INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/162

SRI LANKA

July 2025

FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR WAIVER OF APPLICABILITY OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SRI LANKA

In the context of the Fourth Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 1, 2025, following discussions that ended on April 25, 2025, with the officials of Sri Lanka on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on June 16, 2025.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Sri Lanka.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR25/235

IMF Executive Board Completes the Fourth Review Under the Extended Fund Facility with Sri Lanka

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the Fourth Review under the 48-month Extended Fund Facility with Sri Lanka, providing the country with immediate access to SDR 254 million (about US$350 million) to support Sri Lanka's economic policies and reforms.

- Performance under the program has been generally strong with some implementation risks being addressed. Prior actions on restoring cost-recovery electricity pricing for the rest of 2025 and operationalizing automatic electricity tariff adjustment were met. All quantitative targets for end-March 2025, except the stock of expenditure arrears, were met. All structural benchmarks due by end-May 2025 were either met or implemented with delay. 2025Q2 inflation fell below the lower outer band of the Monetary Policy Consultation Clause largely due to energy prices. Debt restructuring is nearly complete.

- The economic outlook remains positive. However, global trade policy uncertainties pose significant risks to Sri Lanka's macroeconomic and social stability. If these shocks materialize, the authorities will work closely with staff to assess the impact and formulate policy responses within the contours of the program.

Washington, DC –July 3, 2025: On July 1, 2025, the Executive Board of the International Monetary Fund (IMF) completed the Fourth review under the 48-month Extended Fund Facility (EFF) Arrangement, allowing the authorities to draw SDR254 million (about US$350 million). This brings the total IMF financial support disbursed so far to SDR1.27 billion (about US$1.74 billion).[1]

The EFF arrangement for Sri Lanka was approved by the Executive Board on March 20, 2023 (see Press Release No. 23/79) in an amount of SDR 2.286 billion (395 percent of quota or about US$3 billion). The program supports Sri Lanka's efforts to durably restore macroeconomic stability by (i) restoring fiscal and debt sustainability while protecting the vulnerable, (ii) safeguarding price and financial sector stability, (iii) rebuilding external buffers, (iv) strengthening governance and reducing corruption vulnerabilities, and (v) enhancing growth-oriented structural reforms.

The Executive Board reviewed a report from the Managing Director on the inadvertent provision of inaccurate data by Sri Lanka on the ceiling of the central government's stock of expenditure arrears. The under-reporting of the arrears stock identified through a detailed analysis of budget line appropriations gave rise to noncomplying purchases and a breach of Sri Lanka's obligations under Article VIII, Section 5. The authorities have worked openly and closely with IMF staff to provide corrected data and have undertaken several corrective

[1] SDR figures are converted at the market rate of U.S. dollar per SDR on the day of the Board approval.

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USA

measures related to the clearing and reporting of arrears. They are also committed to improving reporting and data verification practices going forward in line with IMF technical assistance. Based on these actions, the Executive Board approved the authorities' request for waivers of non-observance.

The authorities have consented to the publication of the Staff Report prepared for this consultation.[2]

Following the Executive Board's discussion, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair, issued the following statement:

"Sri Lanka's performance under the Fund-supported arrangement is generally strong with some implementation risks being addressed. Reforms are bearing fruit, with economic growth strengthening, inflation remaining low, reserves accumulating, and fiscal revenues improving. The debt restructuring process is nearing completion. The economic outlook is positive, but downside risks have increased. In case shocks materialize, the authorities should work closely with the Fund to assess the impact and formulate policy responses within the contours of the program. Steadfast program implementation will be crucial.

"Sustained revenue mobilization is critical to restoring fiscal sustainability and creating fiscal space. Strengthening tax exemption frameworks, boosting tax compliance, and enhancing public financial management to ensure effective arrears management are important. Further improving the coverage and targeting of social support to the vulnerable is also necessary. A smoother execution of capital spending within the fiscal envelope would help foster medium-term growth. The restoration of cost-recovery electricity pricing and the operationalization of automatic electricity tariffs adjustment are commendable and should be maintained to contain fiscal risks.

"The progress to advance the restructuring of Sri Lanka's debt is noteworthy. Timely finalization of bilateral agreements with remaining official and commercial creditors is a priority.

"Monetary policy should continue to prioritize price stability, supported by sustained commitment to eliminate monetary financing and safeguard central bank independence. Greater exchange rate flexibility and gradually phasing out administrative balance of payments measures remain critical to rebuild external buffers and economic resilience.

"Resolving non-performing loans, strengthening governance and oversight of state-owned banks, and improving the insolvency and resolution frameworks are important to revive credit growth and support private sector development.

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[2] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/srilanka page.

“Structural reforms are crucial to unlock Sri Lanka’s potential. The government should continue to implement governance reforms and advance trade-facilitation reforms to boost export growth and diversification.”

Following the Executive Board’s discussion, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair, issued the following statement:

“The Executive Board of the International Monetary Fund (IMF) reviewed noncomplying purchases made by Sri Lanka under the 2023 Extended Arrangement under the Extended Fund Facility (“EFF”), as well as a breach of obligations under Article VIII, Section 5. The noncomplying purchases arose as a result of the provision of inaccurate information by the authorities on the stock of expenditure arrears at the first, second, and third reviews under the EFF.

“The inaccuracies in information provided to the IMF were inadvertent and arose because of weaknesses in the timely reporting of arrears by line ministries to the Ministry of Finance, as well as a misunderstanding by the authorities of the definition of “arrears” under the Technical Memorandum of Understanding.

“The Executive Board positively considered the authorities’ corrective actions, the fact that arrears repayments will be accommodated within the existing fiscal envelope, and the authorities’ commitment to improving public financial management procedures in line with the new PFM law, to reduce the risk of accruing arrears or inaccurate reporting of information going forward. In view of the above, the Executive Board agreed to grant waivers for the nonobservances of the quantitative performance criterion that gave rise to the noncomplying purchases and decided not to require further action in connection with the breach of obligations under Article VIII, Section 5.”

Sri Lanka: Selected Economic Indicators 2024-2030

	2024	2025	2026	2027
	Est.	Projections		
GDP and inflation (in percent)				
Real GDP	5.0	3.5	3.1	3.1
Inflation (average) 1/	1.2	3.3	5.2	5.0
Inflation (end-of-period) 1/	-1.5	8.9	5.2	5.0
GDP Deflator growth	3.8	3.6	5.3	5.1
Nominal GDP growth	9.0	7.1	8.5	8.4
Savings and investment (in percent of GDP)				
National savings	25.2	21.8	22.2	22.9
Government	-3.2	-2.0	-0.8	-0.1
Private	28.4	23.8	23.0	23.0
National investment	27.0	21.8	22.1	22.5
Government	5.0	4.3	4.5	4.6
Private	21.9	17.4	17.6	17.9
Savings-Investment balance	-1.8	0.0	0.1	0.4
Government	-8.2	-6.3	-5.3	-4.6
Private	6.4	6.4	5.4	5.1
Public finance (in percent of GDP)				
Revenue and grants	13.7	15.0	15.2	15.3
Expenditure	19.3	20.5	19.7	19.2
Primary balance	2.2	2.3	2.3	2.3
Central government balance	-5.6	-5.4	-4.5	-3.9
Central government gross financing needs	21.9	22.6	19.6	14.9
Central government debt	100.5	105.1	103.4	100.2
Public debt 2/	105.2	109.6	107.4	103.6
Money and credit (percent change, end of period)				
Reserve money	15.8	6.5	8.5	8.4
Broad money	8.6	6.5	8.5	8.4
Domestic credit	4.0	4.5	3.0	3.8
Credit to private sector	10.7	9.4	9.2	9.3
Credit to private sector (adjusted for inflation)	9.5	6.1	4.1	4.3
Credit to central government and public corporations	-1.4	0.0	-3.3	-2.5
Balance of Payments (in millions of U.S. dollars)				
Exports	12,772	12,880	13,490	14,194
Imports	-18,828	-21,363	-22,447	-23,578
Current account balance	1,746	-48	-77	-439
Current account balance (in percent of GDP)	1.8	0.0	-0.1	-0.4
Current account balance net of interest (in percent of GDP)	3.7	2.1	2.0	1.7
Export value growth (percent)	7.2	0.8	4.7	5.2
Import value growth (percent)	12.0	13.5	5.1	5.0
Gross official reserves (end of period)				
In millions of U.S. dollars	6,122	7,255	9,273	12,974
In months of prospective imports of goods & services	3.0	3.3	4.0	5.4
In percent of ARA composite metric	50.5	60.3	75.5	100.0
Usable Gross official reserves (end of period) 3/				
In millions of U.S. dollars	4,686	7,255	9,273	12,974
In months of prospective imports of goods & services	2.3	3.3	4.0	5.4
In percent of ARA composite metric	38.6	60.3	75.5	100.0
External debt (public and private)				
In billions of U.S. dollars	53.9	54.6	56.3	59.9
As a percent of GDP	54.4	55.1	58.6	59.4
Memorandum items:				
Nominal GDP (in billions of rupees)	29,899	32,036	34,754	37,664
Exchange Rate (period average)	302.0	…	…	…
Exchange Rate (end of period)	293.0	…	…	…

Sources: Data provided by the Sri Lankan authorities; and IMF staff estimates.
1/ Colombo CPI.
2/ Comprising central government debt, publicly guaranteed debt, and CBSL external liabilities (i.e., Fund credit outstanding and international currency swap arrangements). The debt statistics currently assume the external debt restructuring to have been completed at end 2023.
3/ Excluding PBOC swap ($1.4bn in 2022) which becomes usable once GIR rise above 3 months of previous year's import cover.

INTERNATIONAL MONETARY FUND

SRI LANKA

June 16, 2025

FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR WAIVER OF APPLICABILITY OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. The economic outlook remains positive, and the government has reaffirmed its commitment to the program. Reforms continue to deliver on their objectives including in enhancing social protection and advancing governance reforms. Nevertheless, global trade policy uncertainty has increased downside risks to Sri Lanka's macroeconomic and social stability.

Program Status. The IMF Executive Board approved in March 2023 a 48-month arrangement under the Extended Fund Facility in the amount of SDR2.286 billion (395 percent of quota or about US$3 billion). On completion of the Fourth Review, Sri Lanka would have access to an additional SDR254 million (about US$347 million), bringing total purchases to SDR1.27 billion (about US$1.74 billion).

Program Performance is generally strong with some implementation risks being addressed. All end-March 2025 quantitative criteria were met, except the indicative target on the stock of expenditure arrears. By end-May 2025, all structural benchmarks were either met or implemented with delay. End-March headline inflation remained below the lower outer band of the Monetary Policy Consultation Clause largely due to energy prices. The prior actions on restoring cost-recovery electricity pricing and operationalizing automatic electricity tariff adjustment were met.

Program Risks. Risks to program financing have increased due to the global trade policy uncertainty and tighter global financing conditions. Risks to program implementation remain high given the possibility of reform fatigue. Contingency plans are important, and policies should remain agile to adjust to evolving circumstances. In the event of shocks, the authorities are committed to working closely with staff to assess the impact and formulate policy responses within the contours of the program.

Program Modalities. New and modified quantitative targets and structural benchmarks until June 2026 are proposed. Staff recommends that the Board completes the required financing assurances review.

Approved By
Sanjaya Panth (APD) and Martin Čihák (SPR)

Discussions took place during April 3-11, in Colombo, and April 22-25, 2025, in Washington, DC. The mission met with President and Finance Minister Dissanayake, Prime Minister Amarasuriya, Central Bank of Sri Lanka Governor Weerasinghe, Minister Fernando, Deputy Minister Suriyapperuma, Secretary to the Treasury Siriwardana, Senior Economic Adviser Hulangamuwa, other senior officials, representatives of the Parliamentary Opposition, the business community, civil society, and international partners. The mission team comprised E. Papageorgiou (Mission Chief), S. Dhungana, D. Prihardini, U. Wiriadinata (all APD), S. Kwalingana (SPR), D. Rozhkov (FAD), D. Palermo (MCM), M. Woldemichael (resident representative), and M. Abeyawickrama (local economist). S. Panth (APD Deputy Director) and P. Breuer (previous Mission Chief) attended parts of the mission. P. Harischandra (OED) participated in key policy meetings. R. Yang and S. Abebe (APD) assisted in the preparation of this report.

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Acronyms

ADB	Asian Development Bank
BSTA	Bulk Supply Transaction Account
CBSL	Central Bank of Sri Lanka
CEB	Ceylon Electricity Board
CFM	Capital Flow Management Measure
CIABOC	Commission to Investigate Allegations of Bribery or Corruption
CIT	Corporate Income Tax
E-GP	Electronic Government Procurement
EFF	Extended Fund Facility
FDI	Foreign Direct Investment
FX	Foreign Exchange
GDP	Gross Domestic Product
GFN	Gross Financing Needs
ILAAP	Internal Liquidity Adequacy Assessment Process
IRD	Inland Revenue Department
ISB	International Sovereign Bond
IT	Indicative Target
ITMIS	Integrated Treasury Management Information System
JSC	Judicial Service Commission
KPI	Key Performance Indicator
LEG	Legal Department
MCP	Multiple Currency Practices
MoF	Ministry of Finance, Planning, and Economic Development
MPCC	Monetary Policy Consultation Clause
NCG	Net Credit to Government
OCC	Official Creditor Committee
PDMO	Public Debt Management Office
PFM	Public Financial Management
PIMA	Public Investment Management Assessment
PPP	Public-Private Partnership
PUCSL	Public Utilities Commission of Sri Lanka
QPC	Quantitative Performance Criterion
REER	Real Effective Exchange Rate
SB	Structural Benchmark
SDP	Strategic Development Projects
SEZ	Special Economic Zone
SLA	Sri Lankan Airlines
SME	Small and Medium Enterprise
SOB	State-Owned Bank
SOE	State-Owned Enterprise

SPRR	Sales Price and Rents Register
SSN	Social Safety Net
SVAT	Simplified Value-Added Tax
TA	Technical Assistance
TMU	Technical Memorandum of Understanding
VAT	Value-Added Tax
WB	World Bank

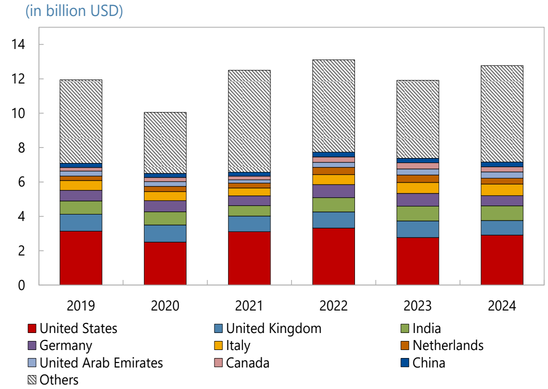
CONTEXT

1. The government reaffirmed its political mandate and is now looking to pursue a more ambitious agenda of policies, in line with the IMF program objectives. The governing National People's Power party holds a two-thirds majority in parliament and controls majority of local councils following the May elections. The authorities reiterated their intention to accelerate the pace of reforms including to reduce corruption and upgrade governance standards, explore ways to boost investment including by reforming the tax exemptions frameworks, retool and improve fiscal revenue administration, and adopt policy measures to help the vulnerable.

2. The global trade policy uncertainty poses significant risks to Sri Lanka's macroeconomic and social stability. The United States is Sri Lanka's largest goods exports destination, accounting for about 23 percent of total goods exports (3 percent of GDP) in 2024. These exports are mainly in the garment and rubber industries which employ over 1 million people directly and indirectly. This underscores the significant macroeconomic and social stability implications from international trade developments (see ¶16).

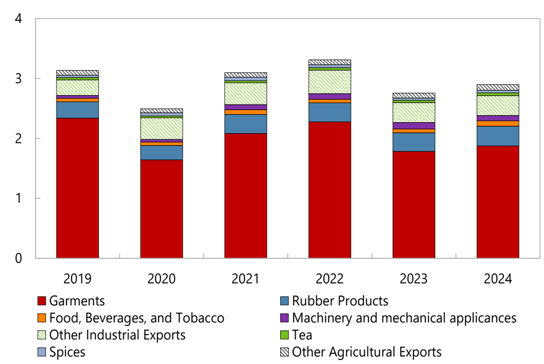
Sri Lanka: Trade Exposures to the United States

Exports by Destination
(in billion USD)



Sources: CBSL, and IMF staff calculations.

Breakdown of Exports to U.S.
(In billion USD)



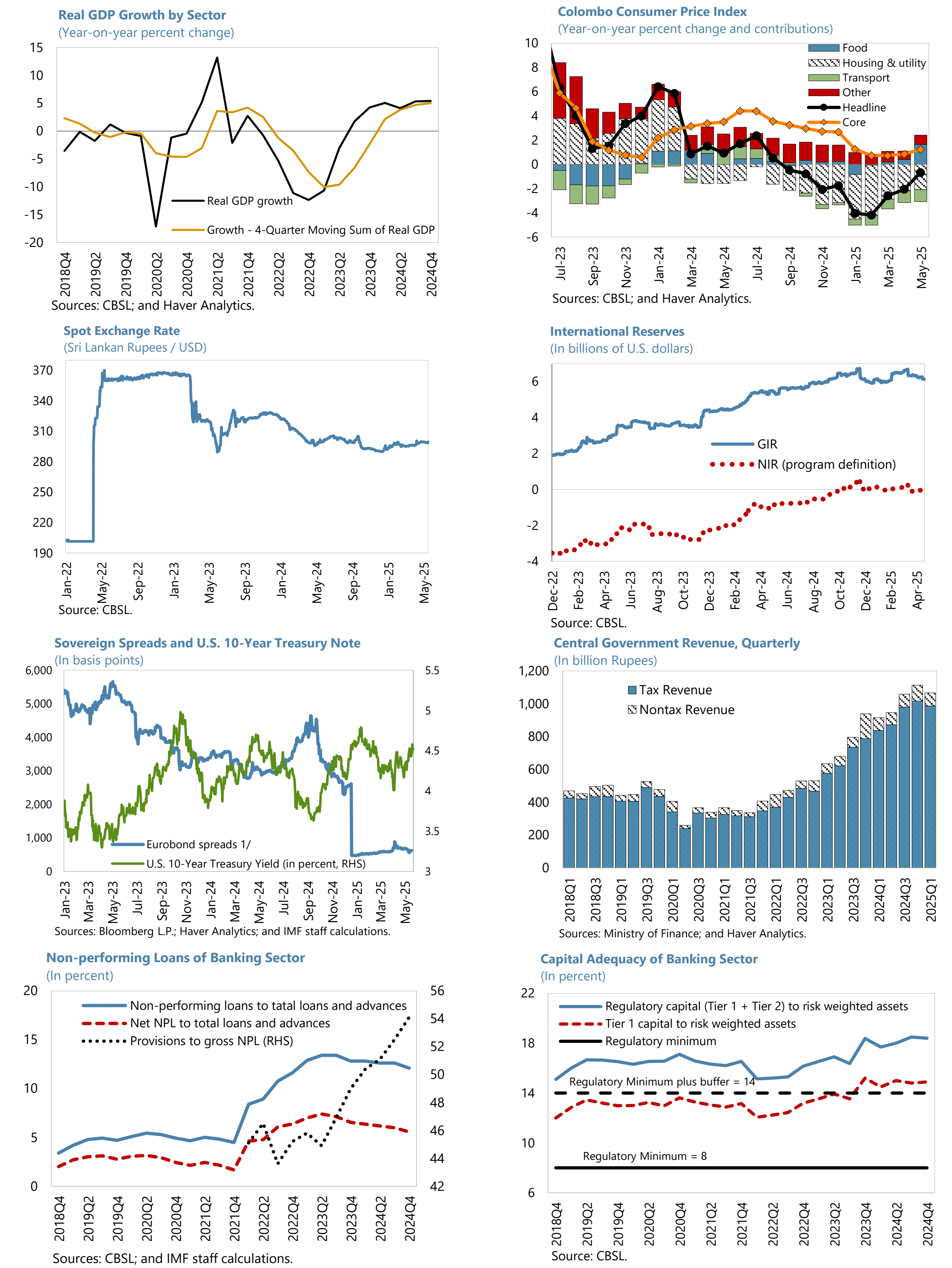
Sources: CBSL; and IMF staff calculations.

RECENT DEVELOPMENTS

3. Reform efforts continue to bear fruit, with significant progress on all fronts.

- **Strong economic rebound continued**. The economy grew by 5 percent y/y in 2024, driven by manufacturing, construction and tourism sectors. High-frequency indicators in 2025Q1 suggest the growth momentum will persist, and PMIs for manufacturing and services remain firmly in expansion. Tourist arrivals have reached pre-pandemic levels.

Figure 1. Sri Lanka: Recent Economic Developments



- **Inflation remains subdued**. May headline and core inflation have started to rebound but remain low at -0.7 percent y/y and 1.2 percent y/y, respectively.[1] The deflation is due to further declines in the cost of utilities and transportation, which largely reflect electricity tariff cuts in January and lower global fuel prices.

- **Reserve accumulation outperformed amid a favorable external balance**. The 2025Q1 current account remained in surplus, supported by buoyant tourism activity and strong remittances, which outweighed the trade deficit. Following net foreign exchange (FX) purchases of US$599 million, gross official reserves reached US$6.2 billion (52 percent of the ARA metric) at end-April. The nominal exchange rate is relatively unchanged y/y in May after depreciating by 2.6 percent year-to-date. The real effective exchange rate (REER) depreciated by 4.6 percent y/y as of April.

- **Revenue-based fiscal consolidation is on track**. Revenue collection remained strong, with tax revenues in January-April reaching 4.2 percent of GDP (21 percent y/y growth), driven by robust VAT and external trade taxes. The primary balance registered 1.6 percent of GDP surplus, with low capital expenditures due to limited spending provisions in the transitory budget arrangement.

- **Credit to the private sector gathered momentum, supported by a well-capitalized banking sector.** Credit growth reached 12.8 percent y/y in February. All banks meet capital requirements, with the aggregate regulatory capital above 18 percent for the last 3 quarters of 2024. Although the level of NPLs remains high, it has been slowly declining since mid-2023. Supported by higher provisions, the net level of NPLs declined from 7.4 percent in 2024Q2 to 5.6 percent in 2024Q4.

OUTLOOK AND RISKS

4. The economic outlook under the baseline is positive. Authorities have been proactive in their response to the tariffs announcement and are negotiating closely with the US administration. Staff's baseline macroframework incorporates the 10 percent baseline tariff rate on goods exports to the US on an ongoing basis. Under this scenario, the impact on Sri Lanka is modest and is approximated by a small global income shock that affects net exports marginally. Specifically, the current account is projected to remain relatively buoyant, driven by a strong rebound in tourism and remittances.[2] Lower oil prices and intermediate imports offset the decline in exports to the United States. Growth in 2025 is revised up to 3.5 percent y/y, relative to 3 percent y/y in the Third Review, driven by strong tourism activity, buoyant manufacturing and construction, and recovering consumption. Average inflation in 2025 is revised down to 3.3 percent y/y, reflecting lower energy prices and a stronger-than-expected exchange rate so far. The

[1] Core excludes volatile food, energy, and transport items.

[2] The latest External Sector Assessment (ESA) was published in the 2024 AIV (IMF Country Report No. 24/161). An updated ESA will be published in the next EFF Review.

current account balance is projected to deteriorate only marginally, as the higher trade deficit is largely offset by stronger tourism and remittance inflows.

5. However, any re-escalation of trade shocks poses downside risks to the economy (Annex III). A significant trade shock would disrupt Sri Lanka's economic recovery. Reinstatement of the 44 percent reciprocal tariff (announced on April 2) on exports to the US and lower tariffs on competitor countries would erode Sri Lanka's export competitiveness. Profit margins are thin, particularly for the garment sector, which limits the ability for firms to absorb this substantial tariff increase. Exports could decline by as much as 3 percentage points of GDP due to lower external demand and diversion of trade. There is also a risk that exporters could relocate or expand their existing foreign operations. Lower exports would partially be offset by the lower need for imported inputs, lower global commodity prices, and exchange rate depreciation. With a narrowing of net exports, and spillovers to other economic sectors, the level of real GDP would decline by ¼ to 1½ percent relative to the baseline. The reduction in Sri Lanka's competitiveness and heightened uncertainty would discourage business investment, contributing to a loss in GDP. Unemployment would surge. Public pressure on the government to deliver support may slow down reform implementation and increase the risk of program underperformance.

6. Elevated uncertainty and downside risks linked to significant global trade shocks also pose risks to the program. If downside risks materialize, achieving program targets would be more challenging. The loss in merchandise export receipts would slow the accumulation of reserves and may lead to external financing gaps. Slower global growth would compound these effects through lower remittances and tourism revenue. Fiscal revenues would be lower directly from a loss in corporate income tax revenue from exporters and indirectly as weak growth would affect the buoyancy of revenues. At the same time, spending pressures to support affected workers and the economy more broadly would increase. A persistent and significant widening of the primary balance could lead to unsustainable debt. Increased global risk aversion may substantially increase financing costs, halt foreign inflows, and delay Sri Lanka's return to markets and debt sustainability risks would rise further. Risks are managed through policy adjustment and contingency measures, including locking in overperformance. If these or other shocks were to materialize, the authorities are committed to working closely with staff to assess their impact and formulate policy responses, including appropriate monetary policy easing and well-targeted fiscal support, within the contours of the program.

PROGRAM PERFORMANCE

7. Program performance is generally strong with some implementation risks being addressed (MEFP Table 1). The 20 percent electricity tariff reduction in January changed the assessment of the continuous structural benchmark (SB) on cost-recovery electricity pricing to not met. This tariff reduction has led to significant operating losses by the electricity company (see ¶12). The implementation of the two prior actions (PAs) on restoring and safeguarding cost-recovery electricity pricing will help contain fiscal risks. Most indicative targets (ITs) for end-March 2025 were met, including the IT on social spending. A correction in the stock of government expenditure arrears has been incorporated into the program.

- **Fiscal.** The ITs on the primary balance, tax revenue, government guarantees, and social spending were met. The IT on the stock of expenditure arrears was not met (see below).

- **Monetary policy and reserves.** Headline inflation in 2025Q1 fell below the outer band of the Monetary Policy Consultation Clause (MPCC). The ITs on the CBSL's primary market purchases of government securities and net credit to government (NCG) continue to be met given the elimination of monetary financing. Net international reserves (NIR) outperformed the target.

- **Central government expenditure arrears.** The arrears QPC binding during previous reviews was breached with corrections to the data. The authorities reported outstanding liabilities for certain interest subsidy schemes in the Ministry of Finance (MOF) Annual Report that were not previously reported to the Fund.[3] Published audit reports by the Auditor General also identified instances where other liabilities had been accumulated by budgetary units, but these were not reflected in MOF's data. These corrections led to an upward shift in the stock of arrears and changed the assessment of the end-December 2023 and end-December 2024 quantitative performance criterion (QPC) on the ceiling of the stock of arrears as *not met*, resulting in noncomplying purchases.[4] The same QPC at the end-June 2023 test date was missed by a higher margin.[5] The bulk of the arrears were accumulated before the EFF program. These arrears stood at Rs138 billion as of end-March 2025. Authorities are committed to clearing the identified arrears by the end of the program (March 2027), while still meeting the primary balance target. The 2025 Budget already includes provisions for arrears clearance and going forward authorities will consult with staff on an arrears clearance strategy.

