

Sri Lanka: Macroeconomic Outlook and the IMF Programme 2024-25

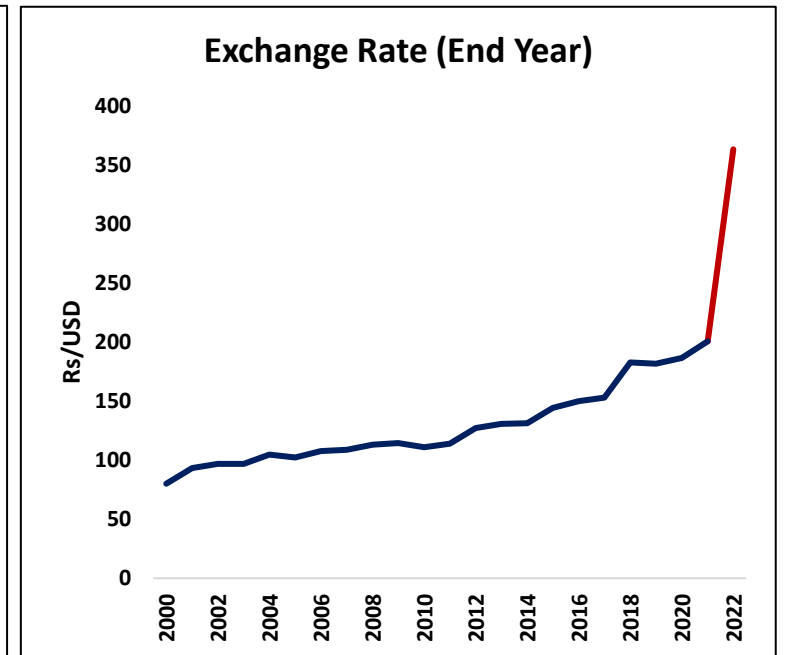
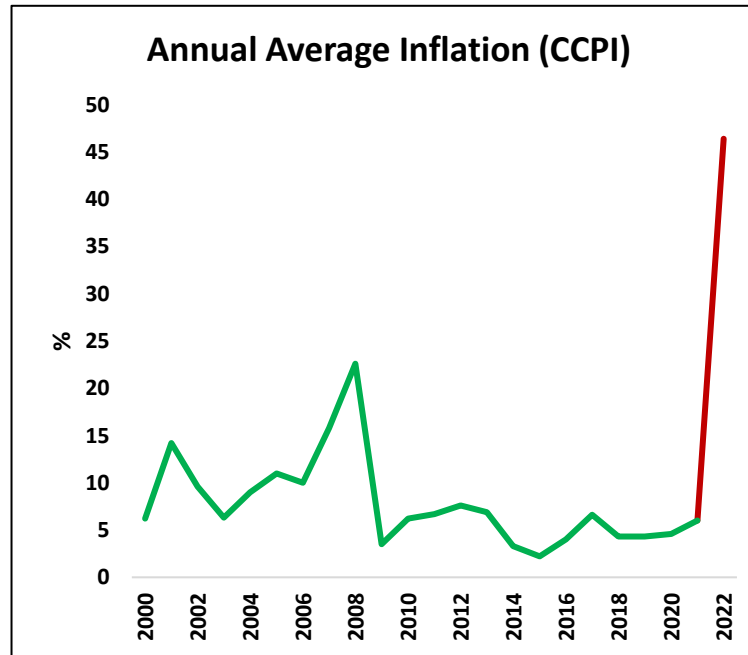
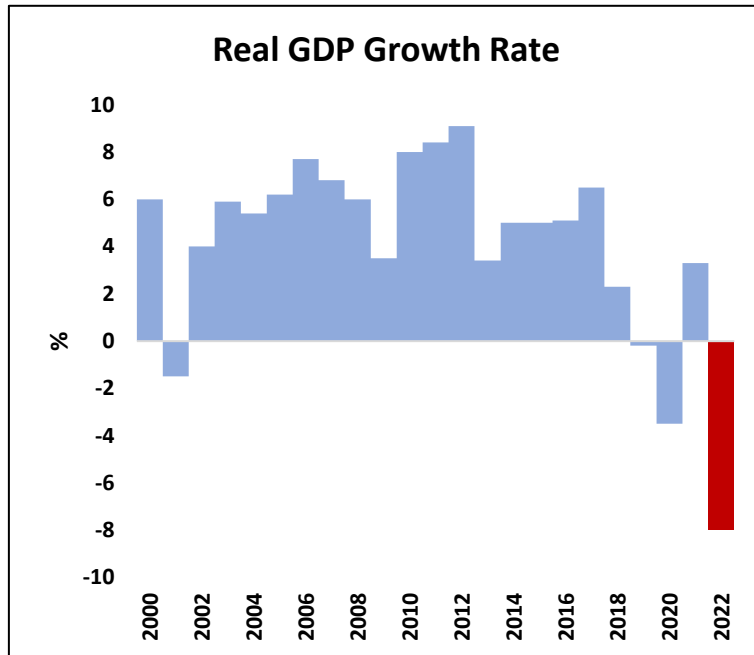


