

SRI LANKA UPDATE | 23 - 29 JUNE 2023

The Economy:

[Proposed Domestic Debt Restructuring \(DDR\) programme by the Finance Ministry approved by Special Cabinet meeting](#) - As per the President Media Division, the proposed DDR programme proposed by the Finance Ministry has been approved unanimously by the Special Cabinet meeting. The proposal will be submitted at the next Parliamentary session for discussion. In a presentation made by the Central Bank of Sri Lanka (CBSL) at the Special Cabinet meeting, the eventual DDR or Domestic Debt Optimisation (DDO) was implied as a soft landing rather than a hard one, despite the Government's initial concerns about its impact, which compelled it to guarantee a five-day holiday for the financial services sector as a cooling-off period.

[President calls for debt restructuring support to middle-income nations](#) - President Ranil Wickremesinghe urged immediate debt restructuring and the need for a comprehensive strategy to solve the problems facing middle-income countries at a high-level panel discussion at the Global Leaders' Summit for a New Global Financing Pact in Paris. Wickremesinghe said Sri Lanka has taken charge of its debt-reduction and economic reconstruction programme despite having restricted access to finance. The President emphasized the necessity for prompt and easy access to concessional funding and drew attention to the substantial expenditure involved. Additionally, he urged for increased communication between creditors and debtors, with a fresh strategy for handling geopolitical problems.

[Government gets USD 500 million from World Bank \(W\) Group for budgetary support](#) - The International Development Association (IDA), a concessionary window of the World Bank, has approved the Government's request for a USD 500 million loan for fiscal support. The two-year funding comes from the World Bank's more comprehensive Development Policies Financing Programme. As Minister of Finance, Economic Stabilization, and National Policies, the President made a request to enter into an agreement with the IDA to obtain this funding which was agreed by the Cabinet of Ministers.

[Sri Lanka's merchandise exports increased by 16.6 per cent](#) - As per the latest statistics presented by the Export Development Board (EDB) Sri Lanka's merchandise exports have increased by 16.6 per cent, which accounts for USD 989.7 million from April 2023 to May 2023. Tea export revenue, which accounts for 12 per cent of all exports of goods, climbed by 24.7 per cent year-on-year to USD 116.3 million from May 2022 to May 2023. Additionally, in May 2023, export revenues from rubber and rubber finished goods climbed by 0.20 per cent year on year to USD 76.8 million. Only the Italian and French markets among the top 10 export markets performed better from January to May 2023 than they did in May 2022.

[Regulations to further ease import restrictions up for Parliamentary approval](#) - In order to foster a favourable business climate, the Government has decided to submit laws to Parliament to further relax import restrictions. The CBSL and other key parties have recognised the importance of reducing limits on some categories of products in order to achieve a balance between import restrictions and the overall balance of payments. As a consequence, it was decided to exclude 286 combined classification numbers from the schedule of suspended imports' list of 1,216 combined classification codes. The Extraordinary Gazette Notification No. 2335/26, dated June 9, 2023, issued the Import and Export (Control) Regulations No. 9 of 2023 in order to allow this regulatory reform.

Politics & Policy:

Cabinet approves amended Banking Act No. 30 of 1988 - The Cabinet of Ministers agreed to order the Legal Draftsman to create legislation to alter the Banking Act No. 30 of 1988. The action was taken shortly after the Government announced a Domestic Debt Optimisation (DDO) that would provide the economy and financial services industry with a five-day stabilization or cooling-off period. According to a statement included in the Weekly Cabinet Decisions released by the Government Information Department, it has been proposed to amend the Banking Act No. 30 of 1988, considering the importance of maintaining a banking sector with the contemporary and resistant capability that assists sustainable economic growth.

SL and Thailand Free Trade Agreement (FTA) talk progress to sixth round - The SLTFTA will progress to the sixth round of negotiations from August 21st to 23rd in Thailand. At the conclusion of the fifth round of Sri Lanka-Thailand Free Trade Agreement (SLTFTA) which are aligned to the goal of fostering economic links with developed and developing nations, with an emphasis on ASEAN nations in particular, the chief negotiator for the International Trade Office and the leader of the Sri Lanka delegation, expressed satisfaction with the developments of the negotiations and timeframe. The Agreement will conclude in three more rounds by February 2024, with the signing in March 2024.