Sri Lanka: Stock of Central Government Expenditure Arrears
(In billions of rupees)

	First Review	Second Review	Third Review	
	end-June 2023	end-Dec 2023	end-June 2024	end-Dec 2024
Stock of arrears ceiling (PC)	0	0	0	0
Initially reported arrears	34.5	0	0	0
Original assessment	Not met	Met	Met	Met
Revised arrears	154.2	118.1	112.2	95.3
Current Assessment	Not Met	Not Met	Not Met	Not Met
Revised arrears (as percent of GDP)	0.6	0.4	0.4	0.3

Sources: Sri Lanka Ministry of Finance; and IMF staff calculations.
Note: Data for end-June 2024 was not assessed formally but reported as part of the Third Review.

[3] The bulk of the arrears are owed to the banking sector and does not accrue interest as any associated penalties are already included in the reported amounts.

[4] The Auditor General was consulted during the process of correcting the data, their opinion is published in MOF's 2024 Annual Report.

[5] The noncomplying purchases resulted from the provision of inaccurate data on the performance criteria on the ceiling of the central government's stock of expenditure arrears over the First, Second and Third Reviews of the 2023 EFF arrangement. Authorities note that this occurred due to weaknesses in the timely reporting of arrears by line ministries to the MOF and a misunderstanding regarding the definition of arrears under the Technical Memorandum of Understanding (TMU). The authorities have taken corrective actions. A short, stand-alone report on the noncomplying purchase is issued to the Board in parallel.

8. All SBs due since the Third Review to end-May were met or implemented with delay (MEFP Table 2).

- **Fiscal.** The 2025 Budget approved in March is in line with program parameters. Due to administrative issues, the reporting of the quarterly Key Performance Indicators (KPIs) on tax compliance due at end-February was implemented with delay, but the same **SB** due at end-May was met. The **SB** on completing and publishing the VAT compliance improvement program (end-May) was met. The continuous **SB** on cost-recovery electricity pricing is now met with the PA implementation.

- **Financial.** Parliament reinstated out-of-court collateral enforcement procedures for banks (*Parate executions)* ahead of time. Due to the parliamentary break in April, the repeal of the Foreign Loans Act was implemented with delay.

- **Governance.** The MOF published an updated governance action plan (MEFP ¶33). The anti-corruption commission (CIABOC) published its new strategic plan and submitted to MOF a budget consistent with the plan (end-October 2024 SB). The government enacted a comprehensive Asset Recovery Law (MEFP ¶34).

POLICY ISSUES

A. Revenue-Based Fiscal Consolidation and Fiscal Structural Reforms

9. The fiscal path remains broadly unchanged from the Third Review. The Appropriation Act approved in March **(SB)** is consistent with program parameters, with a primary surplus target of 2.3 percent of GDP **(QPC)** and a tax revenue target of 13.9 percent of GDP **(QPC)** in 2025. The revenue yields from increasing the withholding tax on interest income have been lowered, and the introduction of VAT on the supply of digital services has been delayed due to court-related challenges. These losses are projected to be offset by stronger revenue collection from improved VAT compliance and trade taxes based on Q1 overperformance (text table). The medium-term fiscal path remains unchanged.

10. The significant dependence of revenue gains on motor vehicle import taxes necessitates strong contingency planning. High-frequency data suggest steady growth in motor vehicle imports after the removal of import restrictions on February 1, with around US$675 million in letters of credit opened and corresponding tax collection at 0.5 percent of GDP by June 10. Given the reliance of 2025 revenue gains (around 80 percent) on this single measure, the authorities are committed to implementing appropriate contingency measures to protect medium-term revenue if signs of underperformance emerge.

Sri Lanka: Revenue Measures and Changes Relative to Third Review
(In percent of GDP)

	Third Review	Fourth Review
Total net tax revenue gains	**1.5**	**1.5**
No changes relative to third review		
Introduce CIT of 15 percent on export of services	0.02	0.02
Increase CIT rate from 40 to 45 percent on betting and gaming, tobacco	0.08	0.08
Impact of motor vehicles imports (including higher customs duty)	1.2	1.2
Increase of stamp duty on leases of land from 1 percent to 2 percent	-0.03	-0.03
Cost of raising the PIT tax-free threshold	-0.15	-0.15
Lower/delayed yields relative to third review		
Introduce VAT on supply of digital services	0.04	0.00
Increase in final withholding tax rate on interest income from 5 to 10	0.1	0.05
Overperformance relative to third review		
Outperformance in VAT (including compliance gains)	0.1	0.15
Growth of trade and excise taxes relative to GDP	0.06	0.12
Memo items		
Tax revenue in 2024	12.4	12.4
Tax revenue in 2025	13.9	13.9

Sources: Sri Lankan authorities; and IMF staff calculations.

11. **Authorities should continue efforts to repeal the Simplified VAT (SVAT) scheme and reform revenue administration.** Authorities have recently accelerated efforts to strengthen project management and finalize the risk-based exporter refund system. The SB on reporting the results of the simulation exercise to test the new refund process (**end-June**) is expected to be met with a short delay in mid-July. Authorities have committed to providing significant human resources to IRD to ensure timely SVAT repeal (**SB, end-September**) and smooth functioning of the post-repeal VAT refund system. An initial VAT compliance improvement program (**SB, end-May**) has been completed, and the program's execution will help ensure compliance gains in 2026.

12. **Maintaining cost-recovery electricity pricing is paramount to contain fiscal risks.** It is also important to repay Ceylon Electricity Board (CEB) legacy debt and facilitate appropriate investments to allow lower costs in the future. The Public Utilities Commission of Sri Lanka (PUCSL)—the independent electricity regulator—approved a 20 percent electricity tariff cut in January 2025, despite the CEB having proposed an unchanged tariff. This resulted in Rs18 billion (0.05 percent of GDP) operating losses of CEB in 2025Q1. The losses were covered by bank overdrafts and arrears to suppliers, creating significant contingent fiscal risks. The situation was exacerbated by foregoing the scheduled tariff revision in April and an automatic tariff adjustment based on the Bulk Supply Transaction Account (BSTA) (next paragraph). Cost-recovery pricing was restored in June for the remainder of 2025, with a 15 percent average tariff increase (**PA**). This increase is estimated to be sufficient to bring CEB's remaining 2025 operating balance to at least zero and cover the scheduled repayments of CEB legacy debt. CEB's financial performance in Q2 will be assessed in the coming months and worse-than-expected outturn may require another tariff increase in October. Staff remain concerned about governance elements of electricity cost-recovery

moving forward, and further consultation will be needed in upcoming reviews to ensure a durable solution. Authorities have committed to reviewing the tariff methodology by end-November 2025 in consultation with IMF staff (**new SB**), and, if needed, revising it. With respect to fuel pricing, cost-recovery pricing continues to be maintained.

13. Going forward, it is critical to ensure the automatic electricity tariff adjustment remains effective. Disagreements between CEB and the PUCSL prevented the BSTA from triggering an automatic 10 percent tariff adjustment when the BSTA threshold was reached in March. The BSTA guidelines were amended in June, eliminating the clause that caused disagreements on the BSTA value (**PA**). Following a grace period after the June tariff revision, the automatic tariff adjustments between the quarterly revisions should be restored. The authorities will amend the PUCSL Act to mandate submission to parliament and publication of quarterly reports on maintaining cost-recovery electricity pricing (**new SB**).

14. Sustained efforts on developing property-related databases are necessary to enact property taxation by 2027H1. Delays in resolving data sharing constraints have set back the finalization of the Sales Price and Rents Register (SPRR) database, and the SB is expected to be met with delay by end-September. Authorities should promptly resolve data sharing problems, complete the SPRR, and prepare a final database of market property values by mid-2026. Concurrent discussions on property taxation modalities are vital to ensure enactment by 2027H1.

15. The Public Financial Management (PFM) reform agenda remains key to maintain fiscal discipline and curb risks. Authorities will adopt the implementing regulations of the PFM Act by end-December 2025 (**new SB**). Upcoming bills on public-private partnerships (PPPs), state-owned enterprises (SOEs) and public asset management should be consistent with the PFM Act and best practices. The new strategy on Sri Lankan Airlines should aim at restoring operational viability and resolving legacy debts. Stronger efforts are needed to ensure annual publication of audited financial statements of 52 major SOEs by end-June.

16. Further steps are necessary to enhance the execution of capital spending to support growth. The capital spending budget has been under-executed by 1.1 percent of GDP on average in 2023-24. Weaknesses in project appraisal, monitoring and evaluation due to the lack of a unified database have contributed to insufficient prioritization and under-execution. The authorities should utilize upcoming IMF technical assistance on the Public Investment Management Appraisal (PIMA) update to develop strategic plans and improve public investment execution and efficiency.

17. The authorities met the end-March 2025 IT on social spending after intensifying efforts to strengthen the adequacy, coverage, and targeting of the social safety net (SSN). The authorities increased the size of Aswesuma cash transfers and extended payment periods for selected groups, expedited the expansion of the social registry,[6] provided school stationery support

[6] The onboarding of the remaining first-round Aswesuma applicants, following the resolution of bank account opening issues, is expected to be completed by June. The enumeration of second-round Aswesuma applicants is also expected by end-June, with payments expected to commence in the same month, alongside swift implementation of

(continued)

for vulnerable children, and enhanced budget allocation for the empowerment program.[7] To further improve targeting and coverage, the authorities plan to recertify all first-round Aswesuma applicants and review Aswesuma design including eligibility criteria. They are also exploring the use of social registry for beneficiary selection in other social assistance programs. The National Social Protection Strategy, envisaged in August 2025, will serve as a high-level roadmap for implementing and financing SSN programs in Sri Lanka.

18. The authorities are undertaking corrective actions to address issues associated with noncomplying purchases (see MEFP ¶12). PFM processes are being improved to prevent accumulation of arrears, as well as the recording, reporting and monitoring of arrears; by June 2026, MOF will use ITMIS (Integrated Treasury Management Information System) to produce a monthly report on the size, maturity, and composition of arrears (**new SB**). Other measures include preparing a credible budget with realistic revenue projections and working towards an ITMIS-based system for effecting commitment control. Suppliers will be notified that, from June 2026 onward, only a system-generated purchase order should be accepted for supplying goods and services. Notably, many of the ongoing PFM reforms will also minimize the risk of accruing arrears.

19. Reforms to the new senior citizen subsidy scheme are required to limit fiscal costs.[8] A previous version of the scheme was a key source of cost overruns and arrears. Authorities will institute an identity verification scheme for the new interest subsidy scheme to limit the potential for abuse including through beneficiaries with multiple accounts receiving multiple payments (MEFP ¶11). The scheme will be discontinued after end-December 2025.

B. Restoring and Maintaining Debt Sustainability

20. Debt remains sustainable and debt indicators have improved relative to the Third Review, despite additional debt service from the Macro-Linked Bond (MLB) adjustment (DSA Annex). The first MLB threshold is now expected to be triggered due to the stronger rupee that leads to a higher dollar GDP.[9] That said, improved macroeconomic conditions more than offset the increase in debt service, resulting in improved debt indicators. All DSA targets remain respected.[10] However, debt sustainability risks would remain high in the next years. It is critical to fully complete the debt restructuring and continue fiscal discipline.

the grievances redress process. The grievances redress process is a review of appeals and objections filed by all applicants following the selection of beneficiaries, as mandated by law.

[7] The program provides livelihood support to households through skills training and seed capital to help them graduate from the Aswesuma program.

[8] The new scheme will begin in July 2025. Details are discussed in IMF Country Report No 25/56, ¶13.

[9] The projected average dollar GDP in 2025-27 is now US$98.7 billion compared to the first upper MLB threshold of US$94.0 billion. This leads to higher coupon rates, by 25-75 basis points depending on bond series, and 13 percent higher principal on the restructured Eurobonds.

[10] The current DSA baseline is based on no claw back assumption for other creditors with respect to the MLB features—consistent with the legal documents—but debt sustainability is preserved regardless given sufficient buffer.

21. Staff recommends completing the financing assurances review, given good progress in advancing Sri Lanka's nearly complete debt restructuring. Authorities are now close to completing their comprehensive debt restructuring consistent with program parameters: out of US$28 billion of external debt under the restructuring perimeter at end-2023, only US$0.8 billion remain for which restructuring agreements need to be reached.[11] Draft bilateral agreements are being discussed with all official creditor committee members and other official creditors.[12] Agreements with Japan and India were signed. Authorities are engaged in good faith negotiations with the remaining commercial creditors.[13] All these processes are expected to conclude in 2025.

22. Full operationalization of the Public Debt Management Office (PDMO) is necessary to establish prudent debt management practices. The authorities are on track to fully operationalizing the PDMO, which was established in December 2024 with the support of IMF TA. New PDMO staff are undertaking training from the CBSL, and the necessary infrastructure is being set up. Parliament has repealed the Foreign Loans Act **(SB)** to ensure debt management activities are consolidated under the PDMO. The PDMO will update the medium-term debt strategy and prepare an annual borrowing plan to be published together with the 2026 Budget, consistent with the PFM law.

C. Price Stability and External Sustainability

23. Inflation is expected to return to target gradually by 2025H2. Amid global uncertainties and deflation since September 2024, CBSL lowered the policy rate by 25 bps in May to 7.75 percent to support inflation expectation and bring inflation towards the 5 percent target. The current deflation in headline prices is expected to reverse gradually as increases in electricity tariffs take place, strong growth continues, the full impact of monetary policy easing materializes, and base effects dissipate. However, inflation risk is to the downside given external shocks that could halt domestic growth, lower global demand, and reduce commodity prices.

24. CBSL will continue maintaining a prudent monetary stance and refraining from monetary financing (continuous QPC). Forward real rates are close to neutral rate estimates. Taylor rule models imply little room for easing especially given the supply-side nature behind

[11] This includes about US$250 million under the ongoing HRB litigation. The litigation entails risk to debt sustainability. However, the risk is contained given the limited size of bonds under the litigation and the design of most favored creditor clauses on the new bonds: it does not apply to payment of any judgment which is final and non-appealable. On recent developments, after the stay of proceedings ended on January 15, HRB renewed its motion for summary judgment, but the court granted Sri Lanka's request for additional discovery.

[12] The remaining official creditors are Saudi Arabia, Kuwait, Iran, and Pakistan. In the absence of an adequately representative standing forum, a sufficient set of creditors have provided direct commitments to the Fund on their restructuring intentions by having finalized MOUs (OCC) or final treatment (China EXIM) so that the Enhanced Safeguards under Strand 4 of the lending into official arrears (LIOA) policy are met. Accordingly, consent for LIOA is no longer required, as these assurances allow all official arrears to be deemed resolved (IMF 2024/17, ¶20). Small amounts of commercial debt (below USD 50 million) remain to be restructured.

[13] The authorities have appointed financial advisors to restructure US$175 million in Sri Lankan Airlines international bonds guaranteed by the government.

the deflation. However, if global shocks materialize, monetary policy should ease appropriately. Monetary policy remains governed by the **MPCC**.

25. CBSL remains committed to rebuilding reserves (QPC), allowing greater exchange rate flexibility, and phasing out administrative BOP measures. The authorities will continue building up reserves through outright purchases. CBSL FX sales remain limited to prevent disorderly market conditions, as to allow exchange rate flexibility. The authorities remain committed to phasing out remaining exchange restrictions, multiple currency practices (MCPs), and capital flow management measures (CFMs) as the balance of payments stabilizes (see MEFP ¶29).[14]

D. Financial Sector Stability

26. The government implemented measures to foster private sector credit growth. Parate executions (out-of-court foreclosure procedure) were reinstated in December 2024. CBSL published a directive encouraging banks to provide incentives for small and medium enterprises (SMEs) to renegotiate their overdue debts. The corporate insolvency bill to reform the bankruptcy framework and facilitate credit recovery is on track to be enacted by end-2025.

27. CBSL is modernizing its risk-based supervision practices, with a focus on aligning the liquidity framework to Basel standards. Supported by IMF technical assistance, CBSL plans to introduce Internal Liquidity Adequacy Assessment Process (ILAAP) requirements to systemically important banks to better manage and monitor liquidity.[15]

28. The implementation of state-owned banks (SOBs) governance standards should advance swiftly. Following the presidential election, the government paused the process of appointing independent members to the executive boards of SOBs.[16] Due to the delay, several board compositions are incomplete, and several committees are not functioning. The government is now committed to appointing independent board members by end-July, consistent with the SOB governance framework (**new SB**).

[14] Sri Lanka maintains two MCPs arising from the following official actions which create impermissible spreads: (i) the levy of a 2.5 percent stamp duty on credit card transactions abroad; and (ii) the levy of a 14 percent remittance tax on nonresidents' profits. As these are so closely connected with exchange transactions, the additional cost is considered a part of the effective exchange rate ("imputed" exchange rate) and imposes an additional burden (increased cost) on payments for current international transactions that is directly tied to payments abroad.

[15] The ILAAP is a process used by financial institutions to identify, measure, manage, and monitor their liquidity risks.

[16] The composition of the boards was changed by the Banking Act Directions on Corporate Governance for Licensed Banks published by CBSL in September 2024, and by the government's decision to change the composition of the SOB Boards, which now need to have between 9 and 13 members, the majority of which should be independent. However, new members in line with the new composition are yet to be appointed.

E. Strengthening Governance and Reducing Corruption Vulnerabilities

29. Continued governance reforms are critical to sustain stability and unlock Sri Lanka's growth potential. The annual update to the governance action plan and new initiatives are welcome.

- The **asset declaration** system continues to be strengthened. CIABOC has published the list of senior officials who did not file an asset declaration in 2024 and the guidelines for the 2025 declaration clarifying the beneficial ownership information requirement (MEFP ¶34).
- Establishing **an e-land registry and titling** would enhance transparency, reduce corruption opportunities, and clarify property rights. This will help ensure productive use of land (MEFP ¶40).
- Adopting **electronic government procurement (e-GP)** is important to improve spending efficiency, lower corruption risks, and enhance competition by opening opportunities for SMEs. Drafting of the Public Procurement Law in line with international best practices is progressing with the support of development partners (MEFP ¶37).
- On **AML/CFT**, amendments to the Companies Act—to ensure the beneficial ownership framework is consistent with FATF standards—have been approved by cabinet and cleared by the Attorney General. Authorities remain committed to progress on AML/CFT reforms (MEFP ¶39).
- The Judicial Services Commission (JSC) is largely responsible for professionalization of the sector. Circulars and provisions issued by the JSC, as well as other material, provide a guide for **judicial conduct**. These materials will be collated for ease of reference by the public and officers, and reviewed to identify any areas to be enhanced (MEFP ¶34).

30. Strengthening the exemptions framework of SDP Act, Port City Act, and Customs is key to durably restore fiscal sustainability. Efforts are underway to amend the SDP Act (**end-August, SB**) and Port City Act (**end-October, new SB**), in consultation with IMF staff, to introduce transparent, rules-based, best-practice aligned eligibility criteria for time-bound incentives. To lower customs revenue leakages, the authorities will prepare and submit legislation to Parliament to ensure the Customs Department has a mandate for the clearance of goods to and from special economic zones (SEZs) **(end-October 2025, new SB)**.

31. Authorities have reaffirmed the program commitment to refrain from granting tax exemptions until new frameworks for such exemptions are in place. Between January and September 2024, the authorities issued exemptions to 24 companies under the current Port City Act without consulting IMF staff, despite their commitments to undertake such consultations. There are currently four applications at an advanced stage awaiting approval for which land lease and advance payments have already been made (MEFP and Annex II). Considering the legal and reputational risks, the authorities will approve these projects. They have pledged to refrain from granting any new Port City-related exemptions until the amended Port City Act and its regulations are enacted in line with IMF TA, supported by a **new continuous SB** and a commitment to provide monthly information on recently provided tax exemptions (MEFP, ¶35). Upholding these commitments will be crucial in demonstrating the authorities' dedication to enhancing the tax exemptions regime.

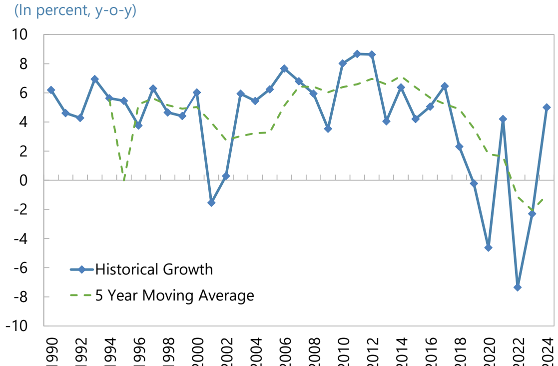
F. Raising Potential Growth

32. Structural reforms to facilitate the growth and diversification of exports are priority to build resilience and unlock potential, especially amid ongoing global trade policy uncertainty. Compared to peer countries, Sri Lanka's exports are low (as a share of GDP) and less diversified. Similarly, foreign direct investment (FDI) to Sri Lanka is significantly lower across time. With limited fiscal space, a more vibrant and resilient private sector is needed to drive growth. Priority reforms include: (i) implementing trade facilitation reforms,[17] including the National Single Window,[18] establishing free trade agreements, and gradually reducing para-tariffs; (ii) improving priority public infrastructure; (iii) expediting labor reforms to reduce rigidities and enhance female labor force participation; (iv) promoting effective PPP legislation; and (v) streamlining and liberalizing the FDI regulatory framework.

Sri Lanka: Economic Growth and Investment

Growth has turned volatile recently. The economy started to slow down since 2017 after a series of shocks.

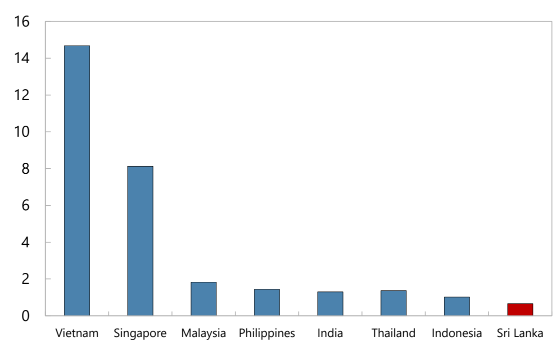
Real GDP Growth
(In percent, y-o-y)



Sources: CBSL; and IMF staff projections.

Growth has been supported by domestic factors, with low export contribution despite Sri Lanka's high potential.

Exports Contribution to GDP Growth in Selected Economies
(In percent, average from 2010 - 2023)



Sources: Haver Analytics; and country authorities.

[17] Sri Lanka is significantly behind in implementing trade facilitation reforms as laid out in the WTO Trade Facilitation Agreement. As of end-2024, Sri Lanka ranked 98 out of 127 developing and least developed countries.

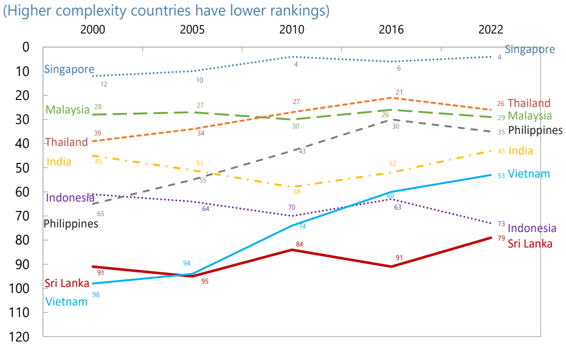
[18] The National Single Window is a single digital entry point for traders to submit documentation and data requirements for importation, exportation, or transit of goods.

Sri Lanka: Economic Growth and Investment (concluded)

Sri Lanka's complexity of exports is also low, stagnant, and the lowest among peers.

Ranking Based on Diversity and Sophistication of Country's Export Basket

(Higher complexity countries have lower rankings)

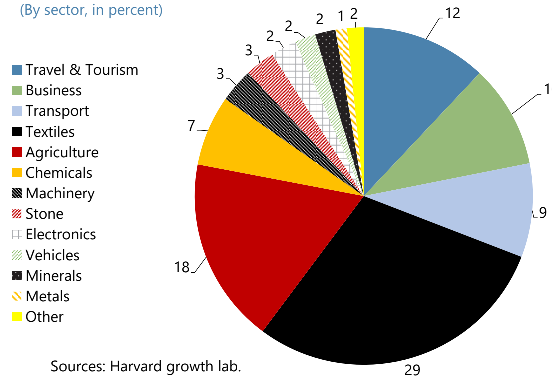


Sources: Harvard growth lab.

Exports are concentrated in textiles and agriculture, relatively low-value-added and labor-intensive sectors in which Sri Lanka is losing competitiveness.

Sri Lanka Exports by Products, 2023

(By sector, in percent)



Sources: Harvard growth lab.

Meanwhile, FDI is also low and has not improved over the past decades...

FDI Inflows

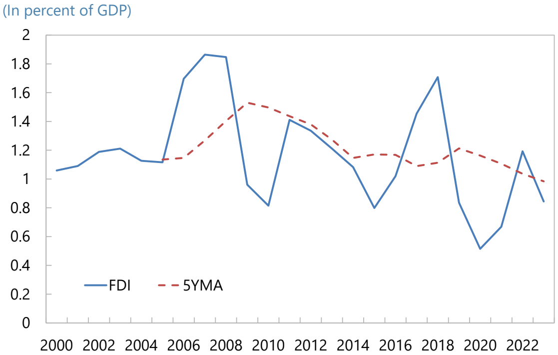
(In percent of GDP)

Sources: World Bank; WEO; and IMF staff calculations.

... despite the large tax incentives that contributed to the recent crisis.

Foreign Direct Investment

(In percent of GDP)



Sources: CBSL; World Bank; and IMF staff calculations.

PROGRAM MODALITIES AND OTHER PROGRAM ISSUES

33. **The proposed modifications and new program conditionality are aligned with macroeconomic developments.** The QPC on the stock of arrears is proposed to be replaced with a periodic QPC on new arrears, and the TMU on arrears is updated accordingly. The QPC on NIR for end-December 2025 is proposed to be modified to reflect updated debt service and financing assurances information. The IT on SSN for end-September 2025 is proposed to be modified to reflect a longer review process for new beneficiaries, but it remains unchanged for end-December 2025 as cash payments will reflect delayed benefits. New quantitative program conditionality is proposed through June 2026.

34. A waiver of applicability is requested. Data for end-June QPCs will not be available by the time of the Board meeting in early July. Program performance appears on track and there is no evidence that QPCs will not be met.

35. Adequate financing resources are in place. The program is fully financed with firm financing commitments in place for the next 12 months and good prospects for adequate financing for the remainder of the program.

36. Enterprise risks are at moderate level (Annex IV). Specifically, financial risks stemming from the capacity to repay are moderate and mitigated by generally strong program implementation. Business risks from weakening program implementation are mitigated by program conditionalities and coordination with external partners. Reputational and credibility risks to the Fund are moderate and managed through adequate communication. After careful consideration, staff assesses that enterprise risks of proceeding with the Fourth Review, upon completion of the prior actions on cost-recovery electricity pricing (MEFP Table 2), are lower than that of delaying.

37. Capacity to repay the Fund remains adequate but is subject to significant risks and contingent on successful implementation of program measures and the debt restructuring (see Annex III ¶6). Under the program, Fund credit outstanding would peak at 3.1 percent of GDP in 2027, or 14.1 percent of exports of goods and services, and 24.4 percent of gross reserves. EFF repurchases and charges would peak in 2031, at 2.2 percent of goods and services exports and 3.6 percent of gross reserves (Table 8).

38. Safeguards Assessment. CBSL equity has returned to positive levels (LKR308 billion at end-2024) and is expected to continue recovering gradually. The CBSL will continue to monitor its financial position, including through balance sheet quarterly stress test, to ensure an adequate level to conduct effective monetary policy. The CBSL is working on implementing the remaining recommendations from the February 2023 safeguards assessment.