Dr. Chandranath Amarasekara
Assistant Governor
Central Bank of Sri Lanka

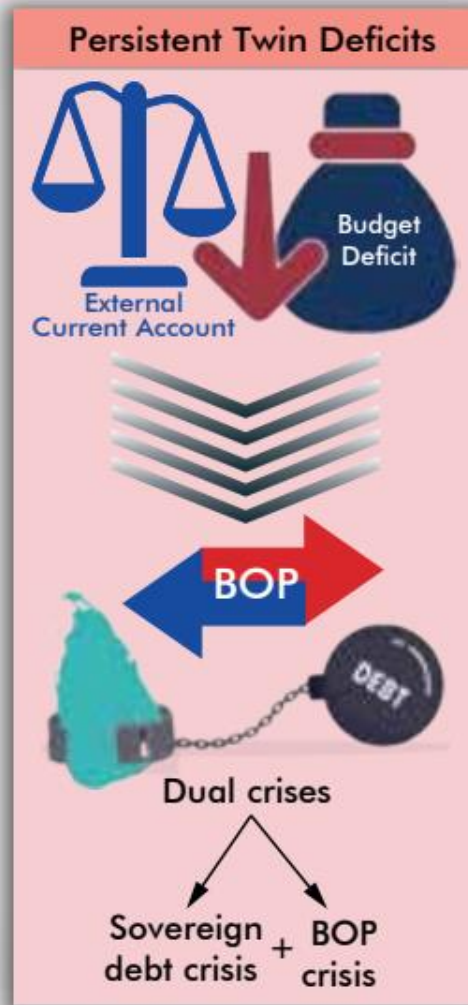
06 June 2024

Looking back at 2022...

- Sri Lanka faced an unprecedented social, political and economic crisis in 2022.



Snapshot of the economic Crisis in 2022...



The crisis was the culmination of Sri Lanka's deep rooted economic vulnerabilities, amplified by severe external shocks and domestic policy missteps

The authorities implemented a bold economic stabilisation package...

- **Commenced negotiations with the IMF to secure a financing facility**
- **Temporarily suspended foreign debt service payments, while initiating a debt restructuring process**
- **The Central Bank**
 - After allowing the exchange rate to float, raised policy interest rates significantly (700 bps in April 2022, followed by another 200 bps)
 - Took measures to safeguard the stability of financial institutions
- **The Government**
 - Introduced a bold package to enhance tax revenues
 - Curtailed non-essential recurrent expenditure and froze recruitment
 - Temporarily suspended non-urgent capital expenditure and projects which have not commenced/ have been stopped/ have not achieved significant progress
 - Imposed restrictions on selected non-urgent and non-essential imports
 - Initiated restructuring of major State-owned business enterprises
 - Commenced energy sector reforms, including cost reflective pricing mechanisms

The reform agenda has started to show results...



