

SRI LANKA UPDATE | 17 - 24 MARCH 2023

The Economy:

[The IMF Executive Board approves USD 2.9 bn bailout package](#) - The IMF Board's approval represents a crucial step in resolving Sri Lanka's economic crisis. Sri Lanka has received the initial disbursement of USD 330 million from the EFF arrangement, which is anticipated to spur additional external funding from the World Bank, Asian Development Bank and other related funding organisations. The [reform programme backed by the EFF agreement is based on solid policy initiatives](#), with the following priorities.

- Stronger social safety nets, fiscal institutional changes and cost-recovery-based energy pricing are included in an ambitious revenue-based fiscal consolidation
- Re-establishing the viability of public debt, including debt restructuring to guarantee consistent funding of Governmental operations
- A multifaceted plan to recover reserves and bring back price stability
- Measures to protect the stability of the banking system
- Structural changes to improve growth and reduce corruption vulnerabilities

As part of the EFF assistance programme, the [IMF also announced that Sri Lanka would be the first nation in Asia to undergo a governance diagnostic study](#). The goal is to evaluate the extent of corruption, identify significant governance flaws and corruption vulnerabilities, and determine the adequacy of the framework and strategies for combating these.

[Moody's Analytics states that Sri Lanka has a difficult road ahead](#). The rating agency believes that the IMF support extended to Sri Lanka doesn't make it smooth sailing but rather poses a difficult road ahead, irrespective of how much funding it receives from multilateral and global financial agencies.

[Fuel prices to be updated on the 2018 Price Formula](#) - As per the agreement with the IMF for the EFF programme, the Government plans to set retail fuel prices to their cost recovery levels by implementing monthly formula-based adjustments. The Government will also compensate the Ceylon Petroleum Corporation for providing fuel subsidies with on-budget transfers.

[Sri Lanka's foreign reserves increase to USD 2.1 billion](#) - By February 2023, Sri Lanka's foreign reserves, which were at USD 1.7 billion in September 2022, increased 23.5 per cent to USD 2.1 billion, which is an increase of USD 400 million.

Politics & Policy:

[Cabinet approves new regulations issued under the Imports and Exports \(Control\) Act -](#) Parliament is expected to approve the Import and Export Control Rules for Payment Methods No. 04 and No. 05 of 2023, published in the Extraordinary Gazette Nos. 2320/46 and 2320/47 on February 22, 2023. The Cabinet Spokesman said the President, Ranil Wickremesinghe has already instructed the relevant ministries to ease import restrictions on a priority basis for the most impacted industries.

[Sri Lanka to link state sector wages and pensions to inflation -](#) President Wickremesinghe, announced the Government's intention to link state sector salaries and pensions to inflation after the nation's 12-month inflation rate increased above 70% in 2022. He stated that the country anticipates increasing salaries and wages linked to inflation as long as a primary deficit is maintained under the annual objectives of the International Monetary Fund (IMF) programme.

[India to support Sri Lanka in economic cooperation -](#) Sri Lanka's High Commissioner to India met with the Indian Minister of Finance and Corporate Affairs to explore Indian economic assistance and collaboration with Sri Lanka. The Extended Financial Facility (EFF) Agreement between Sri Lanka and the IMF has been realized due to the positive support extended by the Indian Government, which the Sri Lankan High Commissioner to India also acknowledged. Increasing bilateral commerce, notably through the development of the Indian Rupee trade and the increase in tourists to Sri Lanka, were also discussed.

[Sri Lanka - Pakistan trade ties to be made stronger -](#) The High Commissioner of Sri Lanka to Pakistan has proposed the formation of a working group between the two nations to encourage collaboration in the commercial, economic, tourist, political, and defence sectors. More collaboration on projects and encouraging intercultural exchanges between Sri Lanka and Pakistan would be conduits assisting in these ultimate objectives.

[Amendments to existing tax mechanisms envisaged -](#) President Wickremesinghe stated that the current taxation mechanism is under consideration and will be presented to the IMF during the first review of EFF programme in June. The Treasury is currently preparing amended proposals incorporating the views and expertise of intellectuals and economic experts.

WHAT YOU NEED TO KNOW



Sri Lanka Rupee (LKR) strengthens further through policy decisions by Central Bank of Sri Lanka (CBSL) - In recent weeks the LKR appreciation against the USD was seen as a sign of recovering economic stability in the country. According to Bloomberg, from January 2023 to the 15th of March 2023 the LKR has appreciated 13 percent against the USD. While the State Minister of Finance stated that the LKR strengthening is a result of various economic measures implemented by the Government including political stability, think tank Verite Research cautioned against the LKR volatility experienced with the rapid appreciation of the LKR. Hazarding risks for business and investments and calling the volatility an anathema to the economy, it said, “the most critical factor for economic stability and business confidence is exchange rate volatility rather than the rate or its appreciation.”

JAAF deems the UK DCTS highly beneficial for the apparel industry - With the **UK Department for International Trade visiting Sri Lanka** - the Sri Lanka Export Development Board (EDB) intends to take full advantage of the DCTS with the objective of locating prospective export markets for Sri Lanka to grow.

Under the Expanded Framework Preference Scheme, more than 6,000 product lines from Sri Lanka already have zero-tariff access to the UK market, and another 156 product lines will be added to the same list under UK DCTS. Sri Lanka will become more competitive to further develop in the UK market as a beneficiary nation under UK DCTS.

JAAF welcomes the UK DCTS announcement, confident that this will be the key to maintaining Sri Lanka’s foothold in the UK market.

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This 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 summaries 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 from other sources that we may be in contact with or have access to.

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