

SRI LANKA UPDATE | 19 - 25 MAY 2023

The Economy:

[The International Monetary Fund \(IMF\) states there are tentative signs of improvement in Sri Lanka](#) - The IMF stated that Sri Lanka is showing "tentative signs of improvement" notwithstanding the tough macroeconomic and policy environment as a whole. This comment comes at the conclusion of an IMF staff trip to Colombo, Sri Lanka, from May 11 to 23, headed by Peter Breuer and Masahiro Nozaki. The delegation discussed a range of subjects including recent economic developments and programme execution.

Releasing a statement following the visit, they said: "We talked about current macroeconomic and financial sector developments throughout the visit. The macroeconomic situation in Sri Lanka is tentatively showing indications of recovery after aggressive policy measures, with inflation lowering, the currency rate stabilizing, and the Central Bank establishing reserve buffers. The general macroeconomic and policy situation, however, continues to be difficult"

[Sri Lanka to complete domestic and external debt reworking by September](#) - President Ranil Wickremesinghe stated that the debt restructuring scheme will be finished by September 2023. He further clarified that Sri Lanka turned to the IMF because the country had nowhere else to turn, and added that discussions on restructuring both domestic and foreign debt will be finished by July or August 2023.

[European Union \(EU\) welcomes planned lifting of import restrictions](#) - The EU has applauded Sri Lanka's plans to offer a proposal for lifting import restrictions in June. This was raised during the Colombo meetings of the Sri Lanka-EU Joint Commission which just concluded. The Joint Commission evaluated the findings of the Working Group on Trade and Economic Cooperation at a virtually convened meeting.

The EU's statement noted that as the Sri Lankan Government did not have adequate dollar reserves on hand during the previous year's economic crisis, it had made the contentious choice to impose import restrictions. The EU expressed disapproval often, saying, "trade is not a one-way street." The EU has frequently urged Sri Lanka to avoid adopting trade measures that are protectionist as these are unfair to its trading partners since the limitations went into effect. The Government placed import restrictions on 3000 different products (HS codes), including beer, apparel, cosmetics and even spices like turmeric, which is a staple in many local kitchens.

[Sri Lanka's national inflation down to 33.6 per cent in April](#) - As credit was negative and the currency strengthened, Sri Lanka's overall inflation rate, as assessed by the National Consumer Price Index (NCPI), decline from 49.2 per cent to 33.6 per cent in April 2023. The NPCI index went from 204.8 points in March to 202.7 points in April, which is a 1 per cent decline.

[Travel improved further in Sri Lanka](#) - Sri Lanka had 489,319 tourist arrivals until the third week of May 2023, which averaged to over 100,000 arrivals every month. The Minister of Tourism noted that Sri Lanka could achieve the set target of two million tourists, while earning over USD 3 billion by year-end.

Beginning in [July, AirAsia will provide direct flights between Colombo, Sri Lanka, and Bangkok](#), marking the airline's latest entry into the South Asian market.

[The annual meeting of the Indian Travel Agents Association will be held in Sri Lanka.](#) From July 6 to July 9, 2023, the Travel Agents Association of India (TAAI) will have its 68th annual conference for over 400 travel agents. According to the President of the Sri Lanka Association of Inbound Tour Operators (SLAITO), the event will primarily focus on working sessions, diverse perspectives on the tourism sector.

Politics & Policy:

[G7 leaders remind Sri Lanka's private creditors of 'comparability of treatment principle'](#) -

Leaders of the Group of Seven (G7) urged Sri Lanka's private creditors to uphold the concept of comparability of treatment as the nation works to restructure its foreign debt. The G7 leaders emphasized the importance of private creditors providing debt treatments on terms that are at least as favourable, to ensure fair burden sharing in line with the comparability of treatment principle. This was detailed in a statement following its yearly meeting in Hiroshima, Japan. As an example for future multilateral efforts to resolve debt problems of middle-income countries, it also applauded the commencement of the creditors' meeting for Sri Lanka under the three co-chairs, France, India, and Japan.

[President urges establishment of Agriculture Modernisation Secretariat](#) - The immediate creation of an Agricultural Modernization Secretariat was ordered by President Wickremesinghe to address concerns impacting the nation's primary economic sector. This instruction was delivered during a discussion on creating a framework for policies to modernize the agricultural industry. President Wickremesinghe instructed the appointment of more personnel from the President's Office, the Ministry of Agriculture and other line ministries to work in the Agricultural Modernisation Secretariat.

[Sri Lanka and India discuss long-term strategic cooperation in the power sector](#) - In order to further advance collaboration with India in the power and renewable energy sectors, the Indian Minister of Power and New and Renewable Energy, met with Sri Lanka's High Commissioner to India in New Delhi. The link of the grid between Sri Lanka and India was one of several topics they discussed in relation to bilateral cooperation in the electricity and renewable energy sectors.

[Policy framework to boost shipping and logistics industry](#) - In order to improve shipping and logistics services and infuse new investments, the Government decided to form a Policy Committee that will develop a framework for astute strategies for competitiveness. The Treasury Secretary will be chair the Policy Committee, which will also include members of other pertinent institutions, who will design a development plan for logistics services from 2023 to 2027 in accordance with global best practices. "The current policy and regulatory framework in the logistics sector, including the shipping industry in Sri Lanka, is quite protective. It appears to be insufficient to draw investment for the development of the industry or to create a situation favourable for the provision of such services to the users of competitive and cost-effective supply services.

WHAT YOU NEED TO KNOW



[Global Steering Group for Impact Investing sets footprint in Sri Lanka](#) - The Global Steering Group for Impact Investment (GSG) will establish a presence in Sri Lanka to pave the way for the country's first impact investments. The Sri Lankan National Advisory Board (NAB) for Impact Investments has been established and will work towards easing the flow of international impact capital and sustainable financing to Sri Lanka.

The NAB will support and encourage greater economic growth for Impact Enterprises and corporate businesses with strong sustainability DNA while aligning Sri Lanka with the global agenda of sustainable investments. These investments bring essential economic and social benefits to Sri Lankan society and the environmental fabric, while also advancing the country and fostering a culture of sustainability.

National Labour Advisory Council reconstituted - The Free Trade Zones and General Service Employees Union (FTZ and GEU), together with three other trade unions, have been added to the National Labour Advisory Council (NLAC) as stated by the Labour Ministry. Currently the Labour Minister is the Chairman of NLAC which facilitates consultations and cooperation between the Government, organisations of workers and employers on national matters relating to social and labour policies and international labour standards. A number of unions form the Worker Trade Unions in NLAC and the employer interests are represented by the Sri Lanka Apparel Exporters Association, the Joint Apparel Association Forum, the Employers Federation of Ceylon, the Free Trade Zone Manufacturers Association, and the Industrial Association of Sri Lanka.

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

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