The economy has transitioned into a positive growth trajectory



Price stability has been restored



External sector resilience has improved



Financial system continues to remain stable and resilient



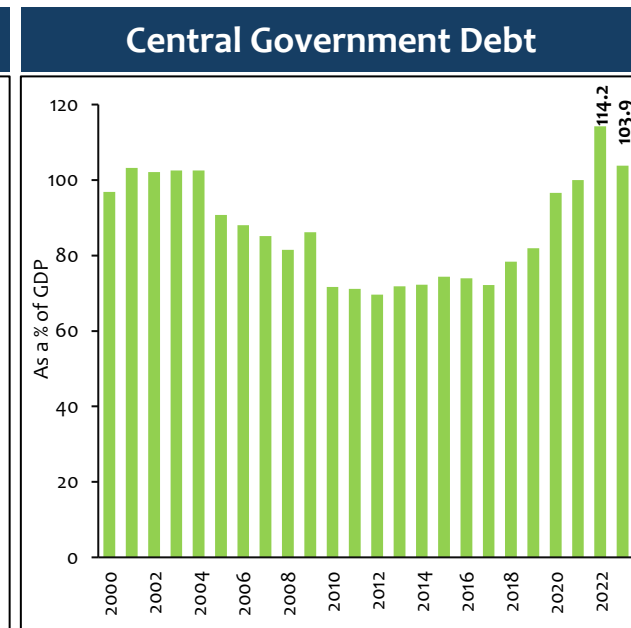
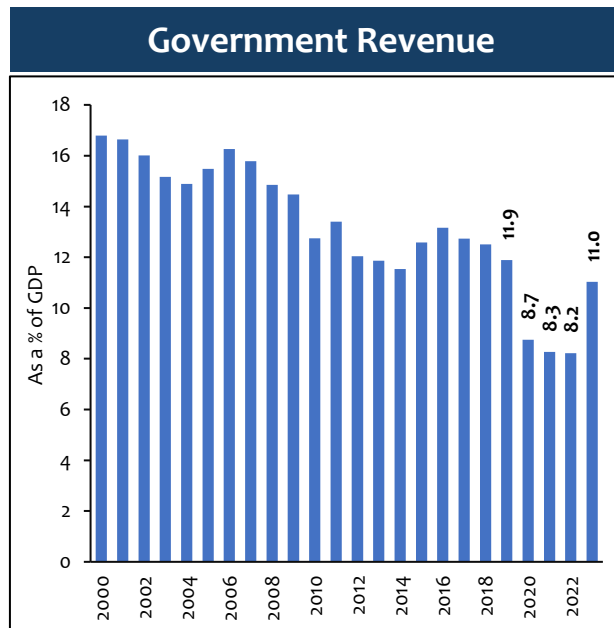
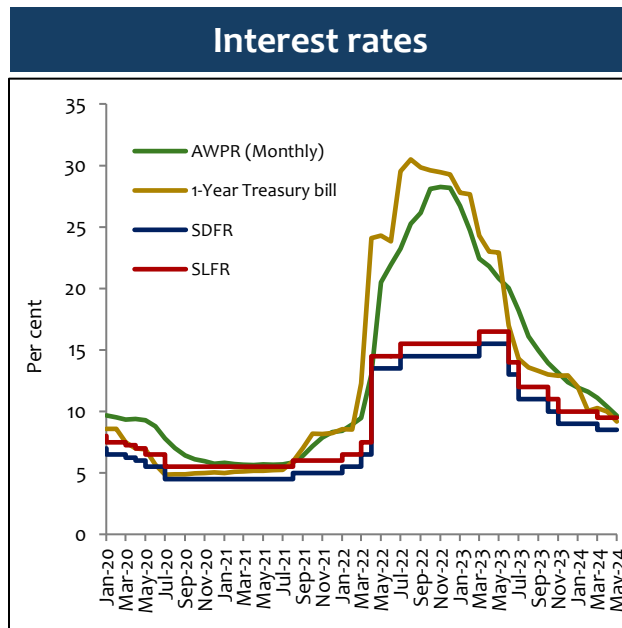
