The government has taken steps toward realising IMF conditions which include reforms such as implementing progressive taxes, minimize fiscal risks arising from state-owned enterprises and attempts to curtail corruption.

**Bangladesh is in discussions with the IMF for an Enhanced Funding Facility programme (EFF).** Their proactive [approach](#) to discussing a prospective \$4.5 billion IMF loan aims to ease pressure on its foreign reserves and maintain the ability to manage its debts. As a result, Bangladesh is expected to achieve debt restructuring before Sri Lanka. It is the third country after Pakistan and Sri Lanka to approach the IMF for an EFF programme, in addition to attempting to raise budget support from multilateral organisations including the World Bank. Bangladesh's economy is structurally similar to Sri Lanka, and both are dependent on the apparel sector for foreign exchange and have a low tax-to-GDP ratio. Its apparel sector exports continue to show [growth](#), despite facing challenges including rising fuel and energy costs. While the country asserts it is not in crisis, some experts disagree.

**Several court cases were filed against the Inland Revenue Bill.** A number of business associations among others have moved the [Supreme Court](#) against the government's intent to increase tax rates and tax revenue as it is expected to cause financial distress to professionals and the general public as well as weaken small and medium-scale businesses.

### The Economy:

**The government has set a target to raise revenues to [13 per cent](#) of GDP in 2023, from the current 8.5 per cent. [90 per cent](#) of the revenue is expected to be generated from taxes in line with the government's objective of 'making a transformative change via minimum inputs', in line with the 2023-2025 medium-term fiscal policy framework.**

**The government aims to boost reserves through the sale of state-owned enterprises.** Minimizing the fiscal risks of loss-making state-owned enterprises was a condition posed by the IMF, for Sri Lanka to receive the Extended Fund Facility. Under an IMF programme, foreign reserves are increased under a net international reserve target by curtailing domestic credit and reducing risks by [selling](#) domestic assets.

**High inflation continues to be a persistent problem.** However, in urban cities, inflation eases to 66 per cent in October, which is the first recorded decrease in 12 months. In recent weeks, the prices of certain essential commodities were revised after reductions in global commodities prices and the improvement in supply which is considered a positive sign of [inflation](#) easing over the coming months.



## WHAT YOU NEED TO KNOW

**The manufacturing sector contracting, but so far the apparel sector has not been impacted.** The [decline](#) is largely attributed to the diminishing purchasing power of the people and a weaker demand mainly due to the fear of recession in the major export destinations.

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*This thirty-first 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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