39. Article VIII. Since program approval, Sri Lanka has not (i) introduced additional measures giving rise to new multiple currency practices (MCPs) or exchange restrictions, (ii) modified or intensified existing exchange restrictions and MCPs subject to Fund Approval under Article VIII, (iii) concluded bilateral payment agreements that are inconsistent with Article VIII of IMF Articles of Agreement, or (iv) imposed or intensified import restrictions for BOP purposes. The authorities are seeking temporary approval of the remaining exchange restrictions and MCPs.

Sri Lanka: External Financing Gap and Program Financing, 2022-27
(In millions of US dollars)

	2022	2023	2024	2025	2026	2027	Total 2022-27
Financing Gap (A)	-2,834	-5,570	-4,418	-4,941	-3,299	-4,496	-25,557
Program Financing (B)	2,834	5,570	4,418	4,941	3,299	4,496	25,557
IMF EFF	0	678	337	1009	679	340	3,042
IFI program financing support	0	1,120	696	725	638	630	3,809
World Bank*	0	570	258	305	258	250	1,641
ADB*	0	550	438	370	380	380	2,118
Other	0	0	0	50	0	0	50
Debt moratorium: external arrears accumulation	2,834	3,772	644	0	0	0	7,250
Debt relief	0	0	2,740	3,208	1,982	2,026	9,956
Sovereign bonds (market access)	0	0	0	0	0	1,500	1,500
Shortfall (A+B)	0	0	0	0	0	0	0
Memorandum:							
Gross International Reserves	*1,898*	*4,392*	*6,122*	*7,255*	*9,273*	*12,974*	
Project loans	*1,473*	*680*	*850*	*1,250*	*1,603*	*1,651*	

Sources: Sri Lankan authorities; and IMF Staff projections.

**CY 26-27 figures are indicative for both ADB and WB. An additional $135 million disbursement from the WB on deposit insurance is not included in program financing, as it is ringfenced.*

STAFF APPRAISAL

40. Reforms and policy adjustments are bearing fruit, and program performance is generally strong with some implementation risks being addressed. The economy is rebounding strongly, and inflation is expected to return to target. Reserves have improved significantly, and the currency has stabilized. Revenue-based fiscal consolidation has outperformed, and the SSN is being enhanced substantially. Cost-recovery pricing for electricity for the remainder of 2025 was restored and ongoing implementation risks are being addressed. Fuel cost recovery continues to be preserved. Comprehensive fiscal and governance reforms have improved public finance management and reduced corruption vulnerabilities. Debt restructuring is nearly complete.

41. Strong policy implementation will remain critical to ensure that Sri Lanka remains on the path to full recovery. In this regard, recent departures from program commitments on electricity pricing and tax exemptions are regrettable. Electricity cost recovery is paramount for long-term economic stability because: (i) it ensures that the utility company is financially and operationally sound which minimizes the risk for fiscal transfers and burdening taxpayers; (ii) it utilizes a depoliticized pricing mechanism providing stable and predictable tariffs that consumers can rely to make decisions and recognize the pricing signals; and (iii) it paves the way for new technologies and innovation that will sustainably lower the cost of electricity in the long term. The authorities have fulfilled the two electricity prior actions, but going forward, they need to review how to permanently address governance of electricity pricing including in consultation with the IMF and development partners. Similarly, unchecked and overly generous tax exemptions have been detrimental to Sri Lanka by foregoing too much tax revenue and were one of the causes of the crisis. A tax exemptions framework should give reasonable incentives for foreign investment but cannot substitute for labor, legal, governance, land, and other reforms to provide a welcoming and stable investment environment. The authorities recognize the importance of these issues. Going forward, the authorities need to amend previous tax exemptions frameworks to be commensurate to the economic value they provide.

42. Sustaining revenue-based fiscal consolidation and completing comprehensive reforms, including reducing corruption vulnerabilities, are key to durably restore macroeconomic stability. With a narrow path to restore debt sustainability, there is no room for policy errors. Clear communication of these constraints is required to foster broad political acceptance for reforms that will allow the reform momentum to continue and pre-empt reform fatigue. Social support needs to be well-targeted to promote inclusive growth amid limited fiscal space.

43. Ongoing prudent monetary and financial sector policies and greater exchange rate flexibility are essential to support stability and build resilience. Maintaining price stability requires continued commitment to refrain from monetary financing. Efforts to preserve a well-capitalized banking sector and resolve NPLs are needed to revitalize credit to the private sector and mitigate the risks related to sovereign-bank nexus. Gradually phasing out BOP restrictions and allowing continued exchange rate flexibility would facilitate rebuilding buffers and resilience.

44. Although improving, greater progress is needed to address structural challenges to unlock Sri Lanka's growth potential. More comprehensive and strategic reform plans are needed to achieve higher and more-inclusive sustained growth. The government's mandate to reduce corruption should support difficult reforms to advance revenue-based fiscal consolidation. The growth reform strategy should prioritize liberalizing trade, improving the investment climate, enhancing SOE efficiency, and mitigating climate vulnerabilities.

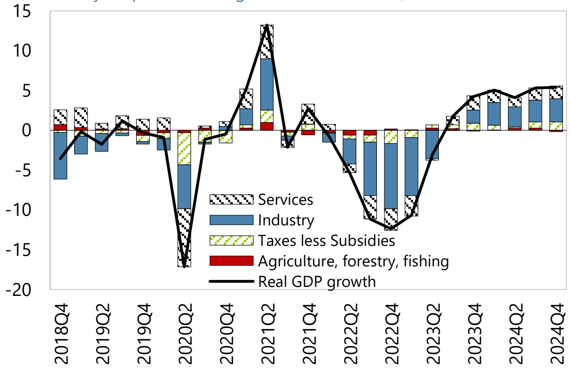
45. Based on Sri Lanka's generally strong performance and commitments under the program, staff supports the authorities' requests for (i) the completion of the financing assurances review, (ii) the modification of performance criteria, (iii) waiver of applicability of performance criteria, and (iv) the completion of the Fourth Review. Staff also supports the authorities' request for temporary approval of existing exchange restrictions and MCPs, as the approval criteria are met.[19]

[19]These restrictions are imposed for BOP reasons, are non-discriminatory, and temporary in nature

Figure 2. Sri Lanka: Real Sector

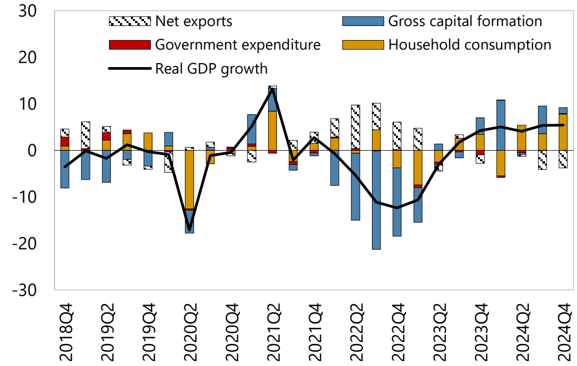
Strong economic rebound spanned across sectors in 2024....

Real GDP Growth by Sector
(Year-on-year percent change and contributions)



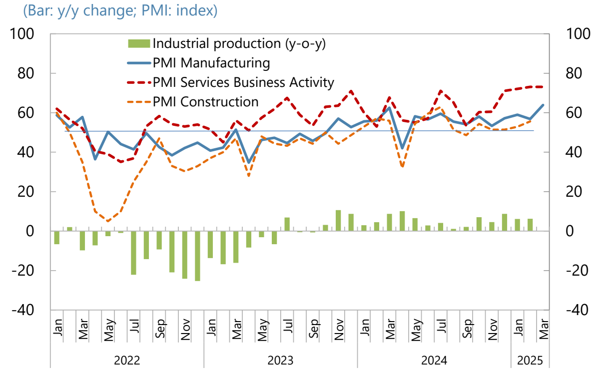
... with significant capital investment and household consumption recovery.

Real GDP Growth by Type of Expenditure
(Year-on-year percent change and contributions)



High frequency indicators suggest a positive outlook.

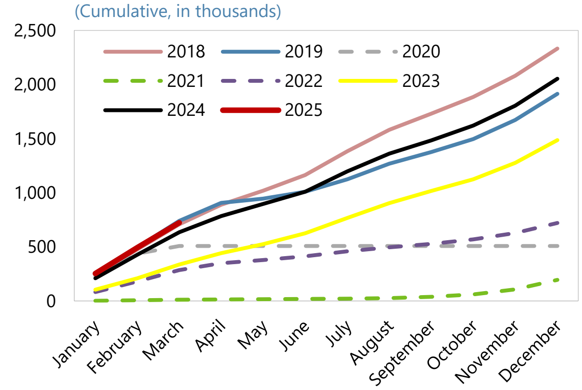
High Frequency Indicators
(Bar: y/y change; PMI: index)



Sources: Haver Analytics; and CBSL.

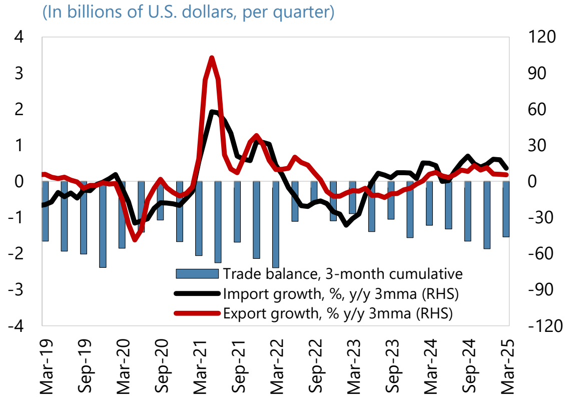
Tourist arrivals reached pre-pandemic levels in 2025Q1.

Tourist Arrivals
(Cumulative, in thousands)



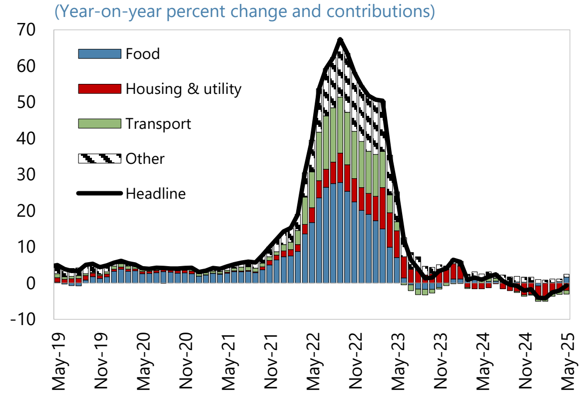
Both exports and imports continue to recover but trade deficit remains substantial.

Trade
(In billions of U.S. dollars, per quarter)



Deflationary pressures persist largely due to the electricity tariff cut, lower commodity prices, and base effects.

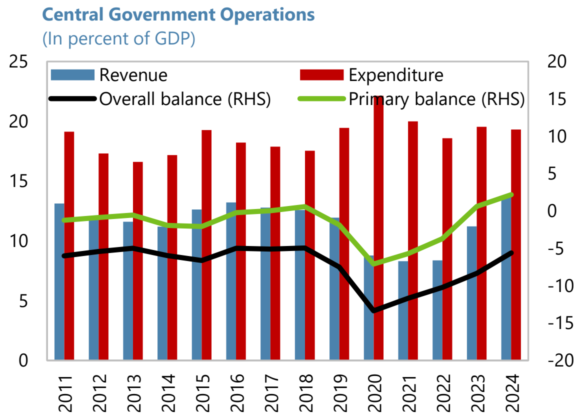
Colombo Consumer Price Index
(Year-on-year percent change and contributions)



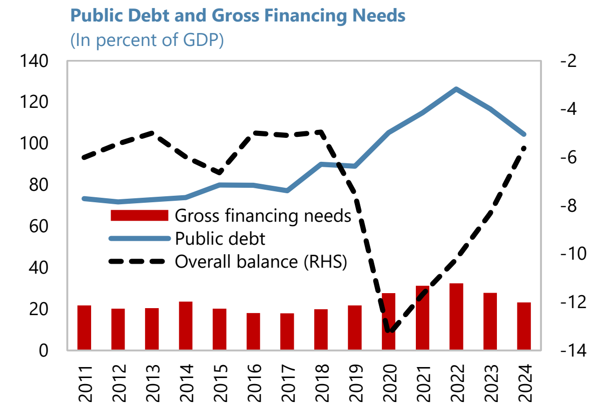
Sources: CBSL; Sri Lanka Tourism Development Authority; and IMF staff calculations.

Figure 3. Sri Lanka: Fiscal Sector

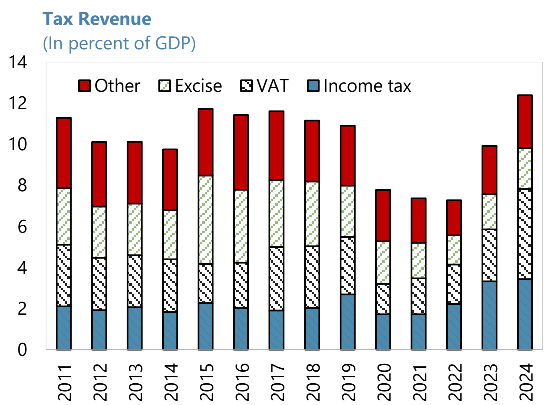
Fiscal deficits have declined since 2022…



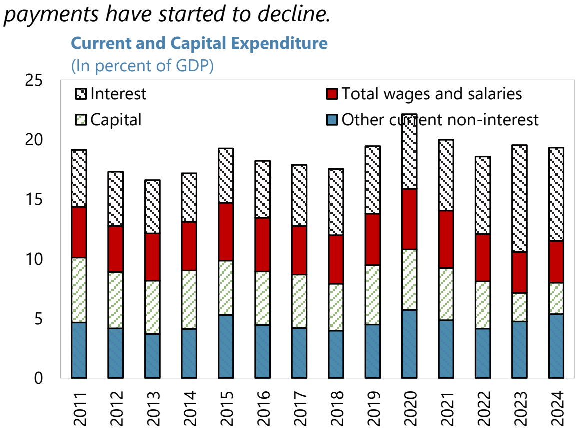
… resulting in lower GFNs although public debt remains high.



Tax collections have improved significantly driven by VAT reforms and higher fuel excises in 2024.



Primary expenditure has been consolidated and interest payments have started to decline.

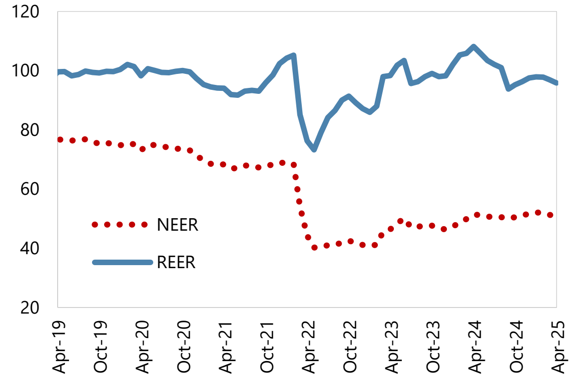


Sources: CBSL; Ministry of Finance; Bloomberg Data L.P.; and IMF staff calculations.

Figure 4. Sri Lanka: Foreign Exchange and Financial Markets

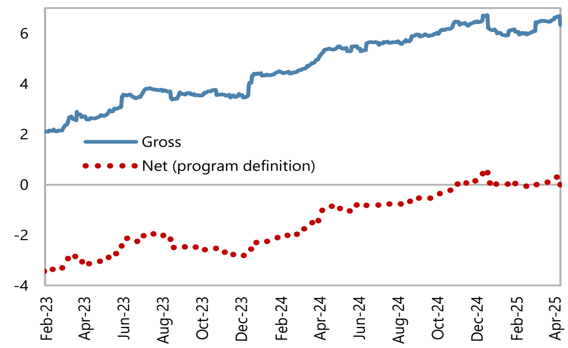
The rupee has remained relatively stable in nominal and real terms in 2025Q1.

Effective Exchange Rate
(Index, June 2009=100)



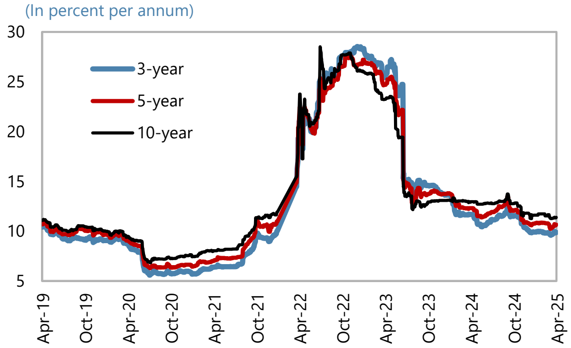
GIR and NIR continue to accumulate in line with program objective.

International Reserves
(In billions of U.S. dollars)



Domestic government bond yields have declined close to pre-crisis levels.

Generic Government Bonds Yield
(In percent per annum)

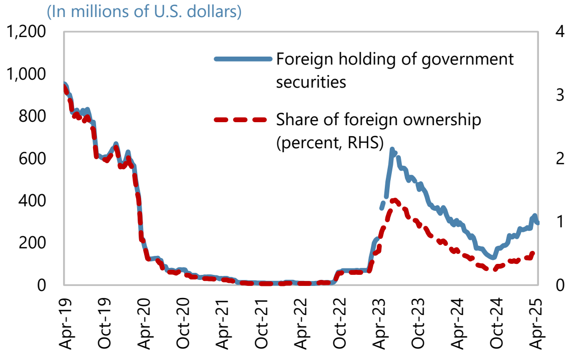


Sri Lanka's sovereign spreads normalized following the successful Eurobond exchange, despite recent volatility and uptick due to global uncertainty.

EMBI Sovereign Spreads
(In basis points)

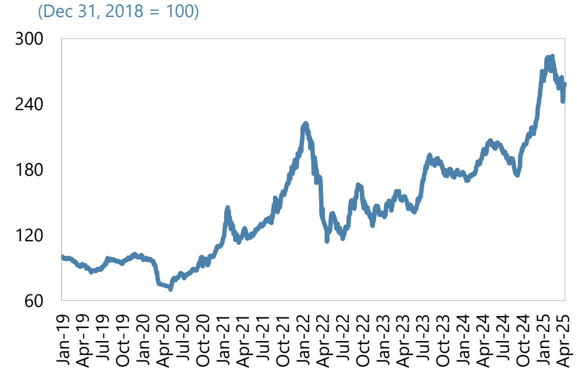
Foreign holdings of government securities have been recovering amid improved market sentiment.

Foreign Ownership of Government Securities
(In millions of U.S. dollars)



The equity market has rebounded yet remains volatile.

Stock Market Index
(Dec 31, 2018 = 100)

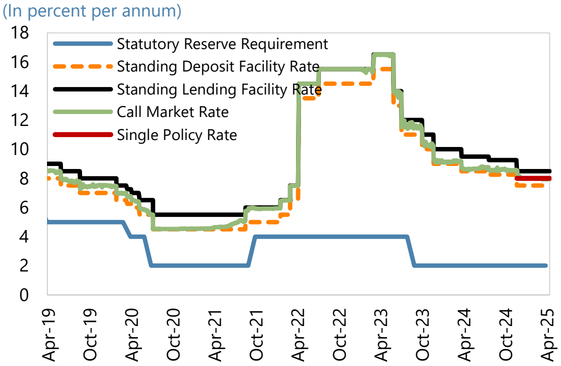


Sources: CBSL; Bloomberg Data L.P.; Haver Analytics; and IMF staff calculations.

Figure 5. Sri Lanka: Monetary and Banking Sector

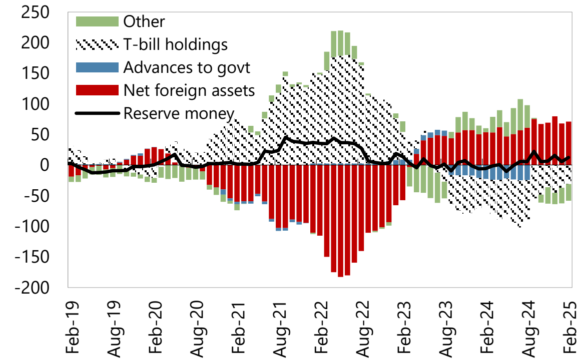
Policy rate has normalized.

Policy and Interbank Rates
(In percent per annum)



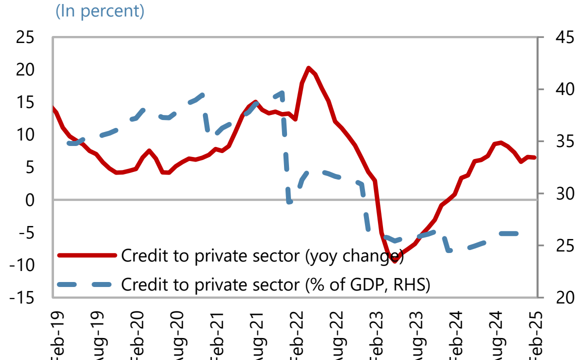
Reserve money growth remains contained as NFA growth from reserves accumulation is offset by NDA reduction.

Reserve Money
(Year-on-year percent change and contributions)



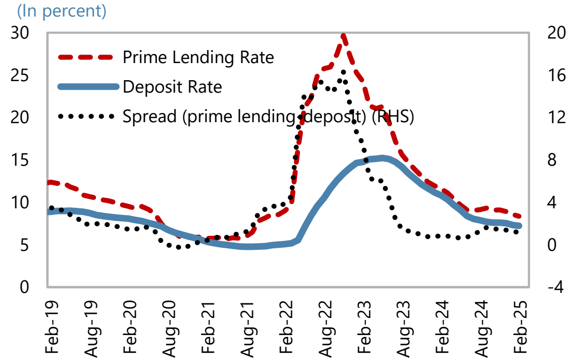
Credit to private sector continues to recover, although remains significantly below pre-crisis level.

Credit to Private Sector
(In percent)



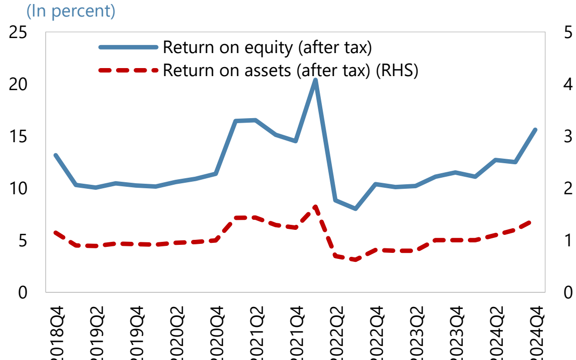
The spread between bank lending and deposit rates has returned to the pre-crisis level.

Deposit Rate and Spread
(In percent)



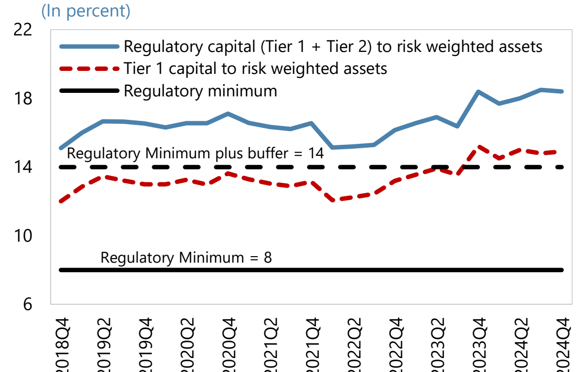
Banking sector profits have been gradually recovering.

Profitability of Banking Sector
(In percent)



And capital adequacy ratios continue to improve beyond regulatory requirements.

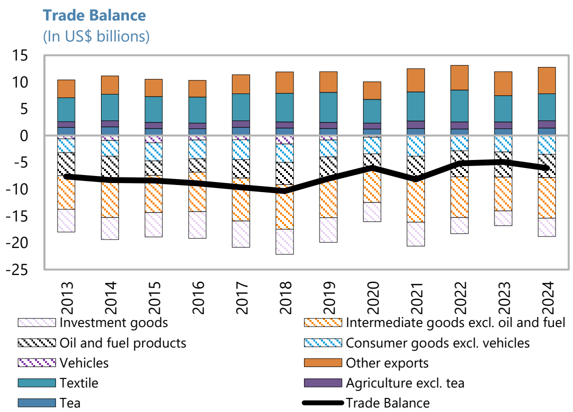
Capital Adequacy of Banking Sector
(In percent)



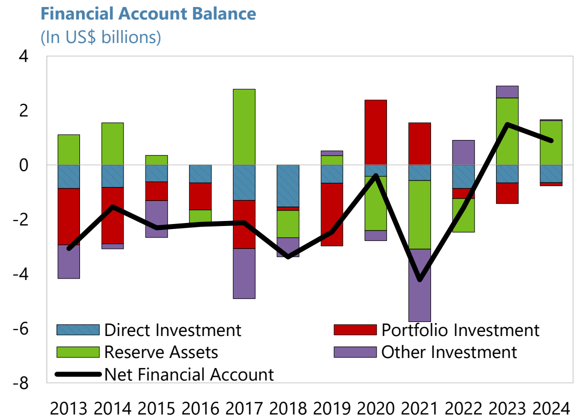
Sources: CBSL; and IMF staff calculations.

Figure 6. Sri Lanka: Balance of Payments

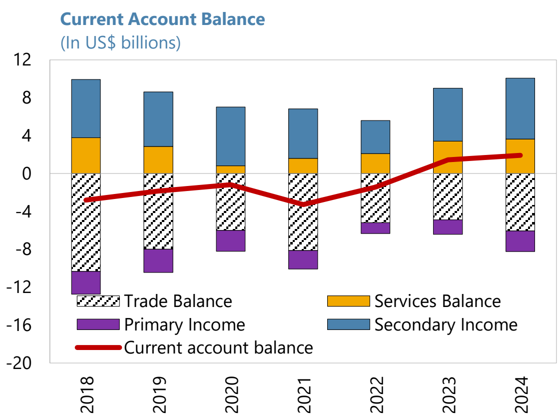
Trade deficit widened as imports rebounded faster than exports.



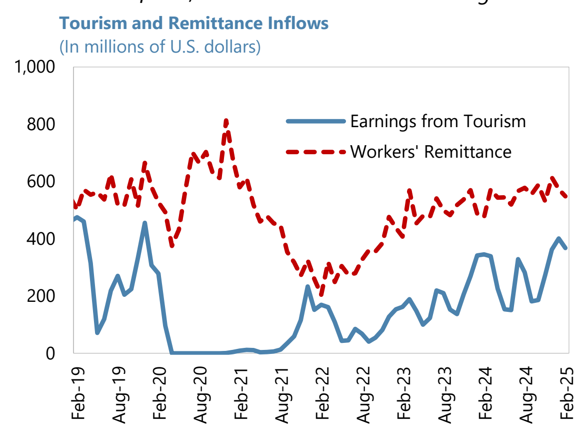
Financial account remained subdued with limited FDI and portfolio investment.



However, current account registered a second consecutive year in surplus…



… supported by a strong rebound in tourism, resilient remittance inflows, and the external restructuring.



Sources: CBSL; and IMF staff calculations.

