

## SRI LANKA UPDATE | 05 - 12 MAY 2023

### The Economy:

[Sri Lanka formally requests debt treatment at inaugural meeting of official creditors](#) - A formal committee of 17 nations, co-chaired by France, Japan and India was established to consider the Sri Lankan Government's request for debt treatment. Creditors from The Paris Club and other formal bilateral organizations are represented on the committee. In a post-meeting statement, it was mentioned that Sri Lanka reiterated its commitment to openness and comparability of treatment towards its official bilateral creditors.

The overall amount of Sri Lanka's external debt under treatment is USD 21.9 billion, with bilateral creditors holding USD 7.1 billion and private creditors USD 14 billion. By March 2023, Sri Lanka's overall external debt is USD 29.5 billion.

In preparation for the first review mission later this year, [a staff team from the IMF is already in Sri Lanka for routine discussions](#). Director of the Asia and Pacific Department Krishna Srinivasan and Senior Mission Chief for Sri Lanka Peter Breuer are both members of the group and will be in Sri Lanka until May 23.

[Japanese Finance Minister welcomes coordinated debt restructuring process](#) - Japanese Finance Minister Shunichi Suzuki welcomed Sri Lanka's debt restructuring development but insisted that the creditor committees must move quickly to implement debt restructuring for low-income economies under the Common Framework in order to increase the process predictability. He further stated that Japan expects the Asian Development Bank (ADB) to mobilize its expertise and collaborate with the International Monetary Fund (IMF) and the World Bank (WB) to improve debt management capacity and transparency in developing member countries.

[LKR 485 billion welfare benefits for over 3.3 million people starts in July](#) - On the directive of President Ranil Wickremesinghe as Minister of Finance, Economic Stabilisation and National Policy, the 'Aswesuma' Welfare Programme will begin disbursing LKR 485 billion (USD 1.5 billion) from July 1<sup>st</sup>. The total number of economically vulnerable persons benefiting under the programme will be 3.3 million. The transitional, vulnerable, poor and severely poor social groups will be apportioned benefits, while additionally, customary allowances for the aged and differently abled will also be given

[Government to unveil new incentives to support Foreign Direct Investments \(FDIs\)](#) - The Government will announce a comprehensive plan to increase FDIs and promote important industries. President Wickremesinghe stated to the Cabinet that steps will be taken to introduce a fully-fledged package to boost FDIs by creating new business models. Sri Lanka is strategising focused steps to increase its annual revenue from USD 1 billion in 2022 to USD 2 billion this year. The Minister of Trade emphasized improvements to the legal system as well as navigating political impediments being an issue, acknowledging that investors who are eager to invest in Sri Lanka do not receive the same assurances from the State as they do in other nations.

[The first week of May draws over 18,000 tourists](#) - Over 18,000 visitors arrived in Sri Lanka during the first week of May, giving the country motivation to surpass its monthly target of 75,989 arrivals. The majority of travellers were from India with the total increasing overall to 459,578 in the first months of 2023. China has become one of Sri Lanka's top source markets. According to the IMF Economic Outlook, nations that rely on Chinese tourists will profit from this year's economic boom in China, leading to regional advances and a 5.2 per cent growth rate after reopening its economy after the epidemic.

[In the first four months of 2023, the tourism sector generated earnings of around USD 700 million, along with the over 100,000 tourist arrivals from January to April.](#)

[India extends USD 1 billion credit line for Sri Lanka by one year](#) - According to the Finance Ministry, India has extended the USD 1 billion credit line for Sri Lanka by one year, providing the country with a safety net to pay for necessary imports. Sri Lanka had USD 2.75 billion in foreign exchange reserves as of the end of April, including a USD 1.4 billion swap facility from the People's Bank of China which was granted two years earlier but has restrictions on its use.

## Politics & Policy:

[The United States Agency for International Development \(USAID\) to support energy sector reforms](#) - USAID has made its technical support available for the restructuring of the energy industry and to create a transition plan for the Ceylon Electricity Board (CEB). The USAID team and Consultant Arindam Ghosh met with the Power and Energy Minister to support the creation of the framework and the reform process over the course of the next eight weeks.

[International Chamber of Commerce Sri Lanka \(ICCSL\) promotes trade, investment with Sarawak, Malaysia](#) - In collaboration with the Sarawak Business Federation (SBF) and the Ministry of International Trade, Industry and Investment Sarawak (MINTRED Sarawak), the ICCSL is planning promotions to encourage Sri Lankan businesses to locate export markets in Sarawak. The ICC Sri Lanka will also assist in promoting a Sarawak-Sri Lanka Commercial Council in Sarawak, which has been suggested by a Malaysian listed firm with commercial interests in both Sri Lanka and Sarawak.

