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Serendipity Knowledge Program

Asian Development Bank

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Sri Lanka: A Primer on the Extended Fund Facility

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INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/116

SRI LANKA

March 2023

**REQUEST FOR AN EXTENDED ARRANGEMENT UNDER
THE EXTENDED FUND FACILITY—PRESS RELEASE;
STAFF REPORT; AND STATEMENT BY THE EXECUTIVE
DIRECTOR FOR SRI LANKA**

Link:

[Sri Lanka: Request for an Extended Arrangement Under the Extended Fund Facility-Press Release; Staff Report; and Statement by the Executive Director for Sri Lanka \(imf.org\)](https://www.imf.org/en/News/Articles/2023/03/01/23-03-23-sri-lanka-extended-fund-facility)

Program Strategy: Key Pillars

1

Primarily Revenue-Based Fiscal Consolidation

Fiscal Structural Reforms
(e.g., energy pricing reform)

Protect poor and vulnerable

2

Restore
Public Debt
Sustainability

3

Restore Price
Stability and
Rebuild
External
Buffers

4

Safeguard
Financial
Stability

5

Reduce
Corruption
Vulnerabilities

Growth-
enhancing
Reforms

Program Modalities

- SDR 2.286 billion (about US\$3 billion; 395 percent of quota)
- 48 month long program
- Disbursed in semiannual tranches over 4 years
- Budget Support



Initial Stabilization Phase

Tackling the root causes of the crisis and building confidence

- revenue measures;
- central bank autonomy



Long-lasting institution building

- reforms to ensure macroeconomic stability and debt sustainability;
- visible reform ownership and carefully sequenced under the program.

Prior actions (PAs)

	Prior Actions	Timing
Fiscal Consolidation	Cabinet approval of revenue measures to support fiscal consolidation during 2023, in line with program parameters	Met
	Parliament approval of a revised 2022 budget that is in line with program parameters	Met
	Submission to Parliament of the 2023 Appropriation Bill that is in line with program parameters	Met
Fiscal Structural Reforms	Cabinet approval to automate monthly retail fuel price adjustment as prescribed by the 2018 fuel pricing formula to achieve cost recovery	Met
	Cabinet approval to automate semi-annual cost-recovery based electricity price adjustment	Met
Multiple Pillars	Cabinet approval of the new Central Bank Act with amendments from the bill submitted to Parliament in November 2019 in consultation with IMF staff	Met
	Cabinet approval of Banking (Special Provisions) Act to strengthen key elements of the CBSL's crisis management powers	Met
Financial Stability	Hiring by the CBSL of an independent firm to conduct banking sector diagnostic exercise based on Terms of Reference and timeline established in consultation with IMF staff	Met
	Increase policy interest rates by 100 basis points to ensure forward-looking real policy rates on a firmly upward path	Met
Price Stability		

Next Steps: Quantitative Targets

1/4

2022		2023		
end-Dec.	end-Mar.	end-Jun.	end-Sep.	end-Dec.
<hr/>				
Actual				

Proposed quantitative performance criteria

- Central government primary balance
- Program net official international reserves
- Net credit to the government
- Stock of expenditure arrears

Proposed continuous quantitative performance criteria

- New external payment arrears

Proposed monetary policy consultation clause

- Year-on-year inflation in Colombo

Proposed indicative targets

- Central government tax revenue
- Social spending floor
- Cost of non-commercial obligations for fuel and electricity
- Treasury guarantees