Table 1. Sri Lanka: Selected Economic Indicators, 2024-30

	2024		2025		2026		2027		2028	2029	2030
	Third Review	Est.	Third Review	Proj.	Third Review	Proj.	Third Review	Proj.		Proj.	
GDP and inflation (in percent)											
Real GDP growth	4.5	5.0	3.0	3.5	3.0	3.1	3.1	3.1	3.1	3.1	3.1
Inflation (average) 1/	1.2	1.2	3.8	3.3	5.4	5.2	5.2	5.0	5.0	5.0	5.0
Inflation (end-of-period) 1/	-1.5	-1.5	7.8	8.9	5.4	5.2	5.2	5.0	5.0	5.0	5.0
GDP Deflator growth	3.5	3.8	4.9	3.6	5.5	5.3	5.3	5.1	5.0	5.0	5.0
Nominal GDP growth	8.2	9.0	8.1	7.1	8.7	8.5	8.5	8.4	8.3	8.3	8.3
Savings and investment (in percent of GDP)											
National savings	34.0	25.2	31.7	21.8	31.9	22.2	32.1	22.9	22.9	22.8	22.4
Government	-3.2	-3.2	-1.8	-2.0	-0.7	-0.8	0.0	-0.1	0.0	0.1	0.3
Private	37.2	28.4	33.5	23.8	32.6	23.0	32.1	23.0	22.9	22.6	22.0
National Investment	32.1	27.0	32.2	21.8	32.5	22.1	32.9	22.5	22.3	22.2	22.1
Government	3.6	5.0	4.4	4.3	4.6	4.5	4.7	4.6	4.6	4.5	4.5
Private	28.5	21.9	27.7	17.4	27.9	17.6	28.2	17.9	17.8	17.7	17.6
Savings-Investment balance	1.8	-1.8	-0.4	0.0	-0.6	0.1	-0.8	0.4	0.6	0.5	0.3
Government	-6.8	-8.2	-6.2	-6.3	-5.3	-5.3	-4.7	-4.6	-4.6	-4.4	-4.1
Private	8.6	6.4	5.8	6.4	4.7	5.4	3.9	5.1	5.1	4.9	4.4
Public finances (in percent of GDP)											
Revenue and grants	13.7	13.7	15.1	15.0	15.3	15.2	15.3	15.3	15.3	15.3	15.3
Expenditure	19.3	19.3	20.4	20.5	19.8	19.7	19.2	19.2	19.1	19.0	18.8
Primary balance	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Central government balance	-5.6	-5.6	-5.4	-5.4	-4.6	-4.5	-4.0	-3.9	-3.8	-3.7	-3.5
Central government gross financing needs	22.1	21.9	22.8	22.6	19.7	19.6	15.7	14.9	14.0	11.7	11.3
Central government debt	99.5	100.5	105.7	105.1	106.4	103.4	103.5	100.2	98.0	95.0	92.1
Public debt 2/	104.6	105.2	110.7	109.6	110.9	107.4	107.4	103.6	101.0	97.7	94.5
Money and credit (percent change, end of period)											
Reserve money	10.3	15.8	9.7	6.5	8.7	8.5	8.5	8.4	8.3	8.3	8.3
Broad money	10.0	8.6	9.7	6.5	8.7	8.5	8.5	8.4	8.3	8.3	8.3
Domestic credit	6.1	4.0	3.3	4.5	2.8	3.0	3.3	3.8	4.4	4.8	5.4
Credit to private sector	7.9	10.7	7.5	9.4	9.5	9.2	9.5	9.3	9.3	9.3	9.3
Credit to private sector (adjusted for inflation)	6.6	9.5	3.7	6.1	4.1	4.1	4.3	4.3	4.3	4.3	4.3
Credit to central government and public corporations	4.7	-1.4	-0.1	0.0	-3.1	-3.3	-2.9	-2.5	-1.9	-1.6	-0.8
Balance of payments (in millions of U.S. dollars)											
Exports	12,772	12,772	13,446	12,880	14,090	13,490	14,795	14,194	15,116	15,958	16,924
Imports	-18,841	-18,828	-21,718	-21,363	-22,668	-22,447	-23,410	-23,578	-24,818	-25,920	-26,825
Current account balance	1,824	1,746	-409	-48	-538	-77	-751	-439	-628	-622	-316
Current account balance (in percent of GDP)	1.8	1.8	-0.4	0.0	-0.6	-0.1	-0.8	-0.4	-0.6	-0.5	-0.3
Current account balance net of interest (in percent of GDP)	3.8	3.7	1.7	2.1	1.6	2.0	1.5	1.7	1.6	1.5	1.7
Export value growth (percent)	7.2	7.2	5.3	0.8	4.8	4.7	5.0	5.2	6.5	5.6	6.1
Import value growth (percent)	12.1	12.0	15.3	13.5	4.4	5.1	3.3	5.0	5.3	4.4	3.5
Gross official reserves (end of period)											
In millions of U.S. dollars	6,122	6,122	7,056	7,255	9,303	9,273	13,118	12,974	14,894	15,492	16,360
In months of prospective imports of goods & services	2.9	3.0	3.2	3.3	4.1	4.0	5.5	5.4	5.9	5.9	6.0
In percent of ARA composite metric	50.3	50.5	58.3	60.3	75.4	75.5	100.1	100.0	110.5	112.7	116.7
Usable Gross official reserves (end of period) 3/											
In millions of U.S. dollars	4,686	4,686	7,056	7,255	9,303	9,273	13,118	12,974	14,894	15,492	16,360
In months of prospective imports of goods & services	2.2	2.3	3.2	3.3	4.1	4.0	5.5	5.4	5.9	5.9	6.0
In percent of ARA composite metric	38.5	38.6	58.3	60.3	75.4	75.5	100.1	100.0	110.5	112.7	116.7
External debt (public and private)											
In billions of U.S. dollars	53.9	53.9	54.9	54.6	57.2	56.3	61.2	59.9	61.8	62.4	65.6
As a percent of GDP	54.4	54.4	56.1	55.1	62.9	58.6	65.9	59.4	57.7	54.8	54.3
Memorandum items:											
Nominal GDP (in billions of rupees)	29,893	29,899	32,309	32,036	35,123	34,754	38,113	37,664	40,779	44,163	47,826
Exchange Rate (period average)	302.0	302.0	…	…	…	…	…	…	…	…	…
Exchange Rate (end of period)	293.0	293.0	…	…	…	…	…	…	…	…	…

Sources: Data provided by the Sri Lankan authorities; and IMF staff estimates.

1/ Colombo CPI.

2/ Comprising central government debt, publicly guaranteed debt, and CBSL external liabilities (i.e., Fund credit outstanding and international currency swap arrangements). The debt statistics currently assume the external debt restructuring to have been completed at end 2023.

3/ Excluding PBOC swap ($1.4bn based on valuation in 2022) which becomes usable once GIR rise above 3 months of previous year's import cover.

Table 2a. Sri Lanka: Summary of Central Government Operations, 2024-30

(In billions of rupees)

	2024		2025			2026		2027		2028	2029	2030
	Third Review	Act.	Draft budget	Third Review	Proj.	Third Review	Proj.	Third Review	Proj.	Proj.		
Total revenue and grants	4,094	4,091	4,990	4,865	4,819	5,360	5,296	5,822	5,764	6,246	6,757	7,323
Total revenue	4,034	4,031	4,960	4,834	4,789	5,326	5,263	5,785	5,728	6,207	6,715	7,278
Tax revenue	3,705	3,705	4,590	4,485	4,439	4,985	4,922	5,420	5,364	5,828	6,304	6,833
Income taxes	1,026	1,026	1,157	1,129	1,100	1,211	1,177	1,389	1,293	1,400	1,522	1,651
VAT	1,310	1,310	1,615	1,568	1,524	1,775	1,740	1,889	1,883	2,044	2,209	2,405
Excise taxes	597	597	839	756	828	846	915	922	983	1,061	1,152	1,251
Other taxes on goods and services	294	294	318	311	315	330	334	350	361	387	420	451
Taxes on international trade	477	477	661	721	672	823	756	871	787	814	869	932
Property taxes	0	0		0	0	0	0	0	56	122	132	143
Nontax revenue	329	326	370	349	350	341	342	365	365	379	411	445
Grants	60	60	30	31	30	34	33	36	36	39	42	45
Total expenditure and net lending 1/	5,776	5,776	7,190	6,607	6,555	6,959	6,850	7,332	7,220	7,805	8,382	8,995
Primary spending	3,440	3,440	4,240	4,122	4,082	4,545	4,490	4,928	4,881	5,300	5,732	6,214
Current expenditure 2/	4,986	4,986	5,886	5,405	5,425	5,572	5,551	5,783	5,751	6,200	6,656	7,116
Wages and salaries	1,047	1,047	1,230	1,222	1,230	1,335	1,321	1,464	1,446	1,566	1,696	1,837
Goods and services	370	370	416	375	416	400	451	434	489	530	573	621
Subsidies and transfers	1,233	1,233	1,290	1,323	1,306	1,423	1,420	1,481	1,476	1,599	1,737	1,877
of which: social safety net transfers	205	186	237	237	237	240	245	260	257	278	301	326
Other current transfers 1/ 2/	130	130										
Interest payments	2,336	2,336	2,950	2,485	2,473	2,414	2,360	2,404	2,339	2,505	2,650	2,781
Capital expenditure and net lending	777	777	1,304	1,202	1,130	1,387	1,298	1,549	1,469	1,605	1,726	1,879
Capital expenditure	777	777	1,315	1,187	1,115	1,370	1,282	1,531	1,452	1,586	1,705	1,856
Net lending	0	0	-11	15	15	17	17	18	18	19	21	23
Overall balance 1/ 3/	-1,812	-1,816	-2,200	-1,742	-1,736	-1,599	-1,553	-1,510	-1,456	-1,559	-1,626	-1,671
Overall balance (program definition) 1/3/	-1,682	-1,686	-2,200	-1,742	-1,736	-1,599	-1,553	-1,510	-1,456	-1,559	-1,626	-1,671
Financing	1,812	1,816	2,200	1,742	1,736	1,599	1,553	1,510	1,456	1,559	1,626	1,671
Privatization	0	0		0	0	0	0	0	0	0	0	0
Net external financing	283	297		471	460	669	623	1,056	956	459	441	373
Net domestic financing	1,529	1,519		1,271	1,277	931	930	454	500	1,100	1,184	1,299
Memorandum items:												
Central government primary balance	523	520	750	743	737	815	806	894	883	946	1,025	1,110
Central government primary balance (program definition) 1/3/	653	650	750	743	737	815	806	894	883	946	1,025	1,110
Central government debt 1/	29,743	30,054		34,164	33,659	37,358	35,953	39,433	37,750	39,960	41,949	44,025
Nominal GDP (in billion of rupees)	29,893	29,899	33,000	32,309	32,036	35,123	34,754	38,113	37,664	40,779	44,163	47,826
Stock of Expenditure Arrears (in billion of rupees)		95			56		28		0	0	0	0

Sources: Data provided by the Sri Lankan authorities; and IMF staff estimates.

1/ For 2024, total spending includes current transfer to account for the cash injection for banks' recapitalization. Overall and primary balances of fiscal accounts include this amount but they are excluded from program targets. See Note 3.

2/ Relative to the second review, the bank recap amount has been reclassified to current instead of capital expenditure. This amount is only presented for information and is not included in total spending aggregates. The table show the fiscal baalnces with and without this amount for transparency purposes only.

3/ As per the EFF TMU and for the purpose of program monitoring, the government's equity injections into banks for recapitalization purposes will not be recorded as central government expenditure.

Table 2b. Sri Lanka: Summary of Central Government Operations, 2024-30

(In percent of GDP)

	2024		2025			2026		2027		2028	2029	2030
	Third Review	Act.	Draft budget	Third Review	Proj.	Third Review	Proj.	Third Review	Proj.	Proj.		
Total revenue and grants	13.7	13.7	15.1	15.1	15.0	15.3	15.2	15.3	15.3	15.3	15.3	15.3
Total revenue	13.5	13.5	15.0	15.0	14.9	15.2	15.1	15.2	15.2	15.2	15.2	15.2
Tax revenue	12.4	12.4	13.9	13.9	13.9	14.2	14.2	14.2	14.2	14.3	14.3	14.3
Income taxes	3.4	3.4	3.5	3.5	3.4	3.4	3.4	3.6	3.4	3.4	3.4	3.5
VAT	4.4	4.4	4.9	4.9	4.8	5.1	5.0	5.0	5.0	5.0	5.0	5.0
Excise taxes	2.0	2.0	2.5	2.3	2.6	2.4	2.6	2.4	2.6	2.6	2.6	2.6
Other taxes on goods and services	1.0	1.0	1.0	1.0	1.0	0.9	1.0	0.9	1.0	0.9	1.0	0.9
Taxes on international trade	1.6	1.6	2.0	2.2	2.1	2.3	2.2	2.3	2.1	2.0	2.0	1.9
Property taxes	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.2	0.3	0.3	0.3
Nontax revenue	1.1	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.0	0.9	0.9	0.9
Grants	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total expenditure and net lending 1/	19.3	19.3	21.8	20.4	20.5	19.8	19.7	19.2	19.2	19.1	19.0	18.8
Primary spending	11.5	11.5	12.8	12.8	12.7	12.9	12.9	12.9	13.0	13.0	13.0	13.0
Current expenditure 2/	19.7	19.7	17.8	16.7	16.9	15.9	16.0	15.2	15.3	15.2	15.1	14.9
Wages and salaries	3.5	3.5	3.7	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Goods and services	1.2	1.2	1.3	1.2	1.3	1.1	1.3	1.1	1.3	1.3	1.3	1.3
Subsidies and transfers	4.1	4.1	3.9	4.1	4.1	4.1	4.1	3.9	3.9	3.9	3.9	3.9
of which: social safety net transfers	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Other current transfers 1/ 2/	0.4	0.4										
Interest payments	7.8	7.8	8.9	7.7	7.7	6.9	6.8	6.3	6.2	6.1	6.0	5.8
Capital expenditure and net lending	2.6	2.6	4.0	3.7	3.5	3.9	3.7	4.1	3.9	3.9	3.9	3.9
Capital expenditure	2.6	2.6	4.0	3.7	3.5	3.9	3.7	4.0	3.9	3.9	3.9	3.9
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance 1/ 3/	-6.1	-6.1	-6.7	-5.4	-5.4	-4.6	-4.5	-4.0	-3.9	-3.8	-3.7	-3.5
Overall balance (program definition) 1/3/	-5.6	-5.6	-6.7	-5.4	-5.4	-4.6	-4.5	-4.0	-3.9	-3.8	-3.7	-3.5
Financing	6.1	6.1	6.7	5.4	5.4	4.6	4.5	4.0	3.9	3.8	3.7	3.5
Privatization	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net external financing	0.9	1.0		1.5	1.4	1.9	1.8	2.8	2.5	1.1	1.0	0.8
Net domestic financing	5.1	5.1		3.9	4.0	2.7	2.7	1.2	1.3	2.7	2.7	2.7
Memorandum items:												
Central government primary balance	1.8	1.7	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Central government primary balance (program definition) 1/3/	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Central government debt 1/	99.5	100.5		105.7	105.1	106.4	103.4	103.5	100.2	98.0	95.0	92.1
Nominal GDP (in billion of rupees)	29,893	29,899	33,000	32,309	32,036	35,123	34,754	38,113	37,664	40,779	44,163	47,826
Stock of Expenditure Arrears		0.3			0.2		0.1		0	0	0	0

Sources: Data provided by the Sri Lankan authorities; and IMF staff estimates.

1/ For 2024, total spending includes current transfer to account for the cash injection for banks' recapitalization. Overall and primary balances of fiscal accounts include this amount but they are excluded from program targets. See Note 3.

2/ Relative to the second review, the bank recap amount has been reclassified to current instead of capital expenditure. This amount is only presented for information and is not included in total spending aggregates. The table show the fiscal baalnces with and without this amount for transparency purposes only.

3/ As per the EFF TMU and for the purpose of program monitoring, the government's equity injections into banks for recapitalization purposes will not be recorded as central government expenditure.

Table 3. Sri Lanka: Monetary Accounts, 2024-28 1/

(In billions of rupees, unless otherwise indicated, end of period)

	2024	2025	2026	2027	2028
	Act.	Proj.			
Central Bank of Sri Lanka					
Net foreign assets	222	688	1,520	2,761	3,440
Net domestic assets	1,317	952	258	-833	-1,353
Net claims on central government	1,774	1,254	734	264	-56
o.w. Holdings of government securities for monetary operations 2/	487	467	447	427	407
Other items, net	-450	-296	-469	-1,090	-1,290
Reserve Money	1,539	1,640	1,779	1,928	2,087
Currency in circulation	1,359	982	1,031	1,086	1,199
Commercial banks' deposits	181	658	748	841	888
Monetary survey					
Net foreign assets	573	1,112	1,964	3,213	3,901
Monetary authorities	222	688	1,520	2,761	3,440
Deposit money banks	351	424	443	452	461
Net domestic assets	13,749	14,143	14,586	14,722	15,518
Net claims on central government	8,270	8,266	7,975	7,760	7,598
Credit to corporations	8,813	9,583	10,406	11,315	12,308
Public corporations	657	659	659	659	659
Private corporations	8,156	8,924	9,748	10,656	11,649
Other items (net)	-3,334	-3,706	-3,795	-4,352	-4,388
Broad money	14,322	15,255	16,550	17,935	19,419
Memorandum Items					
Gross international reserves (in millions of U.S. dollars)	6,122	7,255	9,273	12,974	14,894
Net international reserves (in millions of U.S. dollars)	1,493	2,729	4,896	8,444	10,579
Net Foreign Assets of commercial banks (in millions of U.S. dollars)	1,199	1,199	1,199	1,199	1,199
Reserve money (in percent of GDP)	5.1	5.1	5.1	5.1	5.1
Private credit (in percent of GDP)	27.3	27.9	28.0	28.3	28.6
Money multiplier	9.3	9.3	9.3	9.3	9.3
Broad money velocity	2.1	2.1	2.1	2.1	2.1
		(Annual percentage change)			
Nominal GDP	9.0	7.1	8.5	8.4	8.3
Broad money	8.6	6.5	8.5	8.4	8.3
Reserve money	15.8	6.5	8.5	8.4	8.3
Credit to private sector	10.7	9.4	9.2	9.3	9.3
Credit to private sector (adjusted for inflation)	9.5	6.1	4.1	4.3	4.3

Sources: Central Bank of Sri Lanka; and IMF staff estimates.

1/ Covers the monetary authorities and commercial banks. Excludes deposit-taking finance companies

2/ Arise from purchases of government securities, for monetary policy purposes, on temporary basis with an agreement to reverse the transaction after an agreed number of days.

Table 4a. Sri Lanka: Balance of Payments, 2024-30
(In millions of dollars, unless otherwise indicated)

	2024	2025		2026		2027		2028	2029	2030
	Est.	Third Review	Proj.	Third Review	Proj.	Third Review	Proj.		Proj.	
Current account	**1,746**	**-409**	**-48**	**-538**	**-77**	**-751**	**-439**	**-628**	**-622**	**-317**
Balance on goods	-6,056	-8,271	-8,483	-8,578	-8,957	-8,615	-9,383	-9,702	-9,962	-9,901
Credit (exports)	12,772	13,446	12,880	14,090	13,490	14,795	14,194	15,116	15,958	16,924
Debit (imports)	-18,828	-21,718	-21,363	-22,668	-22,447	-23,410	-23,578	-24,818	-25,920	-26,825
Non-oil imports	-14,474	-16,531	-16,483	-17,441	-17,672	-18,099	-18,631	-19,653	-20,535	-21,660
Oil imports	-4,354	-5,187	-4,880	-5,227	-4,775	-5,311	-4,947	-5,165	-5,385	-5,165
Balance on services	3,435	3,844	3,949	3,801	4,163	3,689	4,280	4,428	4,579	4,708
Credit (exports)	6,910	7,233	7,489	7,433	7,883	7,745	8,198	8,559	8,940	9,340
Debit (imports)	-3,475	-3,390	-3,539	-3,632	-3,720	-4,056	-3,918	-4,131	-4,361	-4,632
Primary income, net	-2,072	-2,526	-2,461	-2,418	-2,351	-2,596	-2,527	-2,667	-2,673	-2,679
Secondary income, net	6,439	6,544	6,947	6,657	7,069	6,771	7,191	7,312	7,434	7,555
General government (net)	10	4	10	4	10	4	10	10	10	11
Of which: workers' remittances (net)	6,429	6,540	6,937	6,654	7,059	6,767	7,181	7,302	7,424	7,544
Capital account (+ surplus / - deficit)	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**
Balance from current account and capital account	**1,758**	**-397**	**-36**	**-526**	**-65**	**-739**	**-427**	**-616**	**-610**	**-305**
Financial account (+ net lending / - net borrowing) 1/	**209**	**-529**	**-371**	**-2,297**	**-1,602**	**-4,403**	**-3,976**	**-2,750**	**-1,475**	**-1,545**
Direct investments	-733	-800	-800	-1,000	-900	-1,200	-1,100	-1,300	-1,400	-1,500
Portfolio investments	579	276	276	-20	-20	-1,520	-1,520	-726	877	955
Equity and investment Fund shares	15	0	0	0	0	0	0	0	0	0
Debt instruments	564	276	276	-20	-20	-1,520	-1,520	-726	877	955
Of which: deposit taking corporations	0	0	0	0	0	0	0	0	0	0
Of which: general government	564	276	276	-20	-20	-1,520	-1,520	-726	877	955
T-bills, T-bonds, and SLDBs	444	-13	-13	-20	-20	-20	-20	-20	-20	0
Sovereign bonds	120	289	289	0	0	-1,500	-1,500	-706	897	955
Other investments 2/	363	-5	153	-1,277	-682	-1,683	-1,356	-724	-952	-999
Of which:										
Currency and deposits	1,032	800	900	430	630	-200	0	0	0	0
Central bank	900	900	900	630	630	0	0	0	0	0
Deposit taking corporations	132	-100	0	-200	0	-200	0	0	0	0
Loans 2/	-409	-916	-858	-1,625	-1,230	-1,385	-1,258	-739	-967	-1,014
Deposit taking corporations	89	0	0	-225	0	-225	0	0	0	0
General government	-856	-916	-858	-1,200	-1,080	-960	-1,108	-919	-1,127	-1,174
Disbursements	-1,546	-2,170	-2,112	-2,498	-2,378	-2,131	-2,281	-2,051	-2,152	-2,204
Amortizations	690	1,254	1,254	1,298	1,298	1,171	1,173	1,132	1,025	1,030
Other sectors	358	0	0	-200	-150	-200	-150	180	160	160
SDR allocation	0	0	0	0	0	0	0	0	1	2
Other accounts receivable/payable (incl. ACU balance)	0	0	0	0	0	0	0	0	0	0
Errors and omissions	0	0	0	0	0	0	0	0	0	0
Overall balance (- = need of inflow) 1/	**1,549**	**132**	**336**	**1,771**	**1,537**	**3,663**	**3,549**	**2,134**	**865**	**1,240**
Financing (- = inflow)	**1,886**	**1,143**	**1,344**	**2,442**	**2,216**	**3,997**	**3,889**	**2,134**	**864**	**1,237**
Change in reserve assets	1,675	934	1,133	2,247	2,017	3,815	3,701	1,919	598	869
Use of Fund credit, net	211	209	211	195	199	182	187	214	266	368
Purchases/Disbursements	0	0	0	0	0	0	0	0	0	0
Repurchases/repayments	211	210	211	197	199	185	187	214	266	368
Gross international reserves	1,730	934	1,133	2,247	2,017	3,815	3,701	1,919	598	869
Financing gap (- = inflow) 4/	**-337**	**-1,012**	**-1,009**	**-673**	**-679**	**-337**	**-340**	**0**	**0**	**0**
IMF	-337	-1,012	-1,009	-673	-679	-337	-340	0	0	0
Other IFIs	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Current account (in percent of GDP)	1.8	-0.4	0.0	-0.6	-0.1	-0.8	-0.4	-0.6	-0.5	-0.3
Gross official reserves	6,122	7,056	7,255	9,303	9,273	13,118	12,974	14,894	15,492	16,360
In months of prospective imports of goods and services	3.0	3.2	3.3	4.1	4.0	5.5	5.4	5.9	5.9	6.0
In percent of ARA composite metric	50.5	58.3	60.3	75.4	75.5	100.1	100.0	110.5	112.7	116.7
Usable Gross official reserves 3/	4,686	7,056	7,255	9,303	9,273	13,118	12,974	14,894	15,492	16,360
In months of prospective imports of goods and services	2.3	3.2	3.3	4.1	4.0	5.5	5.4	5.9	5.9	6.0
In percent of ARA composite metric	38.6	58.3	60.3	75.4	75.5	100.1	100.0	110.5	112.7	116.7
Net international reserves	1,493	2,606	2,729	5,007	4,896	8,670	8,444	10,579	11,444	12,684
In percent of ARA composite metric	12.3	21.5	22.7	40.6	39.9	66.1	65.1	78.5	83.3	90.5

Sources: Data provided by the CBSL; and IMF staff estimates.

1/ Excluding changes in reserves assets and credit and loans with the IMF.

2/ Excluding credits and loans with the IMF, other than reserves (net purchases and repurchases), and other international institutions' loan disbursement.

3/ Excluding PBOC swap ($1.4bn in 2024) which becomes usable once GIR rise above 3 months of previous year's import cover.

4/ In this table, all program financing in 2022-2027 (IFI budget support, debt relief, external arrears) except the IMF financing is included above the line.

