

## SRI LANKA UPDATE | 01 - 08 JUNE 2023

### The Economy:

[Sri Lanka readies for upcoming country assessment on Anti-Money Laundering and Countering the Financing of Terrorism](#) - President Ranil Wickremesinghe stated that Sri Lanka would shortly begin its second country assessment on combating money laundering and terrorism financing. The evaluation, which is expected to begin within 90 weeks, is of utmost importance as it has a direct bearing on the nation's ranking for business friendliness and capacity to attract foreign capital. The President stated that this assessment carries significant weight and Sri Lanka's compliance in these areas is essential for improving the ease of doing business rating and attracting FDIs.

[International Monetary Fund \(IMF\) engages with Ceylon Chamber of Commerce to discuss Sri Lanka's economic development](#) - The Ceylon Chamber of Commerce recently informed top IMF personnel on recent economic events in Sri Lanka and their influence on the country's economic trajectory. Critical subjects including interest rates, currency rates, international commerce and the overall political environment were the main focus. The discussion enabled the IMF to obtain viewpoints of the business community on recent economic developments in Sri Lanka.

[Net credit to Government swells by LKR half trillion in April](#) - Net credit extended to the Government by the banking industry increased by LKR 500 billion in April, crossing the LKR 8 trillion threshold. According to the Central Bank of Sri Lanka (CBSL), the Government borrowed LKR 523 billion in April, bringing the total amount due to LKR 8,091 billion. CBSL stated that with the Government receiving a sizable amount of foreign finance, the banking system's net credit to the Government, which had noticeably increased in 2022, is anticipated to decline.

[CBSL lowers interest rates boost to the economy](#) - Policy rates have been reduced significantly by 250 basis points for the first time in almost 3 years. The CBSL encouraged financial institutions to follow suit. The Monetary Board of CBSL made the decision to lower the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) by 250 basis points to 13.00 per cent and 14.00 per cent, respectively. The last change to policy rates was made in July 2020.

[Tourism earnings surpasses USD 800 m in first five months](#) - With profits of more than USD 800 million and an increase in visitors in 2023, the tourism sector is recovering. CBSL details that tourism revenue for the first five months of 2023 was USD 827.8 million, up 30.4 per cent over the same period in 2018. Revenue for May was USD 131.5 million. However, because May is typically a month with few arrivals, it generated the lowest income thus far for this year compared to the previous four months. Sri Lanka received 83,309 visitors in total at May end, exceeding its forecast of 75,989, a YoY increase of 176 per cent.

Signalling better times ahead for tourism, [India's first luxury cruise ship the Cordelia Empress arrived at the Hambantota Port](#) this week from Chennai.

### Politics & Policy:

[Bill and Melinda Gates Foundation reassures support to Sri Lanka](#) - Representative of Bill and Melinda Gates Foundation (BMGF), including Hari Menon, India's Country Director, and Southeast Asia Lead for Policy and Government Relations, visited Sri Lanka to pledge help for the nation's reconstruction initiatives. Leading international donor organizations have also increased their support for BMGF's efforts to use digitally driven programme for the country's development initiatives.

[Government widens tax net via new gazette](#) - The Government widens the tax net with the requirement of professionals in 14 different categories registering with the Inland Revenue Department. As Minister of Finance, Economic Stabilisation and National Policies, President Wickremesinghe issued a special gazette announcement stating that with effect from June 1<sup>st</sup> 2023, workers must register with the Department of Inland Revenue if they post a combined monthly contribution in excess of LKR 20,000 to any Employee Provident Fund (EPF).

[Sri Lanka picked by Asian Development Bank \(ADB\) as priority country for natural capital linked financing](#) - Director General of the South Asia Department said the ADB has chosen Sri Lanka as a priority nation to test a new funding strategy that protects and develops "natural capital". Forests, wetlands, marine eco-systems and agricultural regions are considered natural capital. The ADB has established a department that concentrates on natural capital and climate, and is now developing a strategy on how the lender can support the improvement of these assets.

[New Value Added Tax \(VAT\) law from 2024 to boost revenue](#) - The Cabinet has approved amending the VAT law in an effort to increase tax revenues by eliminating tax exemptions. The move is expected to increase tax revenue by 1.2 per cent of the Gross Domestic Product (GDP). Also, the Simplified Value Added Tax (SVAT) approach would no longer be used from January 1, 2024. According to the Cabinet Spokesperson, some of the currently exempted goods will no longer be exempt from the VAT, but goods affecting the ability of low-income families to obtain essentials including healthcare and education would still be covered.

[Colombo Port City Economic Commission partners with International ADR Centre to establish Dispute Resolution Hub](#) - In compliance with the legal requirement of establishing an independent International Commercial Dispute Resolution Centre (ICDRC) within the Area of Authority, the Colombo Port City Economic Commission (CPCEC) has entered into an agreement with the International ADR Centre (IADRC). In accordance with the Colombo Port City Economic Commission Act, it marks a significant advancement in the organization's goal of creating a globally competitive business environment for the Colombo Port City special economic zone. The Commission is required by Section 62 of the CPCEC Act to assist the creation of an ICDRC in order to settle disputes between the Commission and Authorised Persons and Residents of the Port City.

WHAT YOU NEED TO KNOW



[A report by McKinsey Insights states apparel manufacturers in Asia facing challenges with drop in global demand](#) - Post the pandemic in 2021, the apparel sector recovered and saw strong growth from early 2021 to mid-2022. However, demand fell in both Europe and the USA during the second half of 2022, giving rise to early signs of a slowdown in the upstream value chain. According to the McKinsey analysis and discussions with apparel manufacturers on the challenges faced in Asia, McKinsey Insights identifies elements responsible for low profitability and volume. Decreasing profit margins among fashion brands, cost pressure resulting from reduced buyer prices, increased costs from suppliers for raw materials and shipping, changes in the supply and demand chains, Environmental, Social, and Governance (ESG) requirements and the need for digitization are some of those cited.

Spending money on value-backed analytics and digital initiatives, adapting to supply chain models to changing customer needs and being flexible and adaptable in the short-term climate to make instant adjustments to commercial strategy including customer and product portfolios are those detailed in the report.

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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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