Next Steps: Structural Benchmarks

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Structural Benchmarks		Monetary and exchange rate policies	
Fiscal, SOE, and social safety net reforms			
Set retail fuel prices to their cost-recovery levels with monthly formula-based adjustments, and compensate the CPC for providing any fuel subsidies	Continuous	Parliamentary approval of the new Central Bank Act prepared in consultation with IMF staff	End-April 2023
Adjust the end-user electricity tariff schedule to its cost-recovery level ; and compensate the electricity sector for providing any residual subsidies	Continuous	Financial sector	
Parliamentary approval of the welfare benefit payment scheme and the application of the new eligibility criteria	End-May 2023	Completion of the asset quality review component of bank diagnostic exercise for the two largest state-owned banks and the three largest private sector banks	End-April 2023
Cabinet approval of a comprehensive strategy to restructure the balance sheets of the CEB, CPC, SriLankan Airlines, and the Road Development Authority	End-June 2023	Cabinet approval of a full revision of the Banking Act in consultation with IMF staff	End-June 2023
Cabinet approval of revenue measures to support fiscal consolidation during 2024	End-July 2023	Development by the CBSL of a roadmap for addressing banking system capital and FX liquidity shortfalls and intervening in banks assessed to be non-viable	End-July 2023
Completion of the rollout of the ITMIS , expanding its coverage to all 220 heads	End-September 2023	Determination by the MOF of the size, timing, instruments, and terms and conditions for potential government recapitalization of viable banks	End-October 2023
Submission to Parliament for the first reading of the 2024 Appropriation Bill in line with program parameters	End-October 2023	Parliament approval of a full revision of the Banking Act in consultation with IMF staff	End-December 2023
Parliamentary approval of the 2024 Appropriation Act and the spending allocations in line with program parameters	End-December 2023	Governance	
Submission to Parliament of a new PFM law	End-December 2023	Enact new anti-corruption legislation to harmonize it with the United Nations Convention Against Corruption, pending comprehensive asset recovery provisions	End-June 2023
Improve the Bulk Supply Transaction Account to accurately measure the electricity subsidy	End-December 2023	Publication of the report of an IMF-led governance diagnostic technical assistance mission to assess Sri Lanka's anti-corruption framework	End-September 2023

Next Steps: Debt Sustainability

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Putting Public Debt onto a Sustainable Path

Current Situation

Target

Public debt to GDP ratio

**2022:
128 percent of GDP**

**2032:
Below 95 percent of GDP**

Gross Financing Needs

**2022:
34.6 percent of GDP**

**2027-32: Annual Average
Below 13 percent of GDP**

FX Debt Service

**2022:
9.4 percent of GDP**

**2027-32: Annual Ceiling
Below 4.5 percent of GDP**

Close Financing Gaps

Next Steps: Debt Restructuring

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✓ Specific and credible financing assurances from official bilateral creditors

✓ Good faith negotiations with commercial creditors

Commitment:

- Transparently achieve a debt resolution, consistent with the program parameters and equitable burden sharing among creditors.
- Refrain from resuming debt service payments to any external commercial or bilateral creditor unless it agrees to a comprehensive debt treatment in line with the IMF program parameters, debt sustainability targets, and the comparability of treatment principle.
- End-April: Announcement on the coverage and parameters of the external and domestic debt operations before end-April 2023.

Integration with Capacity Development : Recent Examples

Pillar 1 & 2: Fiscal Consolidation and Debt Sustainability

Tax Policy

- Tax Policy Reform
- VAT and Excise Tax

Revenue Administration

- Large Taxpayer Office
- Tax Administration Diagnostic Assessment Tool (TADAT)
- Revenue Administration Management Information System (RAMIS)

Public Financial Management

- Macro-Fiscal Unit and MTFE
- Fiscal Risks Management
- Debt Management Office
- PFM Law
(including fiscal rules)

Pillar 3: Price Stability and External Reserves

Monetary and Foreign Exchange Operations

- Monetary Policy Operations
- Monetary Policy Frameworks and Implementation
- Forecasting and Policy Analysis System

Pillar 4: Financial Stability

Financial Sector Supervision and Regulation

- Building Supervisory Capacity
- Financial System Stability Review Follow-up
- Stress Testing
- Macprudential Tools
- Liquidity Monitoring
- Central Bank Balance Sheet

Pillar 5: Anti- corruption and Growth

Governance and Anti-corruption

- Governance Diagnostic Mission

DATA & ANALYSIS

Government Finance Statistics

- Broadening the Coverage and Scope to General
- Expanding Compilation for Whole of Central Government

Real Sector Statistics

- GDP Rebasing
- Price Statistics: CPI, PPI

Others

- Model-Based Financial Programming and Policies

Thank You