Table 4b. Sri Lanka: Balance of Payments, 2024-30

(In percent of GDP, unless otherwise indicated)

	2024	2025		2026		2027		2028	2029	2030
	Est.	Third Review	Proj.	Third Review	Proj.	Third Review	Proj.	Proj.		
Current account	**1.8**	**-0.4**	**0.0**	**-0.6**	**-0.1**	**-0.8**	**-0.4**	**-0.6**	**-0.5**	**-0.3**
Balance on goods	-6.1	-8.5	-8.6	-9.4	-9.3	-9.3	-9.3	-9.1	-8.8	-8.2
Credit (exports)	12.9	13.7	13.0	15.5	14.0	15.9	14.1	14.1	14.0	14.0
Debit (imports)	-19.0	-22.2	-21.5	-24.9	-23.4	-25.2	-23.4	-23.2	-22.8	-22.2
Non-oil imports	-14.6	-16.9	-16.6	-19.2	-18.4	-19.5	-18.5	-18.3	-18.1	-17.9
Oil imports	-4.4	-5.3	-4.9	-5.8	-5.0	-5.7	-4.9	-4.8	-4.7	-4.3
Balance on services	3.5	3.9	4.0	4.2	4.3	4.0	4.2	4.1	4.0	3.9
Credit (exports)	7.0	7.4	7.6	8.2	8.2	8.3	8.1	8.0	7.9	7.7
Debit (imports)	-3.5	-3.5	-3.6	-4.0	-3.9	-4.4	-3.9	-3.9	-3.8	-3.8
Primary income, net	-2.1	-2.6	-2.5	-2.7	-2.4	-2.8	-2.5	-2.5	-2.3	-2.2
Secondary income, net	6.5	6.7	7.0	7.3	7.4	7.3	7.1	6.8	6.5	6.3
Of which: workers' remittances (net)	6.5	6.7	7.0	7.3	7.3	7.3	7.1	6.8	6.5	6.2
Capital account (+ surplus / - deficit)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Balance from current account and capital account	**1.8**	**-0.4**	**0.0**	**-0.6**	**-0.1**	**-0.8**	**-0.4**	**-0.6**	**-0.5**	**-0.3**
Financial account (+ net lending / - net borrowing) 1/	**0.2**	**-0.5**	**-0.4**	**-2.5**	**-1.7**	**-4.7**	**-3.9**	**-2.6**	**-1.3**	**-1.3**
Direct investments	-0.7	-0.8	-0.8	-1.1	-0.9	-1.3	-1.1	-1.2	-1.2	-1.2
Portfolio investments	0.6	0.3	0.3	0.0	0.0	-1.6	-1.5	-0.7	0.8	0.8
Equity and investment Fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt instruments	0.6	0.3	0.3	0.0	0.0	-1.6	-1.5	-0.7	0.8	0.8
Of which: deposit taking corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: general government	0.6	0.3	0.3	0.0	0.0	-1.6	-1.5	-0.7	0.8	0.8
T-bills, T-bonds, and SLDBs	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sovereign bonds	0.1	0.3	0.3	0.0	0.0	-1.6	-1.5	-0.7	0.8	0.8
Other investments 2/	0.4	0.0	0.2	-1.4	-0.7	-1.8	-1.3	-0.7	-0.8	-0.8
Of which:	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	1.0	0.8	0.9	0.5	0.7	-0.2	0.0	0.0	0.0	0.0
Central bank	0.9	0.9	0.9	0.7	0.7	0.0	0.0	0.0	0.0	0.0
Deposit taking corporations	0.1	-0.1	0.0	-0.2	0.0	-0.2	0.0	0.0	0.0	0.0
Loans 2/	-0.4	-0.9	-0.9	-1.8	-1.3	-1.5	-1.2	-0.7	-0.8	-0.8
Deposit taking corporations	0.1	0.0	0.0	-0.2	0.0	-0.2	0.0	0.0	0.0	0.0
General government	-0.9	-0.9	-0.9	-1.3	-1.1	-1.0	-1.1	-0.9	-1.0	-1.0
Disbursements	-1.6	-2.2	-2.1	-2.7	-2.5	-2.3	-2.3	-1.9	-1.9	-1.8
Amortizations	0.7	1.3	1.3	1.4	1.4	1.3	1.2	1.1	0.9	0.9
Other sectors	0.4	0.0	0.0	-0.2	-0.2	-0.2	-0.1	0.2	0.1	0.1
SDR allocation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable/payable (incl. ACU balance)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (- = need of inflow) 1/	**1.6**	**0.1**	**0.3**	**1.9**	**1.6**	**3.9**	**3.5**	**2.0**	**0.8**	**1.0**
Financing (- = inflow)	**1.9**	**1.2**	**1.4**	**2.7**	**2.3**	**4.3**	**3.9**	**2.0**	**0.8**	**1.0**
Change in reserve assets	1.7	1.0	1.1	2.5	2.1	4.1	3.7	1.8	0.5	0.7
Use of Fund credit, net	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Financing gap (- = inflow) 4/	**-0.3**	**-1.0**	**-1.0**	**-0.7**	**-0.7**	**-0.4**	**-0.3**	**0.0**	**0.0**	**0.0**
IMF	**-0.3**	**-1.0**	**-1.0**	**-0.7**	**-0.7**	**-0.4**	**-0.3**	**0.0**	**0.0**	**0.0**
Other IFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Current account (in percent of GDP)	1.8	-0.4	0.0	-0.6	-0.1	-0.8	-0.4	-0.6	-0.5	-0.3
Gross official reserves	6,122	7,056	7,255	9,303	9,273	13,118	12,974	14,894	15,492	16,360
In months of prospective imports of goods and services	3.0	3.2	3.3	4.1	4.0	5.5	5.4	5.9	5.9	6.0
In percent of ARA composite metric	50.5	58.3	60.3	75.4	75.5	100.1	100.0	110.5	112.7	116.7
Usable Gross official reserves 3/	4,686	7,056	7,255	9,303	9,273	13,118	12,974	14,894	15,492	16,360
In months of prospective imports of goods and services	2.3	3.2	3.3	4.1	4.0	5.5	5.4	5.9	5.9	6.0
In percent of ARA composite metric	38.6	58.3	60.3	75.4	75.5	100.1	100.0	110.5	112.7	116.7
Net international reserves	1,493	2,606	2,729	5,007	4,896	8,670	8,444	10,579	11,444	12,684
In percent of ARA composite metric	12.3	21.5	22.7	40.6	39.9	66.1	65.1	78.5	83.3	90.5

Sources: Data provided by the CBSL; and IMF staff estimates.

1/ Excluding changes in reserves assets and credit and loans with the IMF.

2/ Excluding credits and loans with the IMF, other than reserves (net purchases and repurchases), and other international institutions' loan disbursement.

3/ Excluding PBOC swap ($1.4bn in 2024) which becomes usable once GIR rise above 3 months of previous year's import cover.

4/ In this table, all program financing in 2022-2027 (IFI budget support, debt relief, external arrears) except the IMF financing is included above the line.

Table 5. Sri Lanka: Composition of Public Debt 1/ (Including Arrears)

	Debt Stock (end of period, incl. arrears and past due interest)			Debt Service on end-2024 debt stock (on the realized and expected restructuring terms)					
	2024			2025	2026	2027	2025	2026	2027
	(In US$mn)	*(Percent total debt)*	*(Percent GDP)*	*(In US$mn)*			*(Percent GDP)*		
Total public debt	**107,984**	**100.0**	**105.7**	**24,826**	**10,381**	**9,874**	**22.7**	**8.7**	**7.7**
External (foreign law)	**40,245**	**37.3**	**39.4**	**2,864**	**2,496**	**2,417**	**2.6**	**2.1**	**1.9**
Multilateral creditors[2]	13,953	12.9	13.7	1,360	1,403	1,469	1.2	1.2	1.1
IMF	2,057	1.9	2.0	284	305	286	0.3	0.3	0.2
World Bank	4,637	4.3	4.5	338	338	349	0.3	0.3	0.3
ADB	7,024	6.5	6.9	612	681	759	0.6	0.6	0.6
Other Multilaterals	235	0.2	0.2	126	80	76	0.1	0.1	0.1
Bilateral Creditors	10,976	10.2	10.7	682	289	157	0.6	0.2	0.1
Paris Club	5,497	5.1	5.4	171	69	71	0.2	0.1	0.1
Non-Paris Club	5,283	4.9	5.2	491	202	69	0.4	0.2	0.1
Bonds	10,693	9.9	10.5	693	677	666	0.6	0.6	0.5
Commercial creditors	3,219	3.0	3.1	129	127	125	0.1	0.1	0.1
o/w: China Development Bank	3,058	2.8	3.0	40	40	40	0.0	0.0	0.0
Central bank bilateral currency swaps	1,406	1.3	1.4	-	-	-	0.0	0.0	0.0
Domestic (local law)	**67,738**	**62.7**	**66.3**	**21,963**	**7,885**	**7,457**	**20.1**	**6.6**	**5.8**
T-Bills	13,912	12.9	13.6	13,794	-	-	12.6	0.0	0.0
Bonds	48,324	44.8	47.3	7,736	7,481	7,064	7.1	6.3	5.5
Others	5,502	5.1	5.4	433	403	393	0.4	0.3	0.3
Memo items:									
Collateralized debt[3]	0	0	0						
o/w: Related	0	0	0						
o/w: Unrelated	0	0	0						
Contingent liabilities									
o/w: Public guarantees[4]									
o/w: Other explicit contingent liabilities									
Exchange rate (eop., Rupees/$)	293								
Nominal GDP (billions of Rupees)	29,899								

1/As reported by the Sri Lankan authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA. Debt stock and debt service are based on the realized and expected restructuring terms.

2/Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF

3/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

4/ Included in public debt.

Table 6. Sri Lanka: Gross External Financing, 2021-30 (Restructuring Scenario)

(In millions of U.S. dollars, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
		Act.					Proj.			
Current account	-3,285	-737	2,459	1,746	-48	-77	-439	-628	-622	-317
Balance on goods	-8,139	-5,184	-4,900	-6,056	-8,483	-8,957	-9,383	-9,702	-9,962	-9,901
Credit (exports)	12,499	13,107	11,911	12,772	12,880	13,490	14,194	15,116	15,958	16,924
Debit (imports)	-20,638	-18,291	-16,811	-18,828	-21,363	-22,447	-23,578	-24,818	-25,920	-26,825
Balance on services	1,587	2,110	3,052	3,435	3,949	4,163	4,280	4,428	4,579	4,708
Credit (exports)	2,476	3,063	5,415	6,910	7,489	7,883	8,198	8,559	8,940	9,340
Debit (imports)	-889	-952	-2,363	-3,475	-3,539	-3,720	-3,918	-4,131	-4,361	-4,632
Primary and secondary income, net	3,268	2,336	4,308	4,367	4,486	4,718	4,664	4,645	4,761	4,876
Amortization	-1851	-1733	478	-2279	-3453	-2926	-2160	-2941	-2989	-3156
General government	-2,815	-1,653	-1,010	-810	-1,543	-1,298	-1,173	-1,926	-1,922	-1,985
Sovereign bonds	-1000	-500	0	-120	-289	0	0	-794	-897	-955
Syndicated loans	-92	0	0	0	0	0	0	0	0	0
Bilateral and multilateral	-1,723	-1,153	-1,010	-690	-1,254	-1,298	-1,173	-1,132	-1,025	-1,030
Central bank	1318	258	1578	-1111	-1111	-829	-187	-215	-267	-371
IMF repurchases/repayments	-57	-140	-172	-211	-211	-199	-187	-215	-267	-371
Other central bank liabilities, net	1375	398	1750	-900	-900	-630	0	0	0	0
Private sector loans	-354	-339	-90	-358	-800	-800	-800	-800	-800	-800
Debt service on treated CG and guaranteed debt on pre-restructuring terms	...	-2,834	-3,772	-4,038	-4,338	-2,920	-2,951	-2,496	-2,493	-2,314
Principal	...	-2,107	-2,628	-3,073	-3,505	-2,261	-2,448	-2,117	-2,232	-2,190
Interest	...	-727	-1,144	-965	-832	-659	-503	-379	-261	-124
Debt service on treated CG and guaranteed debt debt post-restructuring	...	0	0	654	1,130	938	925	1,636	1,801	1,797
Principal	...	0	0	153	377	377	377	968	1,135	1,164
Interest	...	0	0	501	754	561	548	667	666	633
Gross external financing needs	-5,136	-5,304	-836	-3,917	-6,709	-4,985	-4,625	-4,429	-4,303	-3,989
Sources of financing	5,136	5,304	836	3,917	6,709	4,985	4,625	4,429	4,303	3,989
Borrowing	1834	1,390	-811	1,175	2,901	3,704	5331	5138	3809	4312
General government	2080	2,374	1,158	406	1,400	1,760	3171	3221	1772	1804
T-bills, Tbonds, and SLDBs, net	-30	52	228	-444	13	20	20	20	20	0
Sovereign bonds	0	0	0	0	0	0	1500	1500	0	0
Syndicated loans	800	0	0	0	0	0	0	0	0	0
Bilateral and multilateral	1300	2,316	930	850	1,387	1,740	1651	1701	1752	1804
Official capital transfers	10	6	0	0	0	0	0	0	0	0
Other capital inflows, net	-247	-984	-1,969	769	1,501	1,944	2,160	1,918	2,038	2,508
Deposit-taking corporations, excl. central bank, net	364	-3,142	-468	-233	-23	-15	-15	-15	-15	-15
FDI inflows, net	573	869	678	733	800	900	1,100	1,300	1,400	1,500
Private sector loans	187	332	117	0	800	950	950	880	880	880
Other capital inflows, net	-1371	956	-2,296	269	-76	108	124	-248	-228	143
Change in reserve assets	3,302	1,081	-4,023	-1,675	-1,083	-2,017	-3,701	-1,919	-598	-1,240
External financing gap	0	2,834	5,670	4,418	4,891	3,299	2,996	1,211	1,092	916
Exceptional Financing	...	2,834	5,670	4,418	4,891	3,299	2,996	1,211	1,092	916
IMF EFF	...	0	678	337	1,009	679	340	0	0	0
IFI budget support	...	0	1,220	696	675	638	630	350	400	400
Debt moratorium: external arrears accumulation	...	2,834	3,772	644	0	0	0	0	0	0
Debt relief	...	0	0	2,740	3,208	1,982	2,026	861	692	516

Sources: Central Bank of Sri Lanka; and IMF staff estimates and projections.

Table 7. Sri Lanka: Financial Soundness Indicators—All Banks, 2022-24

	2022				2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Capital adequacy												
Regulatory capital to risk weighted assets	15.1	15.2	15.3	16.2	16.5	16.9	16.4	18.4	17.7	18.0	18.5	18.4
Tier 1 capital/risk weighted assets	12.1	12.2	12.4	13.2	13.5	13.9	13.5	15.2	14.5	15.0	14.8	14.9
Equity capital and reserves to assets ratio	7.8	7.6	7.8	8.2	8.5	8.6	8.7	8.7	8.8	8.8	9.0	9.2
Asset quality												
Gross nonperforming loans to total gross loans (without interest in suspense)	8.4	8.9	10.8	11.6	12.9	13.4	13.4	12.8	12.8	12.6	12.6	12.1
Net nonperforming loans to total gross loans	8.4	9.4	10.8	11.3	12.7	13.4	13.6	12.8	12.9	12.8	12.4	12.3
Provision coverage ratio (total)	45.1	46.5	43.6	45.2	45.8	44.9	46.9	49.0	50.4	51.1	52.5	54.1
Earnings and profitability												
Return on equity (after tax)	20.4	8.8	8.0	10.4	10.2	10.2	11.1	11.5	11.1	12.7	12.5	15.6
Return on assets (after tax)	1.6	0.7	0.6	0.8	0.8	0.8	1.0	1.0	1.0	1.1	1.2	1.4
Net Interest income to gross income	4.2	4.3	4.1	4.0	3.7	3.5	3.5	3.7	3.8	3.9	4.0	4.3
Staff expenses to noninterest expenses	53.9	53.3	53.7	53.5	50.9	50.7	51.3	50.8	52.8	52.9	54.6	54.6
Total cost to total income	53.7	59.7	66.0	70.0	81.5	83.1	81.6	80.5	79.5	76.7	75.5	73.2
Net interest margin	4.2	4.3	4.1	4.0	3.7	3.5	3.5	3.7	3.8	3.9	4.0	4.3
Liquidity												
Liquid assets to total assets	19.0	14.7	16.8	18.5	22.1	24.5	30.0	32.2	34.6	34.4	35.3	38.6
Assets/funding structure												
Deposits to total assets	75.9	75.6	77.4	78.8	80.5	80.4	81.0	81.5	81.8	82.1	81.8	81.0
Borrowings to total assets	13.0	13.1	11.2	9.6	7.8	7.8	6.9	6.9	6.1	6.1	6.1	5.8

Source: CBSL.

Table 8. Sri Lanka: Projected Payments to the Fund, 2025-36 1/
(In millions of SDRs, unless otherwise indicated)

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Fund repurchases and charges												
In millions of SDR	247.8	257.2	267.5	283.1	312.7	377.5	446.5	454.1	419.3	322.5	249.3	137.2
In millions of U.S. dollars	329.1	343.7	358.1	379.0	418.6	505.3	597.7	607.9	561.3	431.7	333.8	183.6
In percent of exports of goods and services	1.6	1.6	1.6	1.6	1.7	2.0	2.2	2.2	1.9	1.4	1.0	0.5
In percent of government fiscal revenue	2.2	2.4	2.3	2.3	2.4	2.7	3.1	2.9	2.5	1.8	1.3	0.7
In percent of quota	42.8	44.4	46.2	48.9	54.0	65.2	77.1	78.5	72.4	55.7	43.1	23.7
In percent of gross official reserves	4.5	3.7	2.8	2.5	2.7	3.2	3.6	3.6	3.2	2.4	1.8	1.0
Total interest/charges	89.1	108.5	127.6	123.0	113.7	102.3	86.6	73.1	59.5	47.3	37.7	31.3
GRA Basic Charges	55.7	72.1	85.2	83.1	77.1	69.1	58.2	44.8	31.1	19.0	9.3	3.0
GRA Surcharges	0.4	5.5	12.8	11.5	8.3	4.8	0.1	0.0	0.0	0.0	0.0	0.0
Level-based Surcharges	*0.4*	*5.5*	*12.8*	*11.5*	*8.3*	*3.8*	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Time-based Surcharges	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*1.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
GRA Service Charges	3.8	2.5	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR Assessments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR Charges	29.3	28.4	28.4	28.4	28.3	28.4	28.4	28.4	28.3	28.4	28.4	28.4
Fund credit outstanding 2/												
In millions of SDR	1,875.4	2,234.7	2,348.8	2,188.6	1,989.7	1,714.5	1,354.7	973.7	613.8	338.7	127.0	21.2
In millions of U.S. dollars	2,502	2,988	3,148	2,934	2,667.1	2,298.2	1,815.9	1,305.2	822.8	454.0	170.2	28.4
In percent of exports of goods and services	12.3	14.0	14.1	12.4	10.8	8.9	6.7	4.6	2.8	1.5	0.5	0.1
In percent of government fiscal revenue	16.9	20.5	20.5	18.0	15.4	12.5	9.3	6.3	3.7	1.9	0.7	0.1
In percent of quota	324.0	386.1	405.8	378.1	343.8	296.2	234.0	168.2	106.1	58.5	21.9	3.7
In percent of GDP	2.5	3.1	3.1	2.7	2.4	1.9	1.4	1.0	0.6	0.3	0.1	0.0
In percent of gross official reserves	34.5	32.2	24.3	19.7	17.2	14.4	11.0	7.7	4.7	2.5	0.9	0.1
Memorandum items:												
Exports of goods and services (in millions of U.S. dollars)	20,368	21,373	22,392	23,676	24,741	25,854	27,018	28,234	29,504	30,832	32,219	33,669
Central government fiscal revenue (billion of Rupees)	4,792	5,267	5,732	6,211	6,730	7,293	7,902	8,563	9,278	10,054	10,894	11,805
Quota 2/	578.8	578.8	578.8	578.8	578.8	578.8	578.8	578.8	578.8	578.8	578.8	578.8
Quota (in millions of U.S. dollars) 2/	772	774	776	776	776	776	776	776	776	776	776	776
Gross official reserves (in millions of U.S. dollars) 2/	7,255	9,273	12,974	14,894	15,492	15,992	16,492	16,992	17,492	17,992	18,492	18,992

Source: IMF staff estimates.
1/ Projections as of May 15, 2025.
2/ As of the end of the year.

Table 9. Sri Lanka: Reviews and Purchases Under the Four-Year Extended Arrangement

Availability Date	Amount (millions of SDR)	Percent of Quota (%)	Conditions
At arrangement approval	254	43.9	Board Approval of the Extended Arrangement
September 1, 2023	254	43.9	Completion of the 1st review based on end-June 2023 and continuous performance criteria
April 1, 2024	254	43.9	Completion of the 2nd review based on end-December 2023 and continuous performance criteria
October 1, 2024	254	43.9	Completion of the 3rd review based on end-December 2024 and continuous performance criteria
April 1, 2025	254	43.9	Completion of the 4th review
October 1, 2025	254	43.9	Completion of the 5th review based on end-June 2025 and continuous performance criteria
April 1, 2026	254	43.9	Completion of the 6th review based on end-December 2025 and continuous performance criteria
October 1, 2026	254	43.9	Completion of the 7th review based on end-June 2026 and continuous performance criteria
March 1, 2027	254	43.9	Completion of the 8th review based on end-December 2026 and continuous performance criteria
Total	2,286.0	395.0	

Source: IMF staff.

Annex I. Sovereign Risk and Debt Sustainability Framework

Debt remains sustainable and debt indicators have improved relative to the Third Review, despite additional debt service from the Macro-Linked Bond (MLB) adjustment. The first MLB threshold is now expected to be triggered due to the stronger rupee that leads to a higher dollar GDP. However, improved macroeconomic conditions more than offset the increase in debt service, resulting in improved debt indicators. All DSA targets remain respected.

DSA Assumptions

1. **The macroeconomic framework has been updated to reflect more favorable exchange rate developments**. The exchange rate remains relatively stable after the lifting of motor vehicle restrictions in early 2025. To reflect this observation, the projected real exchange rate depreciation during the program period is reduced by some 4 percentage points.

Text Table 1. DSA Macroeconomic Assumptions – Differences with Third Review

	2023	2024	2025	2026	2027	2028	2029
Real growth (%)							
3rd Review	-2.3	4.5	3.0	3.0	3.1	3.1	3.1
Current	-2.3	5.0	3.5	3.1	3.1	3.1	3.1
GDP deflator inflation (yoy, %)							
3rd Review	17.5	3.5	4.9	5.5	5.3	5.2	5.1
Current	16.7	3.8	3.6	5.3	5.1	5.0	5.0
Primary balance (% of GDP)							
3rd Review	0.6	2.2	2.3	2.3	2.3	2.3	2.3
Current	0.6	2.2	2.3	2.3	2.3	2.3	2.3
Nominal GDP (Rs bln)							
3rd Review	27,630	29,893	32,309	35,123	38,113	41,343	44,819
Current	27,420	29,899	32,036	34,754	37,664	40,779	44,163

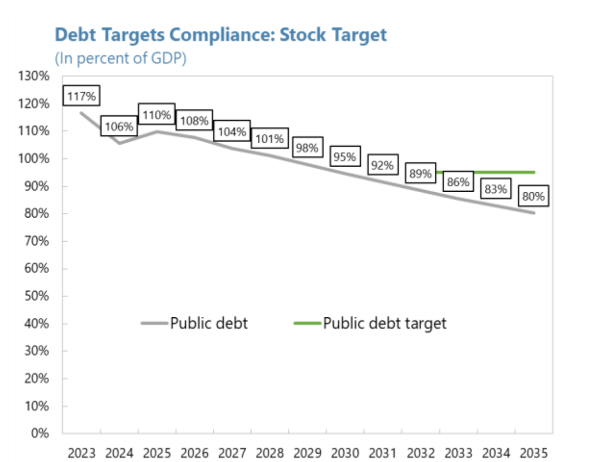
Source: IMF staff estimates and projections.

2. **The stronger projected real exchange rate leads to a higher dollar GDP which triggers the first GDP threshold of the Macro-Linked Bonds (MLB) adjustments.** Specifically, the projected average dollar GDP in 2025-27 is now US$98.7 billion compared to the first MLB threshold of US$94.0 billion. This leads to 25-75 basis-point higher coupon rates, depending on bond series, and 13 percent higher principal on the restructured International Sovereign Bonds (ISB). The contribution of debt relief to close the external financing gap remains significant.

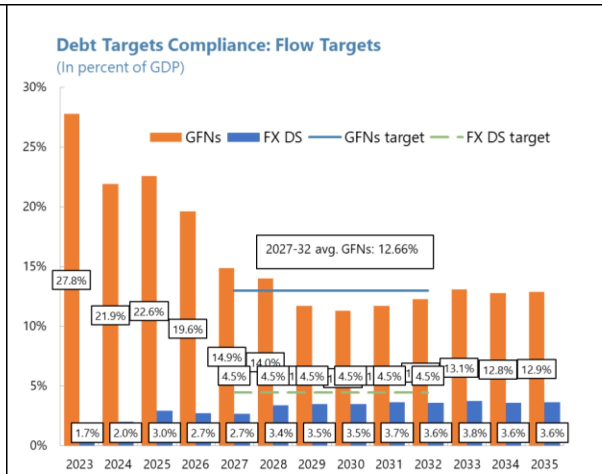
Compliance with Debt Targets

3. **All four debt targets are respected in the baseline, with debt indicators improved slightly compared to the Third Review (text charts)**. The four debt targets—program period external debt service relief, post-program gross financing needs (GFNs) and FX debt service, and debt stock—are met. This is primarily driven by the improved exchange rate and dollar GDP

projections, as the stronger GDP offsets the higher debt service. The projected debt-to-GDP ratio at end-2032 improved from 90.3 percent to 88.3 percent (compared to the DSA target of 95 percent), and the average GFN to GDP ratio in 2027-32 declined slightly from 12.73 to 12.66 (compared to the DSA target of 13 percent). This DSA update assumes a full execution of the authorities' indicative and announced debt treatments based on the end-2023 outstanding debt stock. The DSA in the Staff Report has been updated to reflect the actual end-2024 debt stock.



Sources: IMF staff estimates and projections.



Sources: IMF staff estimates and projections.

4. Debt sustainability targets are also met after considering risks from state-contingent debt instruments (SCDI). The baseline debt indicators have improved relative to the targets relative to the Third Review. Moreover, with the baseline now incorporating the first SCDI upper trigger, the maximum additional payments from the SCDI relative to baseline have declined from US$242 million to US$111 million (equivalent to 0.23 and 0.10 percent of 2028 GDP, respectively) per year on average over 2028-32 period. Therefore, although the probability of triggering the higher states is now higher—as dollar GDP has increased—the debt sustainability targets remain respected. However, public debt levels remain high. Crowding out effect may limit private investments. More broadly debt overhang risks pose concern for growth and sovereign-bank nexus.

Figure 1. Sri Lanka: Risk of Sovereign Stress and Sustainability (Restructuring Scenario)

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	High	Sri Lanka is about to complete its debt restructuring. The fiscal adjustment, combined with debt restructuring will restore debt sustainability. However, downside risks remain high under a restructuring scenario.
Near term 1/	n.a.	n.a.	Not applicable
Medium term	High	High	Risks remain high under a restructuring scenario due to relatively high levels of debt and GFNs, a strong sovereign-bank nexus, and the economy's vulnerability to large shocks.
Fanchart	High	…	
GFN	High	…	
Stress test	…	…	
Long term	…	High	Long-term risks include slowing growth due to a declining labor force and climate vulnerabilities.
Sustainability assessment 2/		Sustainable	The debt operation will put Sri Lanka on a firm downward path. But the reduction of debt vulnerabilities to safe levels will take time. Meanwhile, external shocks or domestic policy reversals could lead to renewed debt increase.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Sri Lanka is recovering from a deep crisis. Debt sustainability is restored, conditional on the completion of its debt restructuring process. However, even after the implementation of a successful program and debt restructuring, debt sustainability risks will remain high for many years.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Sri Lanka: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					Yes	
2. Subsectors included in the chosen coverage in (1) above:						

CPS / NFPS / GG: expected / CG	No.	Subsectors captured in the baseline	Inclusion	Comments
CG	1	Budgetary central government	Yes	
GG: expected	2	Extra budgetary funds (EBFs)	No	
GG: expected	3	Social security funds (SSFs)	No	
GG: expected	4	State governments	No	
GG: expected	5	Local governments	No	
NFPS	6	Public nonfinancial corporations	Yes	Guaranteed debt
CPS	7	Central bank	Yes	Fund credit and bilateral swaps
CPS	8	Other public financial corporations	Yes	Guaranteed debt

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
Included	Missing	Chosen	Chosen	Missing	Missing

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
Chosen		Cash basis		Face value 6/	

5. Debt consolidation across sectors:	Consolidated	Non-consolidated
Chosen		Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

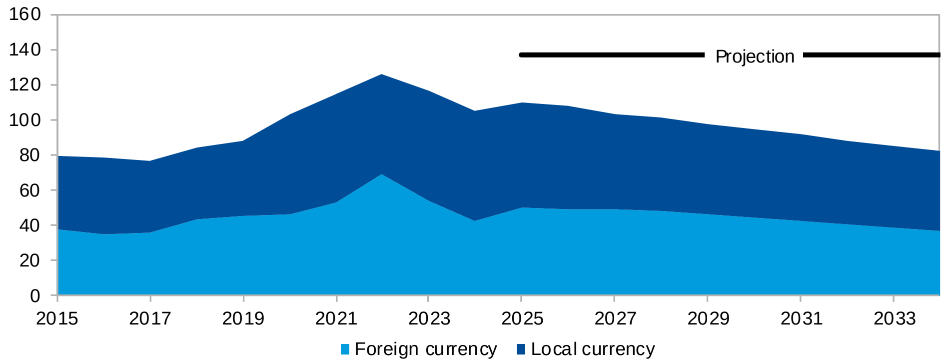
	Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt							2742	3687	6429
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.								702	702
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	2742	4389	7131

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The DSA perimeter includes (i) central government debt; (ii) SOE debt guaranteed by the central government; and (iii) liabilities of the central bank arising from the 2016-20 EFF and bilateral swap arrangements. Note: Oth. pub. fin. corp. holdings of CG debt includes holdings by state-owned banks, but excludes retirement funds. Provincial and local governments do not carry debt as they are not authorized to borrow .