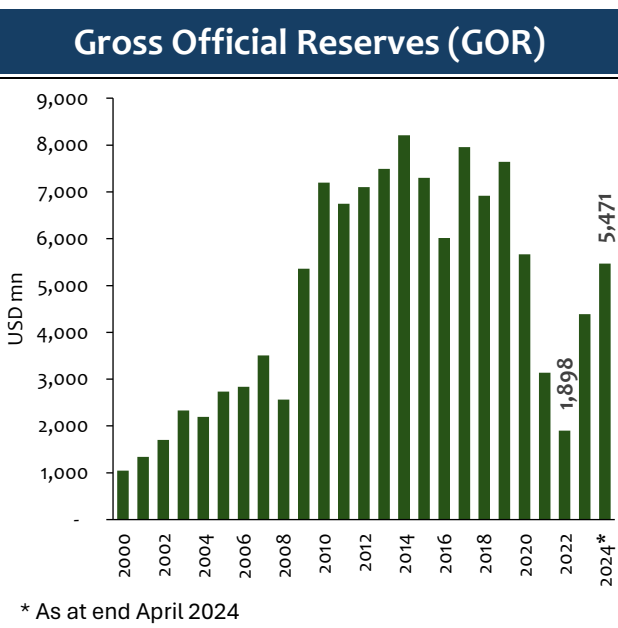
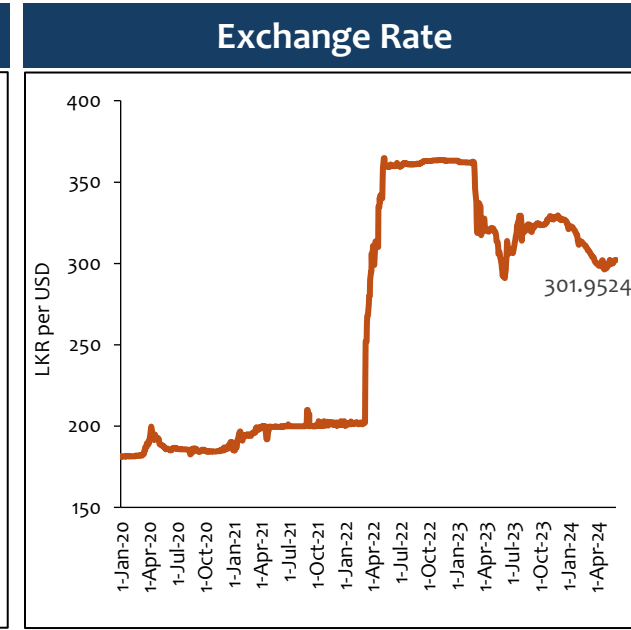
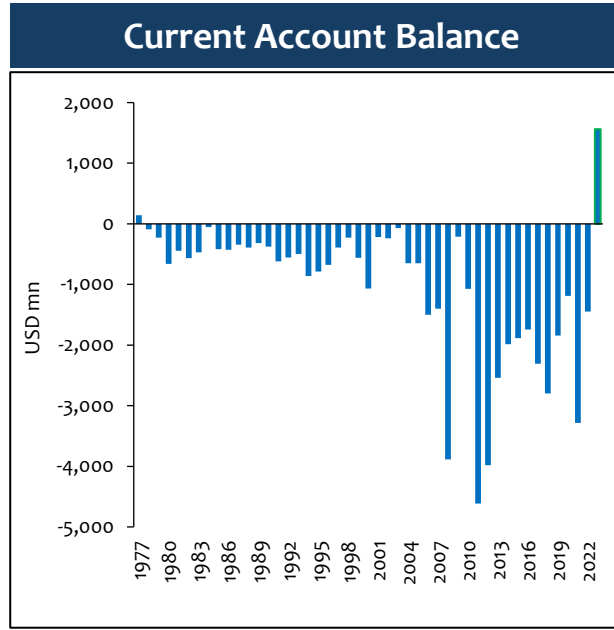
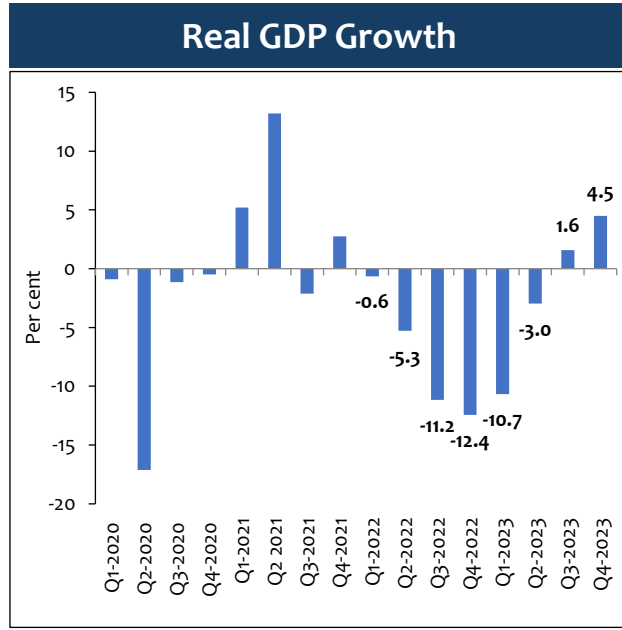
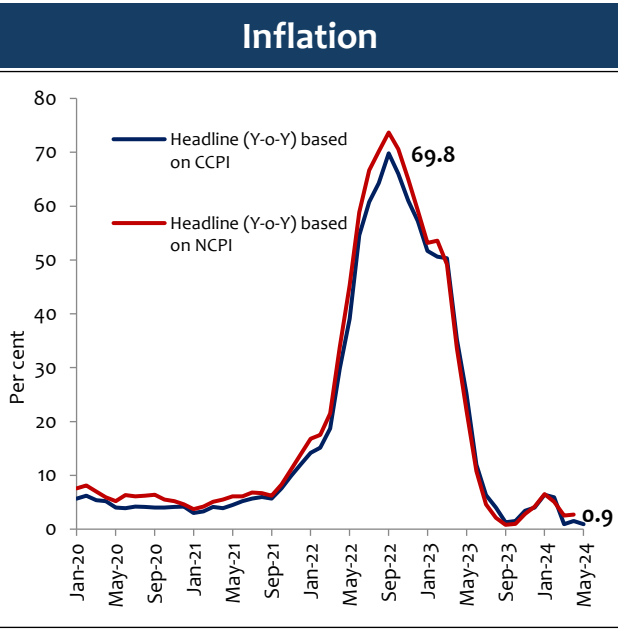
Fiscal consolidation has been strengthened and Debt restructuring has reached an advanced stage