[Government to amend Consumer Affairs Authority \(CAA\) Act to bridge gaps in existing law](#) - Cabinet agreed to change the CAA Act, No. 9 of 2003, as proposed by the Minister of Trade, Commerce, and Food Security. The Cabinet co-spokesman stated that Government observes the necessity to update legislation which will address contemporary market demands. He further stated that the current law was created in 2003 to prevent market monopolies, anti-competitive behaviour, unfair business practices from occurring nationwide and to safeguard consumers from such abuses. However, the Minister claimed that after more than 20 years, there are now several legal voids.

[Sri Lanka to get support from Shanghai Corporation Organisation Trade, Economic Multi-Functional Platform](#) - Prime Minister Dinesh Gunawardena met with a high profile delegation from the Shanghai Corporation Organization's (SCO) Trade and Economic Multi-Functional Platform to examine methods to forge strong partnerships. The group requested the Prime Minister to assist Sri Lanka in modernizing its suburban transportation system. Additionally, the PM asked for assistance in providing Sri Lanka with e-commerce tools so it may conduct online business with SCO members.

[Sri Lanka to ink Free Trade Agreement \(FTA\) with Thailand in Q1 2024](#) - The Government stated that an FTA will be signed with Thailand in Q1 of 2024, increasing exports to that nation by three times to USD 1.5 billion. The final round of negotiations will take place in June, and will be attended by a delegation led by the Sri Lankan Department of Commerce and the Thailand Trade Negotiations Department. Cabinet Co-Spokesman stated that both countries have agreed to conclude the discussions and draft the pertinent agreement for signing by Q1 of 2024. Inking the FTA with Thailand is the first step to joining the Regional Comprehensive Economic Partnership (RCEP).

**Government to bring in new Public Finance Management Act repealing existing legislation** - In order to ensure that new fiscal terms may be set to take effect with the 2025 Budget, the Government has decided to draft a new Public Finance Management Act and abolish the Fiscal Management (Responsibility) Act No. 3 of 2003. The Cabinet endorsed the recommendation made in this regard by President Wickremesinghe in his capacity as Minister of Finance, Economic Stabilization and National Policies. The new Act outlines steps to provide stronger fiscal performance reporting and transparency to allow for more public scrutiny of the same.

**Egypt proposes Arab-Sri Lanka Business Council to promote trade and investments** - The Prime Minister was paid a courtesy visit by the Ambassador of the Arab Republic of Egypt Maged Mosleh. The discussions on shared concerns, also detailed the formulation of an Arab-Sri Lanka Business Council under the aegis of the Arab Ambassadors Forum. The council will boost commerce, tourism and investments. Since numerous advantages have been provided to foreign investors, the Prime Minister requested the ambassador to explore potential investments in the hospitality sector as well as the establishment of export businesses in industrial zones in Sri Lanka.

## WHAT YOU NEED TO KNOW



**Moose Clothing enters Singaporean market in partnership with Mustafa Centre** - Moose Clothing Company, a popular brand in Sri Lanka set its footprint on gaining global exposure by entering the Singaporean market via the renowned shopping landmark in Singapore's Little India, the Mustafa Center. A long-term collaboration is now being discussed between Moose Clothing Company and Mustafa Centre.

**US consumers send mixed signals in uncertain economy** - Based on the latest Consumer Pulse Survey by McKinsey & Company, consumers are most frequently making changes in shopping behaviour by altering the quantity or pack size of regular purchases, or switching retailers with lower costs. A further finding noted that 62 per cent of millennials and 74 per cent of Gen Z consumers are concerned about their jobs and hence, despite having healthy incomes which enable free spending, consumers are pickier about the purchases they make. This indicates that while analysing consumer behaviour, businesses shouldn't generalise too much. With 61 per cent of both age groups stating they want to indulge themselves by purchasing clothing, footwear and accessories, Gen Z and millennials stand out as particularly willing to splurge on fashion. All age groups frequently spend money on groceries and dining out.

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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.*

*This Advisory was prepared by the Strategic Communications Unit of Adfactors PR Lanka.  
For inquiries, contact [pumudika.amarasekara@adfactorspr.com](mailto:pumudika.amarasekara@adfactorspr.com)*