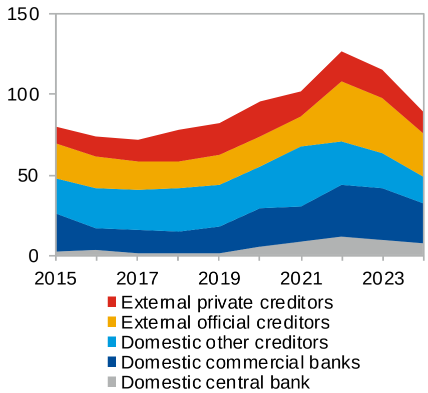
Figure 3. Sri Lanka: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



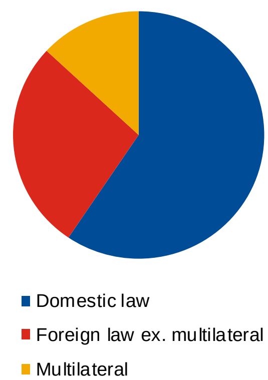
Note: The perimeter shown is central government.

Public Debt by Holder (Percent of GDP)



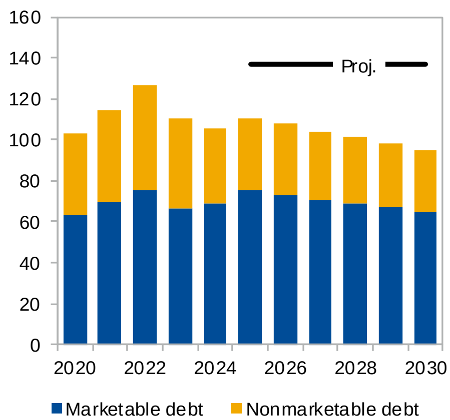
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2024 (Percent)



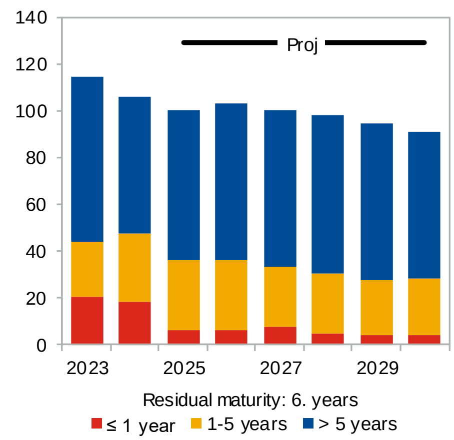
Note: The perimeter shown is central government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is central government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is central government.

Commentary: Accelerating inflation reduced the real value of domestic debt in 2022, while exchange rate depreciation led to a large increase in external and foreign-currency debt. These dynamics reversed partially in 2023, as the exchange rate appreciated, and inflation slowed down. Foreign-law and multilateral law debt account for close to half of Sri Lanka's debt. The debt operation is assumed to rebalance the maturity profile, increasing the residual maturity.

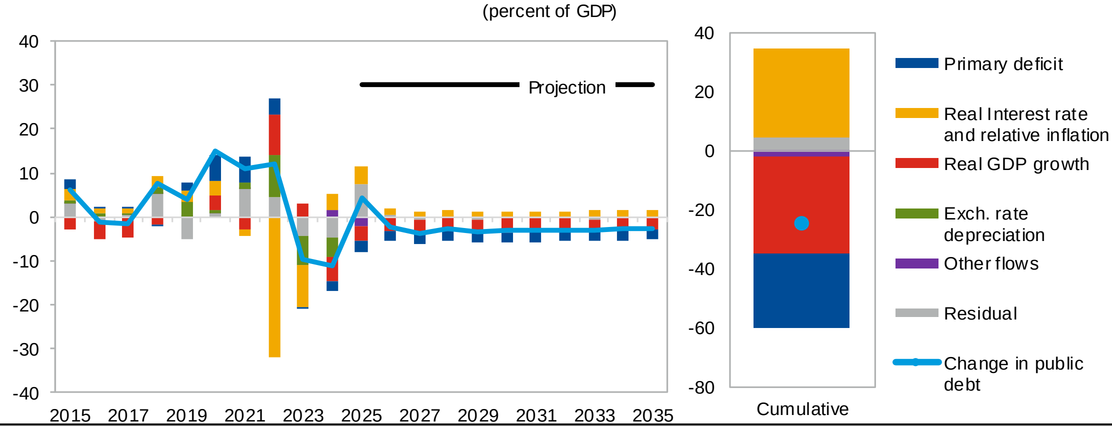
Figure 4. Sri Lanka: Baseline Scenario

(percent of GDP unless indicated otherwise)

	Prel.	Medium-term projection						Extended projection				
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public debt	105.7	110.0	107.7	103.8	101.2	97.9	94.7	91.6	88.5	85.5	82.8	80.2
Change in public debt	-11.0	4.3	-2.3	-3.8	-2.6	-3.3	-3.2	-3.1	-3.1	-3.0	-2.7	-2.7
Contribution of identified flows	-6.4	-3.3	-2.7	-3.1	-2.9	-2.8	-2.8	-2.7	-2.6	-2.4	-2.3	-2.3
Primary deficit	-2.2	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3
Noninterest revenues	13.5	14.9	15.1	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2
Noninterest expenditures	11.3	12.6	12.8	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9
Automatic debt dynamics	-5.9	1.1	-0.4	-0.7	-0.5	-0.5	-0.4	-0.4	-0.3	-0.1	0.0	0.0
Real interest rate and relative inflation	4.2	4.6	2.9	2.5	2.6	2.6	2.5	2.5	2.5	2.6	2.6	2.5
Real interest rate	3.5	4.0	1.5	1.1	1.2	1.2	1.2	1.2	1.3	1.4	1.5	1.5
Relative inflation	0.8	0.5	1.4	1.4	1.4	1.4	1.3	1.3	1.2	1.1	1.1	1.0
Real growth rate	-5.6	-3.5	-3.3	-3.2	-3.1	-3.1	-3.0 .	-2.9	-2.8	-2.7	-2.6	-2.5
Real exchange rate	-4.5	…	…	…	…	…	… .	…	…	…	…	…
Other identified flows	1.6	-2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	1.6	-2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-4.6	7.6	0.4	-0.7	0.2	-0.5	-0.5	-0.4	-0.4	-0.6	-0.4	-0.4
Gross financing needs	21.9	22.6	19.6	14.9	14.0	11.7	11.3	11.7	12.3	13.1	12.8	12.9
of which: debt service	24.1	24.9	21.9	17.2	16.3	14.1	13.6	14.0	14.6	15.4	15.1	15.2
Local currency	22.0	21.9	19.2	14.5	12.9	10.5	10.1	10.3	10.9	11.6	11.4	11.5
Foreign currency	2.1	3.0	2.8	2.7	3.4	3.5	3.6	3.7	3.7	3.8	3.6	3.7
Memo:												
Real GDP growth (percent)	5.0	3.5	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Inflation (GDP deflator; percent)	3.8	3.6	5.3	5.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Nominal GDP growth (percent)	9.0	7.1	8.5	8.4	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3
Effective interest rate (percent)	7.1	7.7	6.7	6.2	6.3	6.3	6.4	6.4	6.5	6.8	6.9	6.9

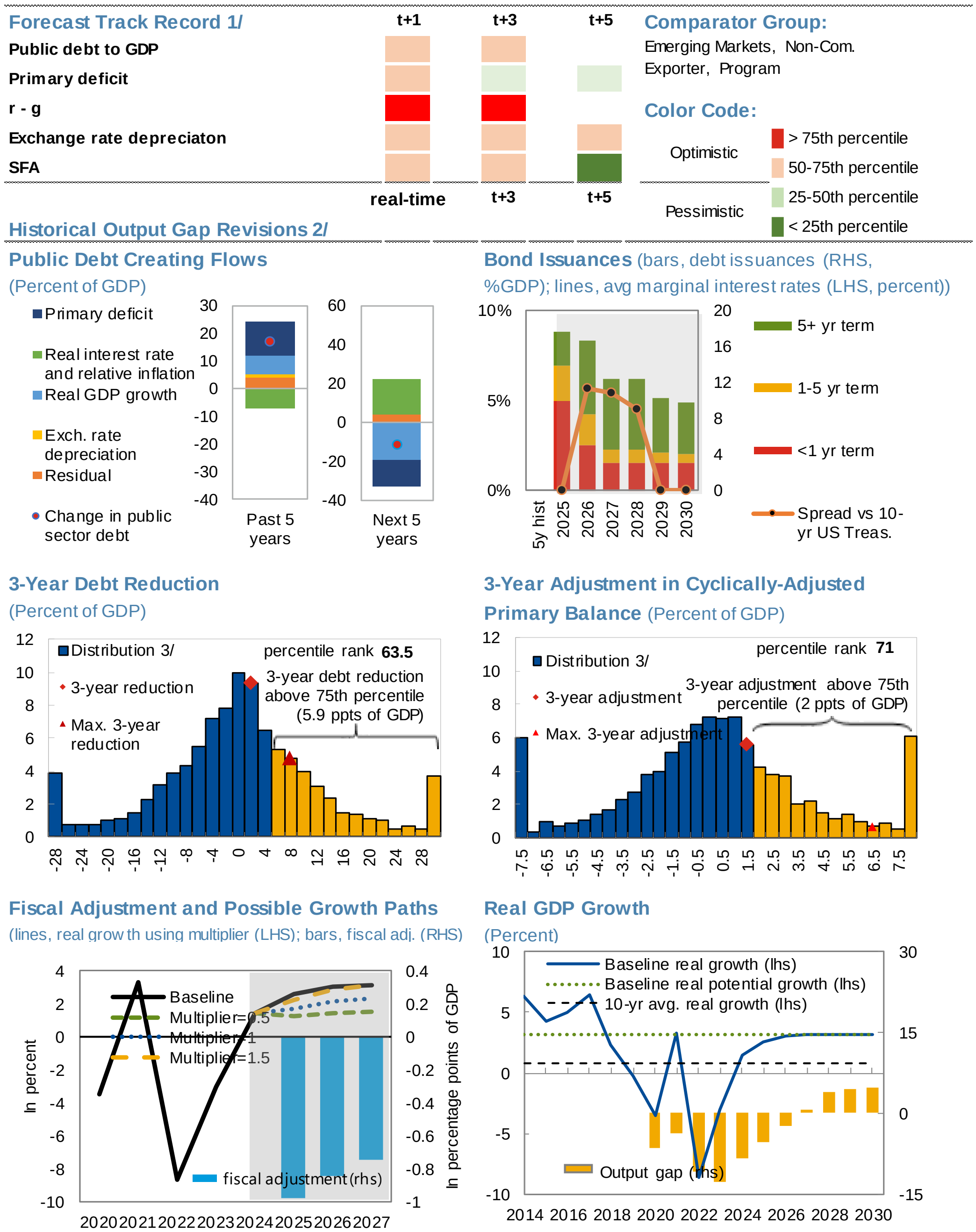
Contribution to Change in Public Debt

(percent of GDP)



Staff commentary: Public debt increased drastically in 2020-22, due to exchange rate depreciation and large fiscal deficits. In 2024, debt restructructuring, primary balance surplus, real exchange rate appreciation, and real growth contributed to the decline in debt to GDP ratio. The first two factors contributed to the negative residual of change in public debt. In 2025, real exchange rate adjustment contributes to the positive residual, and banking sector recap contingency as well as changes to cash buffers contribute to the other transactions category. The restructuring contributes to debt reduction in the long term additionally through reduction in interest rate. The debt reduction over the longer term rests on continued fiscal discipline and adherence to the macroeconomic adjustment program.

Figure 5. Sri Lanka: Realism of Baseline Assumptions



Commentary: Sri Lanka's forecasts in the past have shown optimism for most debt drivers. Domestic yields are presently high but expected to normalize under the program. The fiscal adjustment efforts are ambitious but backed by identified measures that are needed to restore fiscal sustainability. The 3-year debt reduction is driven by the debt restructuring and fiscal prudence. Growth recovery will be slow due to sovereign default and economic crisis, as well as the associated balance sheet impact.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

Figure 6. Sri Lanka: Medium-Term Risk Analysis

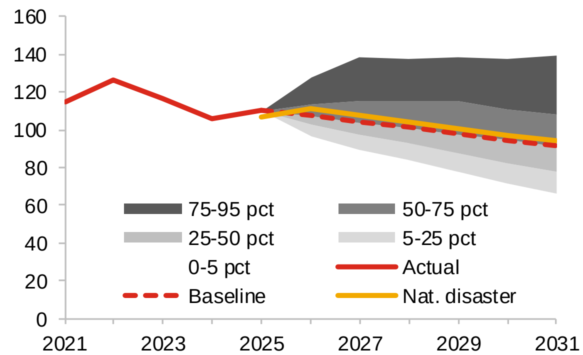
Debt Fanchart and GFN Financeability Indexes

(percent of GDP unless otherwise indicated)

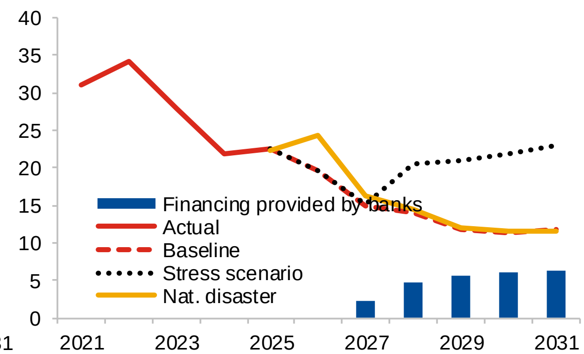
Module	Indicator	Value	Risk index	Risk signal	Emerging Markets, Non-Com. Exporter, Program (0 – 25 – 50 – 75 – 100)
Debt fanchart module	Fanchart width	73.7	1.1	…	
	Probability of debt not stabilizing (pct)	14.4	0.1	…	
	Terminal debt level x institutions index	59.8	1.3	…	
	Debt fanchart index	**…**	**2.5**	**High**	
GFN finance-ability module	Average GFN in baseline	13.9	4.7	…	
	Bank claims on government (pct bank assets)	40.5	13.1	…	
	Chg. in claims on govt. in stress (pct bank assets)	2.6	0.9	…	
	GFN financeability index	**…**	**18.7**	**High**	

Legend: Interquartile range; Sri Lanka

Final Fanchart (Pct of GDP)



Gross Financing Needs (Pct of GDP)

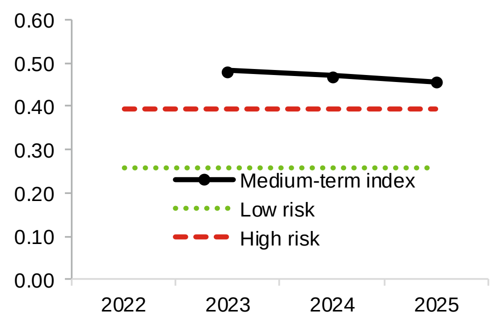


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index

(index number)



Medium-term Risk Analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.6
GFN finaceability index	7.6	17.9	0.5	0.4
Medium-term index (MTI)	0.3	0.4	…	0.5, High

Prob. of missed crisis, 2025-2030 (if stress not predicted): 54.5 pct.

Prob. of false alarm, 2025-2030 (if stress predicted): 3.4 pct.

Commentary: Both MT tools (which are now run for 2026-31) point to high level of risks, associated with relatively high levels of debt and GFNs, a strong sovereign-bank nexus, and the economy's vulnerability to large shocks. Debt drivers from 2023 and 2024 are excluded from the historical draws of the debt fanchart in line with the SRDSF guidance note.

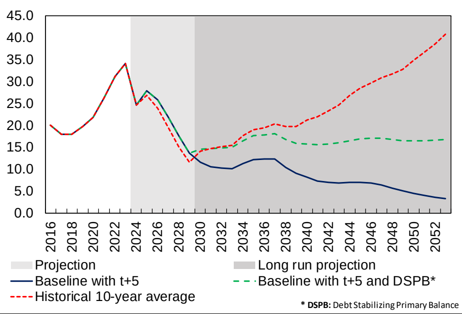
Figure 7. Sri Lanka: Long Term Amortization Module

Large Amortization Trigger

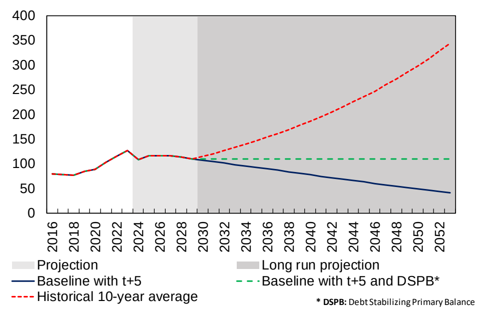
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

Alternative Baseline Long-term Projections

GFN-to-GDP Ratio



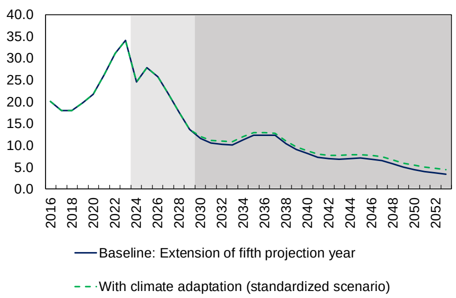
Total Public Debt-to-GDP Ratio



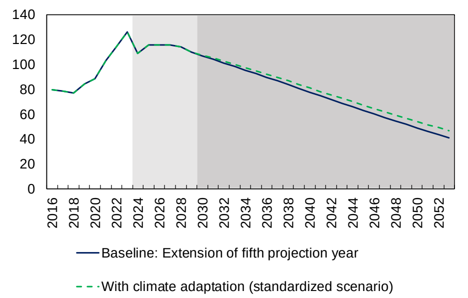
Commentary: The historical scenario leads to unsustainable debt as it is based on the recent multi-year large fiscal slippages leading to the deep crisis. Specifically, the historical average scenario assumes -2.1 percent primary balance deficit to GDP ratio, 1.4 percent real GDP growth, and some real depreciation in each year.

Climate Change: Adaptation

GFN-to-GDP Ratio



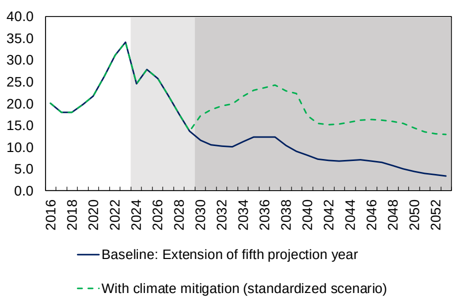
Total Public Debt-to-GDP Ratio



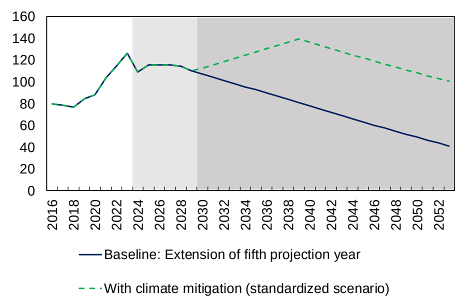
Commentary: The climate change adaptation scenario does not lead to large changes in debt indicators.

Climate Change: Mitigation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: The climate change mitigation scenario leads to large changes in debt indicators as this is based on 5.7 percent of GDP per year over 10 years period of climate mitigation efforts.

Annex II. Risk Assessment Matrix[1]

Source of Risks	Likelihood	Expected Impact	Policy Response
Domestic Risks			
Program financing risks arising from lower reserve accumulation, financing shortfalls from external partners, high interest burden, lower tax revenue collection, and higher external imbalance due to global tariffs shocks.	High	**H**: Program becomes underfinanced.	Depending on the triggers, a combination of actions including (i) higher IFI financing, (ii) broader and more frontloaded revenue mobilization measures could be considered, and (iii) appropriate program recalibrations if necessary
Waning reform momentum especially on revenue mobilization measures.	High	**H**: Can result in fiscal slippages and weaken confidence and delay access to external financing, slowing economic stabilization.	Enforce program slippages through corrective actions. Streamline and prioritize reforms in line with the program objectives. Continue to engage frequently on program performance through weekly meetings with the authorities.
Upside inflation risks from stronger economic rebound and second round effects from new tax measures, or exchange rate depreciation pressure.	Medium	**M**: Can de-anchor inflation expectations and reduce real income.	Monitor inflation development closely and tighten monetary policy if needed to keep inflation anchored around the target level.
Social unrest, fueled by falling real incomes including from tax hikes and cost recovery pricing in the energy sector, insufficient anti-corruption efforts, multi-faceted impacts of tariffs shock on the economy and social stability, and unmet election promises.	Medium	**M**: Can result in fiscal slippages, and delay or reverse progress of important reforms.	Proactively implement inclusive reforms including social security and anti-corruption reforms. Strengthen communication to increase public understanding of the program design and objectives.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Source of Risks	Likelihood	Expected Impact	Policy Response
		External Risks	
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	High	**H:** Disrupts trade and FDI leading to worsening BOP. More expensive imports could lead to higher inflation. Tighter financial conditions may worsen debt dynamics.	Allow the exchange rate to adjust to offset BOP pressures. Diversify access for external financing from other partners. Consider a tighter fiscal policy stance to preserve debt sustainability.
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	High	**M:** Slow growth in trade and FDI, increase input costs and inflationary pressure.	Develop corresponding export and FDI promotion strategies in response to the structural change, promote domestic suppliers and improve labor skills. Closely monitor implications to inflation and maintain agility of monetary policies.
Regional conflicts. Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	Medium	**M**: Disrupts trade, remittances, and capital inflows, worsening balance of payments. Can slow recovery.	Support the economy with easing monetary policy and targeted fiscal support. Address the BOP pressure by allowing the exchange rate to adjust and seeking higher access to external financing support.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	Medium	**M**: Increase volatility in inflation dynamics and uncertainties in economic activity.	Closely monitor implications to inflation and maintain agility of monetary policies.

Annex III. Sri Lanka's Enterprise Risk Assessment

1. **Relative to the beginning of the program, enterprise risks have declined to moderate levels.** Close program monitoring, strong engagement with the authorities, and regular communication and outreach activities have contributed to a successful execution of the program so far. Enterprise risks identified in earlier reviews have declined as negotiations with creditors on the debt restructuring advanced and as uncertainty surrounding the 2024 elections subsided. Regular engagement with external partners and Sri Lanka's creditors ensures that program financing remains adequate through the remaining program period. The risks from discontinuing the lending program outweigh those from continuing with it.

2. **Financial risks stemming from Sri Lanka's capacity to repay are moderate and are mitigated by strong program implementation.** Capacity to repay the Fund is assessed to be adequate under the program, but it is subject to significant risks and is contingent on the successful implementation of program measures and the remaining elements of the debt restructuring. With good recent progress, risks from a protracted debt restructuring process are now no longer significant. However, even after the implementation of a successful program and debt restructuring, debt sustainability risks will remain high for many years. Notwithstanding, financial risks are assessed as moderate. Factors mitigating the risk of arrears to the Fund include: (i) regular financing assurances review (with every review) to ensure adequate assurances are in place including from key multilateral and official bilateral creditors; (ii) close monitoring of remaining debt restructuring efforts; (iii) targeted macro critical conditionality to ensure the fiscal consolidation remains on track and delivers adjustment consistent with debt sustainability. These risks are balanced against those of Sri Lanka running arrears to the Fund—taking into account current credit outstanding—in the absence of a Fund arrangement.

3. **Program conditionality and coordination with external partners provide adequate assurances that the business risks stemming from a potential weakening of program implementation are adequately managed.** Following the debt restructuring, program performance could weaken due to its only partial implementation on account of election pledges, posing member engagement risks. These risks may be exacerbated by global uncertainty which may lead to trade and investment disruptions that could lead to an underfinanced program. Business risks are assessed as major but are being mitigated by: (i) the ability to recalibrate conditionality at program reviews to evolving circumstances or possible shocks; and (ii) the authorities' commitment to upfront implementation of reform measures and steadfast implementation of structural reforms supported by extensive capacity development. Close coordination with external partners ensures that the program is fully financed for the next 12 months and that there are good prospects for adequate financing for the rest of the program period. Against these risks, the alternative of not proceeding with the program review if it remains on track would entail significant business risks in the form of failing to provide timely and effective financial assistance and policy advice to Sri Lanka, which could jeopardize the recovery.

4. Reputational and credibility risks to the Fund are moderate and managed through adequate communication. The new government, keen on delivering on election pledges, could seek to implement additional relief measures. On the other hand, the Fund could face reputational risks (focused on Fund's objectivity) if the public perceives policies under the program as too tight, weakening public support for the program. Continued close communication with the authorities helps ensure continued program implementation, including through weekly program monitoring meetings, close engagement through the Resident Representative, two Long-Term Experts in the field, regular program missions and frequent capacity development missions. Regular communication with stakeholders with the support of COM helps secure support for the program. The mission has established regular communication channels, enabling it to engage on the need to sustain the reform momentum and maintain the program on track so as to not undermine the hard-won gains from the past two years. If the program remains on track, failure to proceed with the review would heighten reputational risks because it could create a perception that the Fund is failing to support a member country and could worsen economic and financial conditions, such as by impairing investor confidence. This could delay the restoration of Sri Lanka's market access post-default and affect its capacity to repay the Fund.