The IMF EFF programme is on track

However, formidable challenges are ahead of us as the scarring effects of the crisis lingers on, while reforms, though essential, are burdensome in the short term

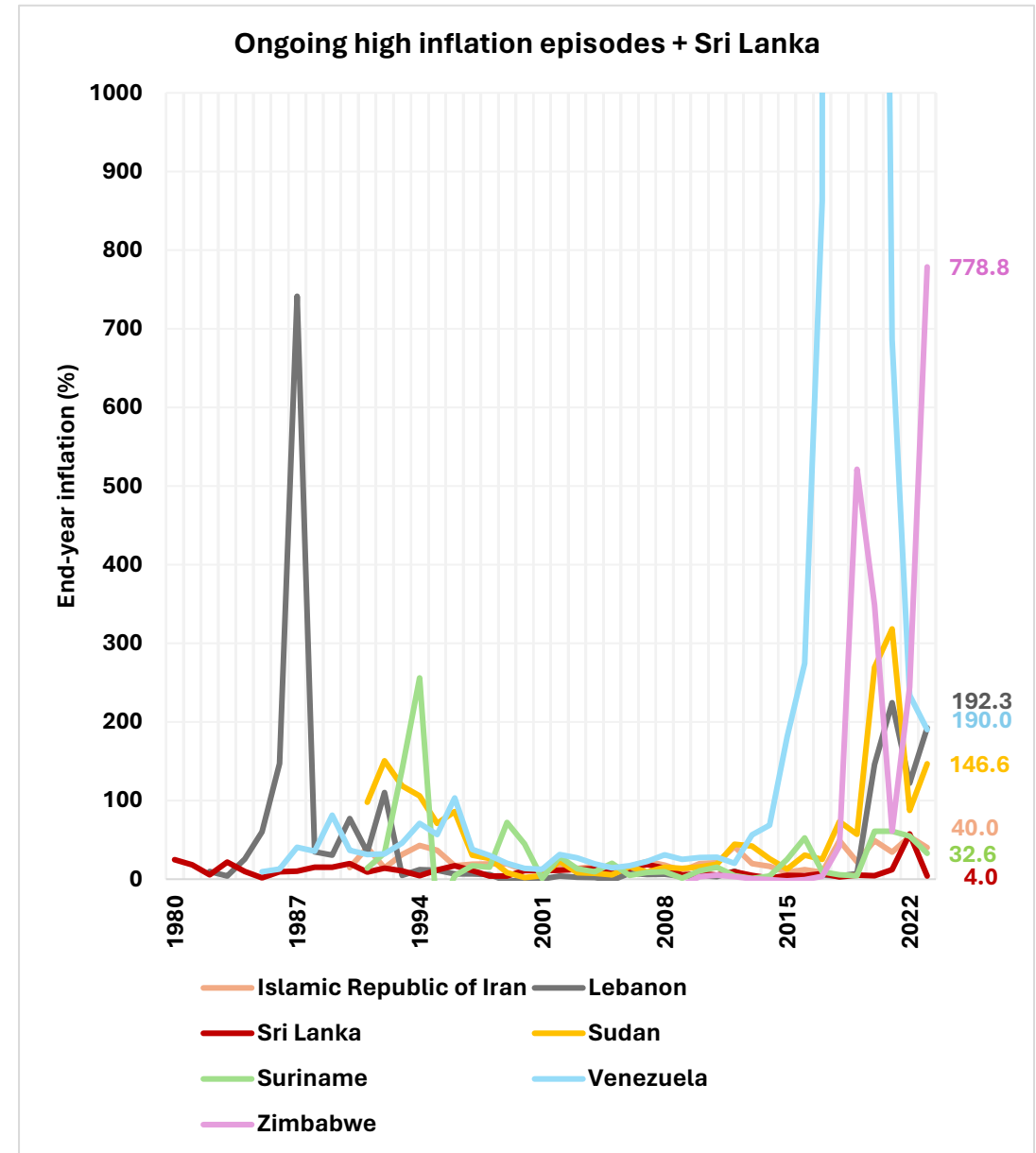
The Current Status of the Economy...