Export Development Board (EDB) to unveil new 5-year National Export Strategy 2023-2027 next month - By the end of next month, the EDB will have completed drafting of its comprehensive five-year National Export Strategy 2023-2027, which will set the way for Sri Lanka to increase its export capacity to USD 31.3 billion and foster economic growth. After the plan is complete, the body in charge of export growth and promotion will determine the amendment to the initial estimate of USD 18.51 billion in goods and services exported this year. The revised estimate and priority areas will only be arrived at after taking all factors into consideration, including the new 5-year NES. The EDB has predicted that exports of goods and services will total USD 18.51 billion in 2023. This includes USD 2.58 billion in service exports and USD 15.93 billion from exports of goods, up from USD 13.01 billion in 2022.

Insolvency law to address modern economy needs - The Cabinet of Ministers agreed on the three-month deadline for creating insolvency legislation to address the demands of a contemporary economy. To better handle the complexity and challenges experienced by people, small enterprises and corporations during times of financial hardship, a new and comprehensive legislation on insolvency is being introduced. In accordance with the plan, the Law Commission is empowered to consult with pertinent parties, prepare preliminary legislation and present it within three months. The Insolvency Ordinance of 1853 and the Companies Act No. 7 of 2007's current provisions have been found to be insufficient to satisfy the current standards for consumers, unincorporated small business and corporate insolvency.

Cabinet clears Social Security Contribution Tax (Amendment) Bill for Parliamentary approval - The proposal to publish the Social Security Contribution Tax (Amendment) Bill in the Government Gazette and submit the Bill to Parliament for approval was agreed upon by the Cabinet of Ministers. The suggested changes were officially authorized by the Cabinet on January 30, and the legal draftsman was instructed to create an updated law in accordance. The Social Security Contribution Tax (Amendment) Bill seeks to improve the current social security system by correcting any flaws and adding provisions that increase its efficacy. The proposed reforms aim to increase the financial stability and sustainability of the social security system by improving the collection and administration of social security payments, eventually helping the workforce and larger society.

WHAT YOU NEED TO KNOW



Sri Lanka explore avenues for early entry into Regional Comprehensive Economic Partnership (RCEP) - Senior Government officials from Sri Lanka successfully completed a fact-finding mission to Jakarta, Indonesia to explore options for an early admission into the RCEP. The region's least developed, developing and developed economies are all represented in the RCEP which has a combined GDP of USD 29.3 trillion and serves a market of 2.3 billion people. The importance of the economies of RCEP member states and ASEAN member states, as well as the opportunities created within the group for further economic integration for developing countries, were emphasized during meetings with the Secretary General and Deputy Secretary General of ASEAN for the ASEAN Economic Community. Officials from Sri Lanka and the Ministry of Foreign Affairs Indonesia further discussed the opportunities available for the two countries to enhance trade and investments, and strengthen further economic cooperation.

IFC holds 'Sri Lanka Climate Finance Workshop' - The 'Sri Lanka Climate Financing Workshop' was recently held by the International Finance Corporation (IFC) to discuss the significance of climate financing possibilities and challenges for financial institutions in Sri Lanka. The event brought together important public and private sector stakeholders, and discussions focused on the future of the electric vehicle market in Sri Lanka as well as on emerging green finance opportunities and creative financing structures. Sessions on green bonds and sustainability in the garment business were also covered at the event.

The first 20 days of June draw over 61,000 tourists - 61,183 visitors have arrived in the first 20 days of June, bringing the total for the year so far to 585,669. Given that June is also part of the sector's off-season, industry sources highlighted that the arrivals are satisfactory. The top five markets in June are China, followed by Russia, Britain, Australia and India. May 2023 saw 83,310 fewer arrivals than the first four months of 2023, which had over 100,000. Tourism has been sustained by the brisk inflow from January to April and the good inflow after then onwards. 585,669 tourists arrived in 2023 as of Q1, which is 81.3 per cent of the total 720,000 visitors for the entire year 2022.

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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*