Annex IV. Capacity Development

IMF Capacity Development Missions January 2021 – June 2025		
TA/Training Missions	**Provider**	**Date**
Tax Policy		
Tax Policy Reform	FAD	Jun 6-17, 2022
VAT and Excise Tax	FAD/LEG	Jan 12-25, 2023
Property and Wealth Tax	FAD	Jun 30 - Jul 13, 2023
Property Taxation in Sri Lanka	FAD	Feb 7-21, 2024
Tax Expenditure Quantification and Reporting	FAD	Jul 11-22, 2024
Tax Expenditure Modelling	FAD	Mar 24-Apr 4, 2025
Revenue Forecasting	FAD	Jun 4-13, 2025
Revenue Administration		
Strengthening the Large Taxpayer Office	FAD/SARTTAC/STX/LTX	Feb 15 - Mar 8, 2022
Implement Large Taxpayer Office	FAD/STX	Apr 4-18, 2022
Tax Administration Diagnostic Tool (TADAT) training	FAD	Dec 5-9, 2022
TADAT Assessment	SARTTAC (with ADB and WB)	Jan 9-26, 2023
RAMIS	SARTTAC	Mar 7 -20, 2023
Developing Data Warehouse Prototype for IRD	FAD	Jul 1, 2024–Jan 28, 2025
Guiding the Development of Tax Administration Reform	FAD (with WB)	Jul 3-11, 2023
Medium-term Revenue Administration Reform Plan	FAD	Aug 21-Sep 3, 2023
Compliance for High-Wealth Individuals (Peripatetic)	FAD/STX	Sep 5-Dec 5, 2023
Strengthened Revenue Administration Management and Governance Arrangements	FAD/SARTTAC	Oct 24-26, 2023
Guiding the Development of a Revenue Authority	FAD (duty station based)	Nov 6, 2023-Jan 19, 2024
Diagnostic Assessment on the Customs and Excise Departments	FAD/SARTTAC	Feb 26 - Mar 7, 2024
Implementation of VAT Refund Model	FAD	Feb 28-Mar 7, 2024
Compliance for High-Wealth Individuals (Peripatetic)	FAD	Jan 29-Feb 2; Jul 1-Sep 13, 2024
Support to Develop a Strategic Plan to Deliver RAMIS 3.0	FAD/LTX/STX (with WB)	Apr 23-30, 2024
Revenue Administration	FAD/STX	Jul 3-12, 2024
Tax Incentive Reform and Improving Tax Expenditure Reporting	FAD/STX	Jul 11-22, 2024
Compliance Management of High-Wealth Individuals and Criminal Investigations Program Progress Report (Peripatetic)	FAD	Jul 15-Oct 11, 2024
Support for the Development of an Information Technology Strategic Plan (ITSP)	FAD	Aug 8-Sep 9, 2024

IMF Capacity Development Missions January 2021 – June 2025		
TA/Training Missions	**Provider**	**Date**
Customs Tax Cooperation and Customs Modernization	FAD	Aug 14-17, 2024
Status of Key Tax Reform Measures - Transition of Resident Tax Advisors	FAD/STX	Aug 26-Sep 17, 2024
Implementing Anti-Corruption Measures at the Sri Lanka Customs Department	FAD/STX	Oct 21-29, 2024
Compliance Management of High-Wealth Individuals and Criminal Investigations Program (Peripatetic)	FAD	Nov 11-Dec 31, 2024
SVAT Repeal and VAT Refund	FAD/STX	Nov 27-Dec 10, 2024
Revenue Administration	FAD	Dec 3-6, 2024
High-Wealth Individual and Tax Crime Investigations	FAD/STX	Jan 2-10, 2025
Compliance Management of High Wealth Individuals	FAD/STX	Feb 10-21, 2025
Repeal of SVAT Communications and Change Management	FAD/STX	Feb 10-21, 2025
Repeal of SVAT and Transition to Risk-Based VAT Refund	FAD/STX	Mar 17-28, 2025
Tax Crime Investigation Unit	FAD/STX	Mar 24-Apr 25, 2025
IRD Tax Administration Support	FAD/STX	Mar 31-Apr 11, 2025
SVAT Repeal and VAT Refund	FAD/STX	Apr 15-30, 2025
Support for High-Wealth Individuals Compliance Unit	FAD/STX	May 22-Jun 27, 2025
VAT Compliance Improvement Program Operationalization	FAD/STX	Jun 25-Jul 4, 2025
Leadership and Reform Management	FAD/STX	Jun 30-Jul 4, 2025
Public Financial Management		
Strengthening Macro-Fiscal Unit: Fiscal Analysis and Forecasting	SARTTAC	Mar 15-26, 2021
Strengthening the Macro-Fiscal Unit	FAD/SARTTAC/STX/LTX	Jan 20-Feb 9, 2022
Macro-Fiscal Unit and MTFF	FAD/SARTTAC/LTX	Sep 19-23, 2022
Fiscal Risks Management	FAD/SARTTAC/LTX	Oct 3-7, 2022
PFM Diagnostic Scoping Mission/ PFM Reform Agenda	FAD/SARTTAC/STX/LTX	Dec 8-10, 2022
Debt Management Reform Plan	MCM/LEG (with WB)	Feb 20-Mar 3, 2023
PFM Law (including fiscal rules)	FAD/LEG	Mar 13-24, 2023
Developing a Fiscal Strategy Statement	FAD	Jun 12-16, 2023
Debt Management Law	LEG/MCM/WB	Jun 26-Jul 7, 2023
Drafting the PFM Bill: Strengthening the PFM Legal Framework	FAD/LEG	Aug 10-21, 2023
Develop Rules/Regulations for the Provision of Sovereign Guarantees and On-lending	FAD/SARTTAC/WB	Oct 10-16, 2023
Debt Management Reform Plan Implementation	MCM/FAD/STX/WB	Oct 16-25, 2023
Strengthening Cash Management Practice	FAD	Feb 13-23, 2024
Improving Fiscal Reporting	SARTTAC	Apr 2024

IMF Capacity Development Missions January 2021 – June 2025		
TA/Training Missions	**Provider**	**Date**
Review of Chart of Accounts	FAD/SARTTAC	Apr 15-18, 2024
Strengthening Accounting and Financial Reporting	FAD/SARTTAC	May 2-16, 2024
Review of Fiscal Strategy Statement	FAD/STX	May 14-Jun 28, 2024
Implementing a Medium-Term Budget Framework	FAD	Jun 3-14, 2024
Scoping Mission to Establish a Public Debt Management Office	MCM	Aug 29-30, 2024
Reviewing ITMIS Implementation for Supporting Enhanced Budget Execution and Commitment Controls	FAD/SARTTAC	Sep 3-16, 2024
Revising Financial Regulations	FAD/LTX	Nov 20-29, 2024
Fiscal Risk Statement	FAD/LTX/STX (with WB)	Jan 15-28, 2025
Enhancing the Primary Debt Market and Support to the Establishment of the Public Debt Management Office	FAD/SARTTAC/LTX (with WB)	Jan 20-29, 2025
Developing an Investor Relations Strategy with Focus on Communication Policy	SARTTAC	Mar 17-28, 2025
Developing A Procedures Manual for Public Debt Management	SARTTAC/MCM/STX	Jun 4-17, 2025
Implementing Commitment Controls Through ITMIS	FAD	Jun 17-30, 2025
Monetary and Foreign Exchange Operations		
Monetary Policy Operations	MCM/SARTTAC	Jun 1-Jul 2, 2021
Monetary Policy Frameworks and Implementation	MCM/SARTTAC	Jun 6-17, 2022
Forecasting and Policy Analysis System	ICD/SARTTAC	Nov 28-Dec 9, 2022; and Apr 29-May 10, 2024
Monetary Policy Implementation (training)	CDOT/SARTTAC	Jan 29-Feb 4, 2024
FX Market Development	SARTTAC/MCM	Mar 18-24, 2024
FX Market Follow-up	SARTTAC/MCM	Jun 24-28, 2024
Developing A Forecasting and Policy Analysis System at the Central Bank of Sri Lanka	SARTTAC/ICD/STX	Apr 28-May 9, 2025
Central Bank Operations, Financial Stability, and Debt Management		
Strengthening Technology Risk Management of NBFIs & Building Supervisory Capacity	MCM	May 11-Nov 12, 2021
Financial Sector Stability Reviews (FSSR) Follow-up and Stress Testing	MCM	May 1-12, 2021
FSSR Macroprudential TA/ Resident Advisor	MCM	Aug 1, 2021 - Jul 31, 2023
Sri Lanka Interconnectedness TA	MCM	Feb 28-Mar 31, 2022
Liquidity Monitoring	MCM/SARTTAC	Sep 1-9, 2022
Policy Discussion on Revision of PSSA (First Phase)	MCM	Oct 24-Nov 4, 2022
Central Bank Balance Sheet	MCM	Dec 1-12, 2022

IMF Capacity Development Missions January 2021 – June 2025		
TA/Training Missions	**Provider**	**Date**
Macroprudential Policy Tools Follow-up	MCM	May 9-16, 2023
Operationalizing Macroprudential Policy Framework	MCM	June 13-20, 2023
Central Bank Liquidity Monitoring and Monetary Operations	MCM/SARTTAC	Jul 4-17, 2023
Review of the Payment and Settlement Systems Act	MCM	Aug 2-8, 2023
Borrower-Based Tools and Sectoral Capital Requirements	MCM	Oct 3-17, 2023
Strengthening the Risk Assessment of Central Bank of Sri Lanka	MCM	Nov 6-17, 2023
Central Bank Operations Risk Appetite Framework	MCM	Nov 27-Dec 4, 2023
Strengthening Debt Management	MCM (with WB)	Apr 23-May 3, 2024
Strengthening Central Bank of Sri Lanka Capacity in Supervision	MCM/SARTTAC/LTX/STX	Apr 29-May 10, 2024
Domestic Systemically Important Banks (D-SIB) Framework Model Validation Follow-up	MCM	Aug 19-21, 2024
Modernizing CBSL's Strategic Communication Framework	SARTTAC	Jan 13-22, 2025
Currency in Circulation Forecasting	SARTTAC/MCM	Mar 18-20, 2025
Central Bank Risk Management	MCM/LEG/SARTTAC	Jun 25-27, 2025
Governance and Anti-corruption		
Governance Diagnostic Scoping Mission	LEG	Mar 9-14, 2023
Governance Diagnostic Mission	LEG/FAD/MCM/FIN	Mar 20-31, 2023
Support the Development of a Strategic Plan for the CIABOC	LEG/STX	Sep 19 - Oct 11, 2024
Implementation of the Governance Diagnostic Recommendations	LEG	Nov 15-22, 2024
Support the Development of a Strategic Plan for the CIABOC (follow-up)	LEG/STX	Jan 13-31, 2025
Government Finance Statistics		
Implementing a Strategy for Broadening the Coverage and Scope of GFS to General Government	SARTTAC	Jan 24 - Feb 3, 2022
Expanding Compilation for Consolidated Central Government (CG)	SARTTAC	Jan 23-27, 2023
Real Sector Statistics		
National Accounts - GDP Rebasing	SARTTAC	Mar 29-Apr 23, 2021
National Accounts - GDP Rebasing	SARTTAC	Aug 16-20, 2021
PPI Update	SARTTAC	Nov 1-12, 2021
National Accounts - GDP Rebasing	SARTTAC	Feb 7-8, 2022
Institutional Sector Accounts - Sequence of Accounts	SARTTAC	Nov 21-25, 2022

IMF Capacity Development Missions January 2021 – June 2025		
TA/Training Missions	**Provider**	**Date**
CPI Update	STA	Dec 19-23, 2022
Expanding the PPI	STA	Apr 17-28, 2023
Institutional Sector Accounts - Sequence of Accounts	SARTTAC	Apr 24-28, 2023
Developing Institutional Sector Accounts	SARTTAC	Nov 20-24, 2023
CPI Update	STA	Mar 11-15, 2024
National Accounts: Input-Output Tables	SARTTAC/STA	Jul 1-5, 2024
Developing Institutional Sector Accounts and GDP Expenditure	SARTTAC	May 26-30, 2025
Monetary and Financial Sector Statistics		
Monetary and Financial Statistics	STA	Feb 20-Mar 8, 2024
Other		
Scoping Mission: Model-Based Financial Programming and Policies (FPP)	ICD/SARTTAC	Jan 30-Feb 3, 2023
Developing a Model-Based FPP Framework	ICD/SARTTAC	Jun 5-9, 2023
Macroeconomic Framework	ICD/SARTTAC	Sep 4-5, 2023
Customized Macroeconomic Foundation Course for CBSL staff	SARTTAC	May 27-31, 2024
Macroeconomic Framework	ICD/SARTTAC	Oct 7-11, 2024
Macroeconomic Framework	ICD/SARTTAC	May 15-23, 2025
Regional Training		
Macroeconometric Forecasting and Analysis	SARTTAC	Jan 15-29, 2021
Compliance Risk Management	SARTTAC	Feb 1-5, 2021
Supply and Use Tables, Input-Output Tables and Extensions	SARTTAC	Feb 8-12, 2021
Public Investment Management Assessment	SARTTAC	Feb 8-12, 2021
Fiscal Policy Analysis	SARTTAC	Mar 1-12, 2021
Taxpayer Registration	SARTTAC	Apr 12-16, 2021
Fiscal Sustainability	SARTTAC	Apr 26-May 6, 2021
Government Finance Statistics: GFS Special Topics	SARTTAC	Apr 26-28, 2021
Financial Programming and Policies	SARTTAC	Jul 5-16, 2021
Collections and Arrears Management	SARTTAC	Jul 12-16, 2021
High Frequency Indicators and Monthly Index of Economic Growth	SARTTAC	Jul 12-16, 2021
Fiscal Frameworks	SARTTAC	Aug 2-13, 2021
Effective Cash Management under Fiscal Stress	SARTTAC	Aug 2-6, 2021
Public Sector Debt Statistics – Special Topics	SARTTAC	Aug 23-27, 2021
Monetary policy implementation - Interest Rate Corridor	SARTTAC/CDOT	Aug 24-26, 2021

IMF Capacity Development Missions January 2021 – June 2025		
TA/Training Missions	**Provider**	**Date**
Risk-Based Audit and Investigation Techniques - Income Tax	SARTTAC	Sep 6-10, 2021
Macroeconometric Forecasting and Analysis	SARTTAC	Sep 13-24, 2021
Selected Topics in Managing Capital Flows	SARTTAC/SEACEN	Sep 13-17, 2021
Digitalization and Public Financial Management	SARTTAC/CDOT	Sep 20-24, 2021
Macroeconomic Diagnostics	SARTTAC	Sep 27-Oct 7, 2021
National Accounts Statistics	SARTTAC	Oct 25-29, 2021
Monetary Operations- Part 2. Liquidity Monitoring and Forecasting	SARTTAC/CDOT	Oct 26-29, 2021
Fiscal Sustainability	SARTTAC	Nov 8-19, 2021
Fiscal Reporting and Transparency	SARTTAC	Jan 17-21, 2022
Monetary Policy Implementation: Central Bank Collateral Framework (with CDOT)	SARTTAC	Jan 17-19, 2022
External Debt Statistics	SARTTAC/STI	Feb 7-11, 2022
Compliance Risk Management	SARTTAC	Feb 7-11, 2022
Gender and Macroeconomics	SARTTAC	Feb 7-11, 2022
Monetary Policy	SARTTAC	Mar 14-25, 2022
Sector Classification of Public Sector Units: A Practical Workshop	SARTTAC	Mar 21-25, 2022
Nowcasting	SARTTAC	Mar 28-Apr 1, 2022
Fiscal Risks Analysis and Management	SARTTAC	Apr 4-7, 2022
Taxpayer Registration	SARTTAC	Apr 4-8, 2022
Emergency Liquidity Assistance	SARTTAC	Apr 4-6, 2022
Consumer Price Index	SARTTAC	Apr 25-29, 2022
Insurance Supervision	SARTTAC	Apr 25-29, 2022
Macro-Fiscal Analysis and Quantitative Methods	SARTTAC	Jun 13-17, 2022
Compiling Public Sector Balance Sheets	SARTTAC	Jun 27-Jul 1, 2022
Fiscal Policy Analysis	SARTTAC	Jul 11-22, 2022
Monetary Policy Implementation - Reserve Requirements	SARTTAC	Jul 11-14, 2022
Developing a Medium-Term Fiscal Framework Tool	SARTTAC	Jul 25-29, 2022
Sectoral Accounts and Balance Sheets	SARTTAC	Aug 29-Sep 2, 2022
eGovernment and Digitalization of PFM - The Changing Topography	SARTTAC	Sep 5-9, 2022
Macroeconometric Forecasting and Analysis	SARTTAC	Sep 19-30, 2022
Taking on Green PFM and Climate Change	SARTTAC/CDOT	Oct 17-20, 2022
Risk-Based Audit Techniques	SARTTAC	Oct 17-21, 2022
Monetary Policy Implementation: Reference Exchange Rate	SARTTAC	Oct 18-20, 2022

IMF Capacity Development Missions January 2021 – June 2025		
TA/Training Missions	**Provider**	**Date**
Introduction to Climate Change Indicators for Economic Analysis and Policy Formulation	SARTTAC	Oct 31-Nov 3, 2022
Strategic Budgeting: Integrating Fiscal Strategy with Budget Formulation	SARTTAC	Nov 22-25, 2022
Central Bank Digital Currencies	SARTTAC	Dec 5-9, 2022
TADAT	SARTTAC	Dec 12-16, 2022
Monetary Policy Implementation: Foreign Exchange Operations	SARTTAC	Jan 10-12, 2023
National Accounts	SARTTAC	Jan 16-20, 2023
Classification of Functions of Government	SARTTAC	Feb 6-10, 2023
Effective Management of Accelerated Investment in Public Infrastructure	SARTTAC	Feb 13-17, 2023
Collections and Arrears Management	SARTTAC	Feb 27-Mar 3, 2023
Financial Development and Financial Inclusion	SARTTAC	Apr 10-20, 2023
Macroeconomic Diagnostics	SARTTAC	Apr 10-21, 2023
Macroeconomics of Climate Change	SARTTAC	Apr 24-May 4, 2023
Taxpayer Registration	SARTTAC	Apr 24-28, 2023
Fintech Market Development and Policy Implications	SARTTAC	Jul 17-21, 2023
International Trade in Goods and Services	SARTTAC	Jul 24-28, 2023
International Survey on Revenue Administration	SARTTAC	Aug 21-25, 2023
Implementing Modern Cash Management	SARTTAC	Aug 28-Sep 1, 2023
Introduction to Government Finance Statistics	SARTTAC	Aug 28-Sep 1, 2023
Core Elements of Banking Supervision: An Overview and Regional Perspectives	SARTTAC	Sep 11-15, 2023
Nowcasting	SARTTAC	Sep 18-29, 2023
Advanced Government Finance Statistics	SARTTAC	Oct 16-20, 2023
Exchange Rate Policy	SARTTAC	Oct 30-Nov 9, 2023
Quarterly National Accounts and Seasonal Adjustment	SARTTAC	Dec 11-15, 2023
Enhancing Effectiveness of AML/CFT Frameworks: Evolution of the FATF Standard	SARTTAC	Jan 8-12, 2024
Public Sector Debt Statistics	SARTTAC	Jan 15-19, 2024
Navigating Banking Supervision: Unpacking the Latest Supervisory Issues with a Regional Perspective	SARTTAC	Jan 22-25, 2024
Macroeconomics of Climate Change	SARTTAC	Jan 29-Feb 8, 2024
Monetary Policy Implementation	SARTTAC/CDOT	Jan 29-Feb 2, 2024
Fiscal Sustainability	SARTTAC	Feb 5-15, 2024
Effective Leadership for Revenue Administration	SARTTAC	Feb 19-23, 2024
Financial Sector Policies	SARTTAC	Feb 19-29, 2024
Monetary Policy	SARTTAC	Feb 26-Mar 7, 2024
Liquidity Forecasting	SARTTAC/CDOT	Mar 4-8, 2024

IMF Capacity Development Missions January 2021 – June 2025		
TA/Training Missions	**Provider**	**Date**
High-Frequency Indicators and Monthly Indicators of Economic Growth	SARTTAC	Mar 18-22, 2024
Integrated Risk Management in Customs	SARTTAC	Apr 22-26, 2024
Gender Inequality and Macroeconomics	SARTTAC	Apr 22-26, 2024
Compiling Supply Use Tables/Input Output Tables	SARTTAC	Apr 29-May 3, 2024
Navigating Banking Supervision: Unpacking the Latest Issues with a Regional Perspective	SARTTAC	Jun 24-28, 2024
IFRS9 and Expected Credit Loss Supervision	SARTTAC/MCM	Aug 26-30, 2024
Developing a Medium-Term Debt Management Strategy	SARTTAC	Sep 23-27, 2024
Annual National Accounts	SARTTAC	Sep 30-Oct 4, 2024
Cash Management and Treasury Single Account	SARTTAC	Oct 14-18, 2024
Collections and Arrears Management	SARTTAC	Nov 18-22, 2024
Fiscal Policy Analysis	SARTTAC	Dec 2-12, 2024
Monetary Policy Implementation	SARTTAC/CDOT	Dec 2-6, 2024
Strengthening Revenue Administration for Gender Equality	SARTTAC	Dec 9-11, 2024
Central Bank Communications and Transparency	SARTTAC/CDOT	Dec 9-11, 2024
Institutional Sector Accounts	SARTTAC	Dec 9-13, 2024
Consumer Price Index	SARTTAC	Jan 13-17, 2025
Cyber Risk Supervision	SARTTAC	Jan 20-24, 2025
Implementing Effective Regulation and Supervision of Climate-related Financial Risks	SARTTAC	Jan 27-31, 2025
Liquidity Forecasting and Estimation of Demand for Reserves	SARTTAC/CDOT	Feb 10-14, 2025
Effective Leadership for Revenue Administration	SARTTAC	Feb 17-21, 2025
Fiscal Risk Management	SARTTAC	Mar 3-7, 2025
Digital Transportation of Revenue Administration	SARTTAC	Mar 11-Apr 18, 2025
Emergency Liquidity Assistance	SARTTAC/CDOT	Mar 24-27, 2025
Big Data and Machine Learning for Macroeconomic Statistics	SARTTAC	Apr 7-11, 2025
Central Bank Foreign Exchange Operations and Reference Exchange Rate	SARTTAC/CDOT	Apr 21-24, 2025
Digital Transformation of Revenue Administration	SARTTAC	May 27-30, 2025

Source: IMF Staff

Appendix I. Letter of Intent

June 16, 2025
Colombo

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva:

As part of our IMF-supported program under the 48-month Extended Fund Facility (EFF) arrangement, we have undertaken significant reforms to pave our way out of a deep economic and debt crisis. Robust economic recovery is underway. Growth reached 5.0 percent last year, a significant reserves build-up continues, and inflation has remained low. Our ambitious multi-year revenue-based fiscal adjustments have been on track. Tax revenues have improved significantly. We continue to advance on our wide-ranging governance and other structural reforms.

We are close to completing our comprehensive debt restructuring after our agreement with China Exim Bank in July 2024 and successful Eurobond exchange in December 2024. We have signed bilateral agreements with Japan and India, and we are finalizing the agreements with the remaining members of the Official Creditor Committee. All debt treatments are consistent with program parameters and comparability of treatment principles. We continue good faith negotiations with our other external private creditors as well as the remaining official bilateral creditors.

We have completed the prior action (PA) on restoring cost-recovery electricity tariff and the PA on amending the Bulk Supply Transaction Account (BSTA) guideline to reinstate BSTA-based automatic tariff adjustments. For end-March 2025, all indicative targets (ITs), except the stock of arrears, were met. All structural benchmarks due by end-May 2025 were met or implemented with delay. End-March headline inflation fell below the monetary policy consultation clause (MPCC) outer lower band primarily due to administrative price adjustments, real exchange rate rebound in 2024, and contained demand pressures amidst high global uncertainty.

Going forward, we remain committed to our reform agenda under the EFF. Our objectives remain: (i) an ambitious revenue-based fiscal consolidation, accompanied by strong social safety nets, fiscal institutional reforms, and cost-recovery energy pricing; (ii) restoring public debt sustainability; (iii) maintaining price stability and rebuilding reserves under greater exchange rate flexibility;

(iv) safeguarding financial sector stability; and (v) advancing structural reforms to address corruption vulnerabilities and enhance growth.

The policies we will implement are presented in the attached Memorandum of Economic and Financial Policies (MEFP). We believe the economic and financial policies set forth in the MEFP are sufficient to ensure program objectives will be met. We stand ready to take additional measures that may prove necessary to meet our objectives. We will consult in advance with the Fund on the adoption of these measures, and in advance of revisions to the policies in the MEFP in accordance with the Fund's policies on such consultations. We will refrain from policies that would be inconsistent with program objectives. We will provide Fund staff with timely and accurate data for program monitoring.

With regards to program conditionality, we request (i) approval of the new proposed QPCs and ITs for March and June 2026, (ii) approval of the new SBs and reformulation and resetting of existing SBs, and (iii) completion of the financing assurances review.

The program will continue to be monitored through semi-annual reviews, quantitative performance criteria, indicative targets, and structural benchmarks as described in the attached MEFP and Technical Memorandum of Understanding (TMU).

Based on our performance and strength of policies outlined in the MEFP, we are requesting the IMF Executive Board approve the completion of the Fourth Review under the EFF and the disbursement of SDR 254 million (43.9 percent of quota) upon approval. We are also requesting for a waiver of applicability for end-June PCs, as data will not be available at the time of the Board meeting. Data suggest we are on track, and we continue to be committed towards meeting the PCs.

Consistent with our commitment to transparency policy, we consent to the IMF's publication of this letter, MEFP, TMU, and the Staff Report.

Sincerely yours,

/s/	/s/
Anura Kumara Dissanayake Minister of Finance, Planning, and Economic Development	Nandalal Weerasinghe Governor Central Bank of Sri Lanka

Attachments:

Memorandum of Economic and Financial Policies

Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

I. Context and Macroeconomic Developments

1. **We remain fully committed to the economic reform program supported by the Extended Fund Facility (EFF)**. The IMF Executive Board approved the third review of Sri Lanka's four-year EFF program on February 28, 2025. Going forward, we remain committed to the program objectives of (i) revenue-based fiscal consolidation, fiscal structural reforms including cost-recovery energy pricing, supported by enhanced social safety nets to protect the most vulnerable; (ii) implementing the debt restructuring strategy to preserve public debt sustainability; (iii) safeguarding price stability and rebuilding international reserves under continued exchange rate flexibility; (iv) preserving financial system stability; (v) sustaining governance and anti-corruption reforms; and (vi) implementing broader structural reforms to unlock Sri Lanka's growth potential.

2. **Policy reforms are bearing fruit across the economy.** The post-crisis rebound, estimated at 5 percent in 2024, has been strong. Inflation has been low since mid-2023 and turned negative since September 2024 mainly due to electricity tariff reductions, favorable global energy prices, and exchange rate appreciation in 2024. Gross international reserves continue to accumulate, reaching US$6.2 billion at end-April 2025, covering about 52 percent of ARA metric. The financial sector health has improved, and capital buffers are increasing. Improved tax revenue since 2023 is contributing to much needed fiscal consolidation and improved debt dynamics. Our debt restructuring process has now largely concluded, providing a substantial contribution towards restoring debt sustainability. Deep-rooted governance issues and structural impediments continue to be addressed with a comprehensive anti-corruption agenda which would help foster higher and more inclusive growth.

II. Economic Program

3. **We have continued to implement the ambitious reform agenda under the EFF**. All end-March 2025 indicative targets (ITs), except the stock of arrears were met. All structural benchmarks (SBs) due by end-May 2025 were met or implemented with delay. We are committed to addressing the remaining gaps and delivering on program objectives. To this end, we will ensure the implementation of the prior actions (PAs) and SBs (Table 2), and the achievement of the quantitative targets (Table 1).

III. Advancing Revenue-Based Fiscal Consolidation, Structural Fiscal Reforms and Social Safety Nets

4. **Our approved 2025 Budget is consistent with program parameters**. The budget targets a primary surplus of 2.3 percent of GDP starting 2025 (**QPC**). The 2025 Appropriation Act is in line with program parameters **(SB, end-March 2025)**, with a primary surplus of 2.3 percent of GDP (**QPC**). We will execute total spending so as to not exceed the approved budget. We are committed

to the medium term primary surplus target of 2.3 percent under the EFF program and are working towards preparing a 2026 budget consistent with these targets.

5. **We have implemented revenue measures to reach the 2025 program target.** Our revenue package, (discussed in MEFP, Third Review), is expected to raise tax revenue to 13.9 percent of GDP in 2025 **(QPC)**. Given the expected large yield from the relaxation of vehicle imports, we are monitoring, in real time, imports and associated taxes. Due to court challenge related delays in obtaining parliamentary approval of the VAT Act amendments, yields from the adoption of VAT on digital services are expected to be lower. Additionally, the estimated yield from the increase in withholding tax on interest income has been reduced on the basis of the new system of self-certifications for users exempt from the tax. The 2025 revenue path remains consistent with program parameters. If the yield from any of the revenue measures does not fully materialize, we commit to adopting additional high-quality measures to compensate for the shortfall. Any overperformance of tax revenue will be locked-in to reduce the needed revenue adjustment in 2026.

6. **We will expedite efforts to fix the VAT refund system to ensure the full repeal of the simplified VAT (SVAT) system by end-September 2025 (SB)**. Abolishing the SVAT requires a fully functional VAT refund system, which is an essential step to boost VAT compliance. Inland Revenue Department (IRD) has already initiated efforts to ensure that the transition to VAT cash refunds issued to exporters is smooth and timely. To avoid further delays in repealing the SVAT, IRD has prepared and begun updating a monthly project plan and started fortnightly dashboard reporting to the MOF. IRD will report, by mid-July 2025, the results of a simulation exercise to test the new refund arrangements which will come into place once SVAT is repealed **(SB, end-June 2025)**. IRD will ensure the software updates required for the new VAT refund process are ready by end-August 2025. We will provide IRD with sufficient additional resources to ensure timely VAT refunds. We will ensure that the number of exporters eligible for VAT refunds under the revamped system is manageable given IRD capacity limitations. Relatedly, we will continue tracking and reporting Key Performance Indicators (KPIs) up to June 2026 **(SB and Annex I)**.