The Counterfactual: “What could have happened if stabilisation measures were not taken?”

- An example about inflation

- Out of the 196 countries listed in the IMF’s World Economic Outlook (WEO), between 1980-2023, 60 countries had experienced inflation above 50% for at least one year
- These 60 countries had 72 episodes of inflation remaining above 50%
- **Countries managed to bring inflation down to single digits within a year, only in 12 of these episodes.**
 - In **42 of these episodes**, inflation above 10% persisted for more than 5 years.
 - In some countries, **inflation remained above 10% for more than 35 years (and counting)**
 - Highest inflation captured in WEO was 130,060% in Venezuela in 2018
 - Zimbabwe: 79.6 million % in 2008 (not shown in the chart)



In March 2022, the authorities sought assistance from the IMF, the global lender of last resort...

- Sri Lanka has borrowed 16 times from the IMF previously (42 years during the past 60 years)
- However, negotiations for the current programme were different
 - Why?
- Whose programme?

In March 2023, the **IMF approved the Extended Fund Facility (EFF) Programme for Sri Lanka...**



Total amount of SDR 2.286 bn
(**about US\$3 bn**)



48 months
(8 semi-annual reviews)



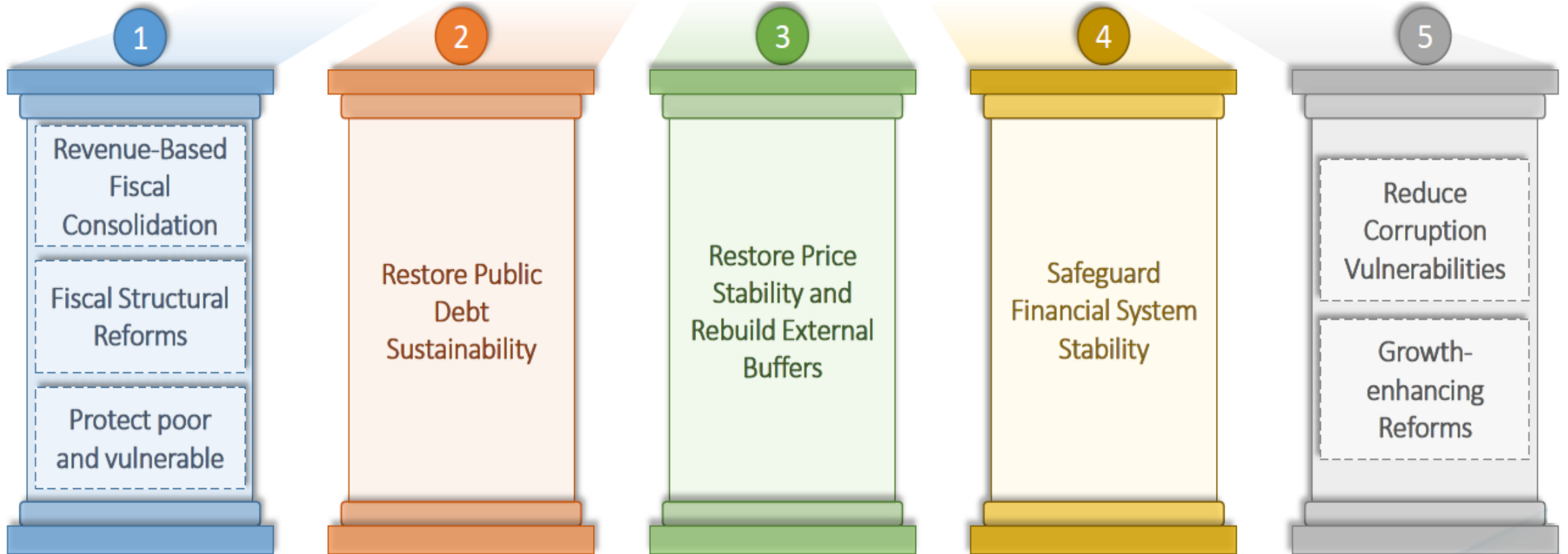
For **budget support**



Disbursement equivalent to **about US\$670 mn**)

IMF-EFF catalyses further financial support from other development partners

The IMF-EFF covers 5 broad areas...



Stability



Growth

Sri Lanka has made notable progress in the IMF-EFF arrangement and in its debt Restructuring efforts...

- The IMF programme involves meeting several quantitative targets and structural benchmarks
- Complex debt restructuring negotiations are continuing with numerous stakeholders
- Having reached the Staff Level Agreement on the 2nd Review in March 2024, Sri Lanka is expected to formally complete the IMF Executive Board Review in June 2024.
- The 3rd tranche is expected upon the completion of the review

Performance of QPC targets by end Dec 2023

Programme NCG targets have been overachieved

supported by concerted efforts to unwind monetary stimulus to the Government

Programme NIR targets have been overachieved

supported by increasing reserve levels maintained by the Central Bank

Central government primary balance was met for 2023

supported by new tax revenue measures of the Government

Monetary policy consultative clause was met by

monetary policy measures to maintain inflation within the target band

In addition, **Central government tax revenue** was introduced as a new QPC for 2024.

Some of the key structural benchmarks under the programme: Reforms that Sri Lanka should have done even without the IMF...

- **Setting retail fuel prices with monthly formula-based adjustments**
- **Adjusting the end-user electricity tariff schedule on a quarterly basis**
- **Parliamentary approval of the welfare benefit payment scheme**
- **Parliamentary approval of the new Central Banking Act and prevention of monetary financing**
- **Parliamentary approval of Banking law amendments**
- **Parliamentary approval of the new Anti Corruption Act and Operationalisation of the Anti Corruption Commission**
- **Publication of the Governance Diagnostics report**
- **Introduction of the Public Financial Management/Public Debt Management laws**

The continuation of the IMF-EFF programme is critical to the recovery of the economy, as highlighted in the recent CBSL Annual Economic Review of 2023...

...The recovery of the Sri Lankan economy hinges on the **continuity of the reforms** implemented thus far, and as part of this process, the **successful continuation of the IMF-EFF arrangement and completion of the debt restructuring process** remain paramount...

Central Bank projections for 2024...

Indicator	Unit	2022	2023	Projections
				2024
Real GDP Growth	%	-7.3	-2.3	3.0
Trade Balance	% of GDP	-6.7	-5.8	-7.8
Current Account Balance	% of GDP	-1.9	1.8	0.5
External Official Reserves	Months of Imports	1.2	3.1	3.4
Primary Account Balance	% of GDP	-3.7	0.6	0.8
Overall Budget Deficit	% of GDP	-10.2	-8.3	-7.3
Private Sector Credit Growth	%	6.2	-0.6	8.5
Annual Average Inflation	%	46.4	17.4	5.0

Source: Annual Economic Review 2023, CBSL

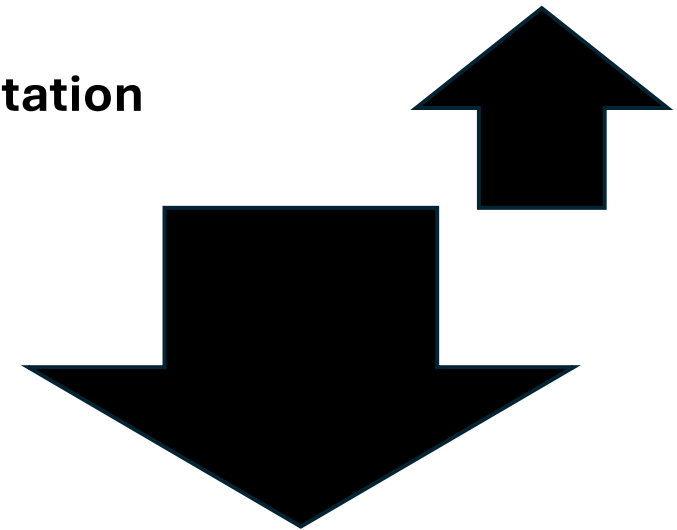
Risks to the macroeconomic outlook

- **Global**

- **Global monetary policy**
- **Energy price / commodity price volatility**
- **Geo-political developments / Geo-economic fragmentation**
 - Russia-Ukraine conflict
 - Unrest in the Middle-East
 - The China factor
 - The India factor

- **Domestic**

- **Climate change**
- **Brain drain**
- ***Not in the baseline scenario* – any derailment of policy reforms/unrest**



Key Messages

- 1. After a severe socio-economic crisis, stability has been achieved to a great extent, and economic activity is picking up – the counterfactual would have been unthinkable**
- 2. Growth must be accelerated, but without compromising stability**
- 3. Artificial monetary and fiscal stimulus to boost growth will not be available; growth must come from reforms to improve productivity, competitiveness and efficiency, including governance reforms**
- 4. There can be no compromise on efforts to regain debt sustainability and the continuation of the IMF programme**

Annexure

Table
3.2

Near term Macroeconomic Projections (a)

Indicator	Unit	2022 (b)	2023 (c)	Projections
				2024
Real Sector (d)				
Real GDP Growth	%	-7.3 (c)	-2.3	3.0
GDP at Current Market Price	Rs. tn	24.1 (c)	27.6	29.9
Per Capita GDP (e) (f)	USD	3,464 (c)	3,830	4,075
Total Investment	% of GDP	28.6 (c)	25.3	25.8
Domestic Savings	% of GDP	25.0 (c)	23.8	22.4
National Savings	% of GDP	27.2 (c)	27.2	26.3
External Sector (d)				
Trade Balance	% of GDP	-6.7	-5.8	-7.8
Exports	USD bn	13.1	11.9	12.9
Imports	USD bn	18.3	16.8	20.0
Current Account Balance (g)	% of GDP	-1.9	1.8	0.5
External Official Reserves	Months of Imports	1.2	3.1	3.4
Fiscal Sector				
Total Revenue and Grants	% of GDP	8.4 (h)	11.1 (d)	13.0 (i)
Expenditure and Net Lending	% of GDP	18.6 (h)	19.4 (d)	22.3 (i)
Current Account Balance	% of GDP	-6.4 (h)	-6.0 (d)	-3.2 (i)
Primary Account Balance	% of GDP	-3.7 (h)	0.6 (d)	0.8 (i)
Primary Account Balance (With Bank Recapitalisation)	% of GDP	-	-	-1.3 (i)
Overall Budget Deficit	% of GDP	-10.2 (h)	-8.3 (d)	-7.3 (i)
Overall Budget Deficit (With Bank Recapitalisation)	% of GDP	-	-	-9.4 (i)
Central Government Debt	% of GDP	114.2 (h)	103.9 (d)	110.3 (i)
Monetary Sector and Inflation				
Broad Money Growth (M_{2b}) (i)	%	15.4	7.3	15.0
Private Sector Credit Growth (in M_{2b}) (i)	%	6.2	-0.6	8.5
Annual Average Inflation	%	46.4 (k)	17.4 (l)	5.0 (l)

(a) Based on information available up to mid-March 2024

(b) Revised

(c) Provisional

(d) GDP estimates (base year 2015) released in March 2024 by the Department of Census and Statistics have been used

(e) Estimates updated with the latest population figures

(f) Based on quarterly GDP in USD terms calculated using quarterly average exchange rate

(g) Based on accrual basis

(h) Revised based on the latest GDP data published by the Department of Census and Statistics on 15 March 2024

(i) Projections for 2024 are based on 2023 December IMF staff report

(j) Year-on-year growth based on end year values

(k) Based on CCPI (2013=100)

(l) Based on CCPI (2021=100)

Sources: Department of Census and Statistics
Ministry of Finance, Economic
Stabilization and National Policies
Central Bank of Sri Lanka