7. **We will prepare and implement a VAT compliance improvement program**. Weak VAT compliance continues to undermine tax collection. To ensure expected compliance gains materialize (0.1 percent of GDP in 2025 and a similar amount in 2026), we have formulated and published by end-May 2025 a VAT compliance improvement program identifying, assessing, and prioritizing compliance risks for key taxpayer segments (focusing on large and medium businesses) and determining a detailed plan to address those risks **(SB)**. IRD is mobilizing this program from June 2025 onwards, first focusing on the SVAT repeal transition by engaging high-risk businesses to raise awareness on their new VAT obligations post repeal. Beginning October, IRD will reinstate field visits to improve compliance from such taxpayers. By end-December 2025, the VAT compliance improvement program will shift to covering the new traditional VAT regime. Relatedly, we are working with IRD and Customs to minimize the use of, and validate the veracity of temporary VAT numbers to ensure they are used for their intended purpose.

8. **We are advancing reforms on modernizing IRD and enhancing taxpayer compliance**. We are working on a medium-term IRD Modernization Strategy and Implementation Plan. We have

also established a Steering Committee to guide tax revenue enhancement and further structural reforms at IRD. We have enhanced RAMIS to administer individual income tax returns and to administer and assess the Social Security Contribution Levy. We are also ensuring that processing tax collections is only carried out through RAMIS. We have continued our outreach to re-register VAT taxpayers who dropped out in 2020-22, and our High Worth Individuals (HWI) Unit will institute intensive audits and checks on high-risk HWIs.

9. We plan to continue building the data infrastructure for a possible property tax. We are planning to introduce property taxes by 2027H1. In the meantime, building adequate information on property valuation is key. The first step in the process requires a database on historical valuation records. To this end, we are working to digitize the valuation records held by the government valuation department, starting with municipal councils. We plan to complete this process by end-2025. Next, a database on market value estimates is required. We have thus put in place a provisional digital nationwide Sales Price and Rents Register (SPRR). We have resolved outstanding data sharing constraints and will establish the final SPRR by end-September 2025 (**SB, end-June 2025**). Finally, we will combine the historical digitized records with the SPRR to generate a final database of properties with estimated market values by June 2026. This database will be the key resource for the assessment of property values and the basis for several taxes, including property taxation and capital gains taxation. We will also ensure that this database will be accessible to the IRD (including the HWI unit), the valuation department, the land registry, and the public by September 2026.

10. We will undertake measures to ensure adequate execution of capital spending. The capital spending budget has been under-executed for the past three years, with capital spending averaging 3 percent of GDP between 2022 and 2024 (and under execution of 1.1 percent of GDP in 2023-24). We will work with IMF technical assistance to update the 2018 Public Investment Management Assessment (PIMA) and implement resulting recommendations.

11. We will manage misuse and arrears risks from the senior citizens' interest subsidy scheme approved in 2025. We will institute an appropriate identity verification system to prevent beneficiaries receiving multiple subsidy payments and thus reduce the potential for misuse under the program. We will not exceed the 2025 budget appropriation for this scheme. We will ensure timely refunds to licensed banks of valid subsidy payments to avoid incurring arrears. We will discontinue the current scheme for deposits placed after December 31st, 2025 and in the future, we will focus on measures that are well targeted and less distortive to support the poor and vulnerable.

12. We will repay past arrears and improve our PFM processes to prevent the accumulation of arrears, as well as improve the recording, reporting and monitoring of arrears. We have accumulated arrears, estimated at around 0.6 percent of GDP as of end-June 2023 and since then have reduced it to 0.4 percent of GDP. This includes arrears under the previous interest subsidy scheme introduced in 2015. We will prioritize clearing expenditure arrears by 2027 through an arrears' clearance strategy following the steps of verification, classification, prioritization, and liquidation, while still complying with the spending ceiling and primary balance targets. We commit to not incur new domestic arrears in the future. Going forward, we will improve PFM practices to prevent the accumulation of arrears and improve their timely accounting and reporting to the Treasury through the following actions: (i) we will ensure there are reporting mechanisms for monitoring expenditure commitments, invoices received and verified, accounts payable, payments made, and remaining arrears, including those that are outside of annual budget appropriations. These reporting systems will capture the size, maturity, and composition of the stock of arrears, as defined in the TMU. At the outset this may require manual reporting by line ministries and departments as we work towards operationalizing this functionality in ITMIS by June 2026 (**new SB**); (ii) we will improve cash management including by developing accurate and timely short-term estimates of cash inflows and outflows and making adequate budgetary provision for the cash cost of arrears clearance; (iii) we will strengthen system-based commitment controls to ensure that expenditure is not to be initiated without available budget and cash, (iv) and finalize the roll-out and full implementation for ITMIS to be able to manage and track budget execution in a timely manner.

13. We will continue revamping our PFM procedures. We will adopt implementing regulations of the new PFM law by end-December 2025 (**new SB**). We will ensure that (i) future Budget submissions starting from the 2026 Budget will include all documentation required by the PFM law, and (ii) any future PFM-related bill (including public-private partnerships (PPP), state-owned enterprises (SOE), public procurement, and investment bills) is consistent with the PFM law. We will fully integrate PPPs with the public investment management process and ensure that the MOF has a strong gatekeeper role for evaluating the viability and affordability of all projects, including PPPs. We will update and publish the Fiscal Strategy Statement (FSS) and enhance it with a Fiscal Risks Statement by end-June 2025. In addition, we will prepare and publish a medium-term PFM Reform Strategy and Action Plan by end-December 2025. We have completed the roll-out of Integrated Treasury Management Information System (ITMIS) to 171 out of 172 spending heads by end-May 2025, and will conclude the rollout to the final spending head by end-June 2025. Next, we plan to integrate ITMIS with the e-procurement (e-GP) system. Relatedly, we remain committed to improving analytical capacity within MOF including by enhancing the timeliness, accuracy and coverage of fiscal data.

14. To mitigate fiscal risks from the energy SOEs, we will maintain cost reflective electricity pricing. We have restored cost-recovery electricity pricing for the remainder of 2025 (**prior action**). This was achieved by setting the tariffs at the level that will eliminate expected operating losses of CEB in the rest of 2025. The tariff will also allow for the scheduled repayments of CEB legacy debts, in line with the recently adopted cabinet decision. Subsequently tariffs will be maintained at the cost recovery level (overall across different types of final consumers) with quarterly formula-based adjustments on a forward-looking basis (**continuous SB**). We are in the final stages of amending the Electricity Act, which will lead to significant changes to the sector's structure and governance. We will also review the existing tariff methodology by November 2025 and revise it if necessary, in line with the amended Electricity Act and in consultation with IMF staff (**new SB**). We have amended and published the Bulk Supply Transaction Account (BSTA) guidelines to eliminate the clause that states "CEB shall bring the balance of the BSTA to zero through working capital financing," and to ensure that BST Bank Account reports submitted by CEB determine the thresholds for the automatic tariff adjustments (**prior action**). This will ensure that the BSTA is used to trigger an automatic 10 percent increase of the tariff whenever CEB's buffers reach the lower threshold two weeks in a row. PUCSL will reserve the right to audit CEB's BSTA submission and take appropriate actions based on the finding. We will monitor CEB's financial performance on a continuous basis ensuring that CEB does not run arrears, and its short-term debt will not be allowed to increase to avoid triggering the automatic tariff increase. We stand ready to use tariff surcharges in the periods between revisions to restore cost recovery in case CEB is making losses. The dispatch audit of CEB's operational costs, which would assess the scope for efficiency gains in electricity generation and transmission, is facing delays, and we now expect to finalize it by end-August 2025. We will continue to set monthly retail fuel prices at cost recovery (**continuous SB**). We will continue to comply with the program **IT** related to on-budget transfers.

15. We will improve the transparency of electricity tariff revisions and strengthen accountability of the regulator towards CEB's finances. We will amend the PUCSL Act to mandate PUCSL to submit to parliament quarterly reports on maintaining cost recovery electricity pricing and publish the reports **(new SB)**.

16. We will press ahead with structural reforms to improve financial viability of SOEs.

- **CPC.** A small margin in the fuel pricing formula is utilized by CPC to repay US$251 million of the old financial obligations. Of this amount, US$146 million remains to be repaid as of end-March 2025, and we will ensure that these repayments continue.

- CEB. We plan to settle CEB's remaining legacy debt (incurred prior to 2023), estimated at about Rs. 180 billion as of end-2024. Repayment of this debt is included in the electricity tariff calculation starting in June 2025.

- SLA. We are finalizing a medium-term strategic plan for Sri Lankan Airlines (SLA), which will include plans to restore operational viability and resolve legacy debts.

17. To strengthen SOE governance and enhance their financial transparency, we will: (i) clarify the mandates of key SOEs through Statements of Corporate Intent and hold their management accountable for delivering satisfactory results informed by key performance indicators, (ii) review the framework for selecting SOE board members to ensure that they are qualified and independent, and (iii) ensure that all 52 major SOEs publish their audited financial statements by end-June of the following year. We have published 2023 audited statements of 45 SOEs. The remaining seven SOEs continue to encounter delays related to the need to clear the backlog of financial statements since 2020-22. We are drafting the new SOE law with assistance from the World Bank, which will incorporate many of these transparency and governance requirements including an explicit policy on the management of state financial assets and ensure that all officers and directors of SOEs are appointed in a rigorous, transparent, and merit-based process. We will ensure that this new law is consistent with the PFM Act and that the government has full authority to exercise financial oversight of SOEs. We plan to enact the SOE law by end-2025. We will consult with the IMF before submitting the SOE law to Parliament.

18. We will continue strengthening the framework for SOE borrowing. We will continue to ensure that new SOE borrowing is limited to the financing of commercially viable activities, and that, except for project loans on-lent by the Treasury and short-term trade financing, there will be no new borrowing in foreign currency (FX) for non-financial SOEs with less than 20 percent of revenues denominated in FX. Guarantees on FX borrowing will remain allowed on exceptional basis to facilitate IFI financing to SOEs under very strict conditions.

19. We are committed to restoring social spending to help the vulnerable. We already increased payments for the poor and extremely poor groups in January 2025, as well as for the elderly, disabled, and chronic kidney patients starting April 2025. We extended the benefit payment periods for transitional and vulnerable groups through end-April and end-December 2025, respectively. We expect to disburse Rs. 2.9 billion in stationery allowances to children in underprivileged schools during January–June 2025.[1] Going forward, we will (i) expedite the onboarding of the remaining Aswesuma beneficiaries from the first-round—delayed due to difficulties in opening bank accounts for applicants without a national identity card[2]— and retroactively pay associated cash transfers of Rs. 3.4 billion by June 2025, (ii) complete by June the enumeration of close to 813,000 second-round applicants (with 93 percent completed as of end-May) with payments expected to commence the same month, (iii) swiftly implement the grievance redress process for appeals and objections. To improve targeting, we are currently revamping the modules of the Integrated Welfare Management System (IWMS)—WBB's digital platform which houses the social registry—with a view to launching the recertification of 3.4 million first-round applicants later this year. We will also (i) review the Aswesuma eligibility criteria and strengthen the program's design, informed by the findings of nationally representative surveys, and (ii) explore the scope for leveraging the social registry for beneficiary selection of other social assistance programs beyond Aswesuma.

20. Other targeted efforts will also support increased social spending and alleviate poverty. The empowerment pilot program, led by the World Bank and ADB, is targeting 22,000 Aswesuma beneficiaries, with an expected disbursement of Rs. 2.6 billion in 2025 to support skills training and livelihood grants. Our national empowerment program, with Rs.1.5 billion allocated in 2025, is also expected to support 1.2 million beneficiaries over 3 years. Our medium-term National Social Protection Strategy to accelerate poverty alleviation is expected to be published in August 2025 and will provide high-level implementation plans and financing strategies for all social protection programs.[3]

[1] In December 2024, the Welfare Benefits Board disbursed Rs. 6.6 billion to Aswesuma households with children for purchasing school stationary ahead of the 2025 academic year. Recognizing potential exclusion errors affecting the Aswesuma program, the Ministry of Education is expected to disburse an additional Rs. 2.9 billion in school stationery allowance in January-June 2025 for vulnerable children outside Aswesuma. Going forward, beneficiaries of cash support for school stationery will be selected based on the social registry.

[2] In December 2024, the CBSL granted approval to select state banks to open bank accounts for first-round beneficiaries who do not possess national identity cards through end-June 2025

[3] Beyond Aswesuma, the NSPS will cover other social assistance programs, social insurance, social care, and labor market and productive inclusion programs.

IV. Restoring Public Debt Sustainability

21. We remain committed to restoring debt sustainability. Debt negotiations are anchored on debt sustainability targets established under the EFF program, which include (i) reducing public debt below 95 percent of GDP by 2032, (ii) reducing the central government's annual gross financing needs below 13 percent of GDP, on average, in 2027-32, (iii) reducing the central government's annual debt service in foreign currency below 4.5 percent of GDP in every year in 2027-32, and (iv) closing the balance of payments (BOP) financing gaps of US$17.1 billion over the EFF program period.

22. Following the agreement with China Exim Bank and the successful completion of the Eurobond exchange, our focus is to finalize bilateral agreements with the Official Creditor Committee (OCC) members and reach agreements with remaining creditors. We are now close to completing the debt restructuring process with only US$0.8 billion remaining for which agreements have to be reached out of US$28 billion of outstanding external debt under the restructuring perimeter at end-2023. We have signed bilateral agreements with Japan and India. We are working on finalizing the remaining OCC bilateral agreements and reaching agreements with the remaining creditors with a view to conclude these processes in 2025.

23. Our newly established Public Debt Management Office (PDMO) will be fully operational by end-December 2025. We will publish guidelines for PDMO operation and submit to Parliament regulations on on-lending and guarantee activities by end-June 2025. The PDMO will: (i) report and be accountable to the MOF but have significant operational autonomy; (ii) assume overall policy responsibility for debt management by formulating medium-term debt strategies (MTDS) and annual borrowing plans (ABP), both to be published with the 2026 Budget documentation; and (iii) direct the implementation of ABPs, including taking decisions on auction cut-offs. The PDMO will oversee all domestic and international market-based financing decisions and participate in the evaluation of all debt, derivatives, and guarantees. To ensure debt management functions are consolidated in the PDMO, we have fully repealed the Foreign Loans Act on May 23, 2025 **(SB)**.

V. Maintaining Price Stability and Rebuilding External Buffers

24. We are committed to our price stability mandate of 5 percent inflation target. This will continue to be monitored through the Monetary Policy Consultation Clause (**MPCC).** The CBSL will remain prudent and carefully assess and calibrate its policy stance to maintain inflation around the target.

25. In accordance with the Central Bank Act, CBSL will not provide monetary financing. The discontinuation of monetary financing is monitored by a **QPC** on the ceiling of the CBSL's net credit to the government and a **continuous QPC** to ensure no purchases of Treasury securities from the primary market.

26. The CBSL will continue to regularly assess its balance sheet and ensure adequate levels of capital to conduct an effective monetary policy. The CBSL has followed best practices, consistent with the IFRS, in recording the impact of Domestic Debt Optimization on its financial positions. Based on the financial statement for 2024, CBSL equity has returned to positive levels and is expected to continue improving gradually going forward.

27. We remain firmly committed to exchange rate flexibility. Since March 2023, we have allowed the rupee to move in line with fundamentals and we are limiting FX sale interventions to disorderly market conditions that could lead to destabilizing inflation and/or significant balance sheet effects. We will transparently disclose our intervention to guide market expectations and ensure that our FX intervention is consistent with the Net Official International Reserves (NIR) targets. We continue encouraging financial market deepening, including by implementing appropriate recommendations of IMF technical assistance.

28. We are committed to net international reserves (NIR) target (QPC). We are gradually rebuilding gross international reserves including through outright FX purchases in the market, supported by a non-interest current account surplus, new external financing and other non-debt creating inflows, and sovereign debt relief. We stand ready to undertake outright FX purchases on a net basis of US$2.65 billion between November 2024 and end-2025 to meet reserves target and another US$1.3 billion in 2026H1. We strive to save any overperformance in NIR accumulation. As a signal of our proactive approach to reserves accumulation, we have a cap on the adjustor for NIR target in cases of shortfall in project financing.

29. We have lifted import restrictions and will continue to phase out the administrative measures imposed to support the BOP, including those introduced on an emergency basis as conditions allow. These measures include import restrictions, exchange restrictions, multiple currency practices (MCPs), and capital flow management (CFM) measures. After the temporary suspension of non-priority imports to relieve BOP pressures in 2020-22, we have begun a gradual lifting of these since September 2022. We have removed restrictions on personal vehicles on January 31, 2025, except a few categories specified in the gazette for environmental and safety reasons. The following restrictions remain that we plan to eliminate when conditions allow:

- Exchange restrictions: (i) the levy of a 2.5 percent stamp duty on credit card transactions abroad; (ii) the levy of a 14 percent remittance tax on nonresidents' profits; (iii) limits on repatriation by nonresidents of proceeds derived from current transactions; and (iv) the requirement to provide a tax clearance certificate prior to permitting transfers for certain current transactions.

- Two MCPs arising from the following official actions which create impermissible spreads: (i) the levy of a 2.5 percent stamp duty on credit card transactions abroad; and (ii) the levy of a 14 percent remittance tax on nonresidents' profits.

- Since 2020, we have introduced new CFMs and tightened existing CFMs, including on payments made by residents on capital transactions outside of Sri Lanka from foreign currency deposit accounts during the pandemic and recent crisis.[4] Out of these, we removed the surrender requirement for banks on purchases of proceeds from both goods and service exports and inward worker remittances and, since program approval, relaxed the CFMs on outward remittances on capital transactions made by residents and outward transfers of funds by emigrants.

- While the above exchange restrictions, MCPs and CFMs could help mitigate FX shortages in the near term, we believe they should not be a substitute for the comprehensive policy package and ongoing macroeconomic adjustment. We are committed to phasing these measures out as macroeconomic situation stabilizes. To this end, we have already revoked some of these restrictions, and have developed and shared with IMF Staff, for consultation, a plan for the phased removal of these measures during the program period, as we make progress with achieving macroeconomic stability.
- We are seeking temporary approval of all exchange restrictions and MCPs. During the program period, we will not: (i) introduce or intensify exchange restrictions or multiple currency practices (MCPs); (ii) impose or intensify import restrictions for BOP purposes, or (iii) conclude any bilateral payment agreements inconsistent with Article VIII (**continuous PC**).

VI. Ensuring Financial Stability

30. We are committed to continuing to foster a healthy and adequately capitalized banking system. Our past efforts have ensured that the banking sector is well-capitalized. Although the NPL Ratio remained at an elevated level, it has declined from 12.8% at end-2023 to 12.3% at end-2024. Parate executions (out-of-court procedure to help banks recover collateral from NPLs) have been reinstated on December 15, 2024 (June 2025 **SB**). To facilitate NPL recovery, the CBSL published guidelines on relief measures for small and medium enterprises (SMEs) by licensed banks. We will enact the Rescue, Rehabilitation and Insolvency Bill which provides for orderly insolvency processes that will support NPL recovery and allow banks to allocate their capital efficiently to new credit in support of the growing economy. CBSL will also continue to monitor the capital position of banks through forward-looking stress tests and stands ready to impose capital requirements under Pillar 2 of the Basel capital standards, if needed.

31. The frameworks for financial sector supervision and crisis management are being modernized. To this end, the CBSL will (i) continue the implementation of the resolution framework and enhance the deposit insurance scheme, and (ii) work with IMF TA to enhance bank liquidity monitoring, including through the introduction of Internal Liquidity Adequacy Assessment Process (ILAAP) for banks. The CBSL is reviewing the Finance Business Act to enhance supervision, regulation,

[4] CFMs introduced or tightened since 2020 include: (i) a repatriation requirement for exports of goods and services; (ii) a surrender requirement for exporters on proceeds from exports of goods; (iii) a surrender requirement for banks on purchases of export proceeds; (iv) a surrender requirement for banks on purchases of inward worker remittances; (v) suspension/limitation of outward remittances on capital transactions made by residents; (vi) restrictions on purchases of Sri Lankan ISBs by local banks; (vii) limitations on outward transfers of funds by emigrants.

and resolution framework of finance companies, and the Finance Leasing Act to address irregularities in leasing activities. The amended bill on Finance Business Act is expected to be submitted to the Parliament by end-September 2025.

32. We will advance efforts to improve the governance of state-owned banks (SOBs). In May 2024 together with the amendment in May 2025, the Cabinet adopted and published a framework for SOBs to ensure SOB boards and senior management nominations are merit-based, independent and transparent. In line with this framework, by July 2025, the MOF will conclude the selection of members of the Board of Directors of SOBs and submit to CBSL for vetting to: (i) ensure the boards have not less than nine and not more than thirteen members, and (ii) that independent directors comprise the majority of the total number of directors of each SOB board (**new SB**).

VII. Reducing Corruption Vulnerabilities

33. We remain committed to advancing governance and anti-corruption reforms as a central pillar of our program. Our Government Action Plan will be updated and published annually, and its implementation will be assessed quarterly. We will continue implementing key measures, with special attention to the areas below.

34. Anticorruption (AC) Legal Frameworks and Institutions. A rapid operationalization of the AC Act will be critical to address current corruption vulnerabilities. The CIABOC (Commission to Investigate Allegations of Bribery or Corruption) published asset declarations for senior officials in line with the AC Act. We have enacted a comprehensive Asset Recovery Law (Proceeds of Crime Act) harmonized with the United Nations Convention Against Corruption on April 8, 2025 (**SB**). Going forward, we will strengthen the asset declaration system by June 2025 (**SB**). Specifically, we will (i) allow public access to published declarations through foreign and local phone numbers or email accounts and posted forms to be downloadable; (ii) publish the remaining asset declarations of senior officials along with the list of non-filers; (iii) revise the existing form to include beneficial ownership information; and (iv) modify current rules on redactions so that some information on the value of bank accounts and other assets is disclosed to the public. We will also produce a report on the compliance and adoption rate of the enhanced asset declaration by senior officials by end-September. We will also take steps to appoint an expert committee to collate and review all existing circulars, provisions, and other materials pertaining to the disciplinary control and conduct of judicial officers by end-2025.

35. Strengthening our tax exemptions framework.

- To minimize revenue losses and curb corruption risks, since December 2023, we are no longer providing any tax exemptions or incentives or approving new projects under the Strategic Development Projects (SDP) Act. Despite a similar commitment to refrain from exemptions under the Port City Act, between January and September 20, 2024, Business of Strategic Importance (BSI) designations granting tax exemptions to 24 companies (four as Primary Businesses, three as Duty Free Businesses, and 17 as Secondary Businesses) were gazetted without consulting IMF staff. The gazettes granting these exemptions are available on the Port

City Public Register. Additionally, land lease payments and deposits from four other pending applications (for Primary Businesses) have been accepted (Annex II). Given these advanced financial arrangements, we will need to provide the exemptions to these four businesses based on a detailed costs to benefits review.

- However, we commit to not provide any further Business of Strategic Importance status and corresponding tax exemptions to any other businesses under the current Port City Act and regulations. To support our commitment, a **new continuous SB** will be added to the program on not granting new tax exemptions based on the existing Port City and SDP Acts. The above-discussed pending applications will be carved out of this continuous SB. All further applications including those in pending stages will be considered under the amended Port City Act and regulations which will be in line with IMF TA and in coordination with IMF staff. The continuous SB will be removed in consultation with IMF staff upon successful amendments to the SDP and Port City Acts and regulations. We also commit to provide monthly data to the IMF team on the list of all firms receiving new exemptions under both Port City and SDP Acts.

- Going forward, we will submit to Parliament by end-August 2025 amendments to the SDP Act, consistent with IMF technical assistance, that will introduce transparent, rules-based eligibility criteria to increase the effectiveness of granted tax incentives and to limit the duration for which incentives can be granted (SB). We will submit to Parliament, by end-October 2025, amendments to the Port City Act, based on IMF technical assistance, that introduce transparent, rules-based eligibility criteria, to increase the effectiveness of granted tax exemptions in line with best practices, and to limit the duration for which incentives can be granted (**new SB**). These amendments will also ensure a robust enforcement of the rules on limiting investments into Port City projects to new foreign direct investment. We will also continue to publish, on the designated websites (Promise and MOF) on a semi-annual basis all required documents stipulated in the **SB** and also publish the improved annual tax expenditure statement incorporating recommendations from IMF technical assistance by November 2025.

36. Prioritize anti-corruption reforms in our customs department to curb revenue leakages. We will approve necessary legislation by end-October 2025 to mandate the Customs Department of Sri Lanka (CDSL) with clear and unfettered responsibility for the clearance, movement, and control of goods to and from the special economic zones (SEZ) (**new SB**). We will enhance customs compliance by (i) implementing more robust risk assessment so that percentage of shipments assigned to the green channel approaches 80 percent, and (ii) closing the long rooms and eliminating face-to-face document review of customs declarations prior to their formal submission. Meanwhile, we will begin quarterly publication (on the Ministry of Finance website) by each revenue department to Ministry of Finance on the implementation progress of the anti-corruption measures including the digitization and automation beginning from second quarter of 2025, to discuss progress up to the previous quarter.

37. Reduce corruption vulnerabilities in procurement processes. We have operationalized the National Procurement Commission and adopted an action plan. Going forward, we will (i) enact a Public Procurement Law by July 2025 that reflects international good practice and in coordination with the ADB and WB; (ii) further strengthen the e-procurement system; (iii) eliminate procurement contracts awarded through a non-competitive process; (iv) begin pilot of national and international competitive bidding for the procurement of goods and works under the digital platform in September 2025 and a full roll out by end-December 2025.

38. Public Asset Oversight and Management. We are committed to strengthening the regulatory framework overseeing and managing public assets. We will (i) submit to Cabinet by end-September 2025 the proposed criteria for allocating rights to public assets, with clear requirements for transparency, competition, and information provision to the public and a timeline to bring existing laws and regulations in compliance with the policy; (ii) enact the Public Asset Management Bill with a view to improve the transparency, management, and disposal of all public assets by July 2025 and (iii) make adjustments to regulations implementing the National Audit Act to facilitate the effective levying of fines on officials, including Chief Accounting Officers who fail to fulfill their responsibilities in overseeing and managing the public assets by June 2025.

39. AML/CFT. Following the AML/CFT National Policy for 2023-2028 developed based on the National ML/TF Risk Assessment (NRA) result, we have already begun: (i) strengthening the AML/CFT regime to address illicit finance risks and preparing for the comprehensive AML/CFT assessment by the Asia Pacific Group on Money Laundering (ML) in 2026; (ii) improving the AML/CFT legal framework, as part of the AML/CFT National Policy, focusing on enhancing the transparency of legal persons and arrangements and beneficial ownership requirements to ensure its compliance with the international standards. Going forward, we will:

- Finalize amendments to the Companies Act to bring the beneficial ownership framework in line with the FATF standards by end-June 2025.
- Implement measures to improve the effectiveness of ML investigations, prosecutions, and asset recovery, including increasing the number of investigations related to the threats identified in the NRA, developing the confiscation policy guidelines and relevant capacity of the prosecutors, investigators, and judiciary.
- Strengthen the use of financial intelligence to identify potential corruption activities and the cooperation between FIU, law enforcement, and CIABOC to facilitate parallel investigations.
- Improve the risk-based AML/CFT supervision of financial institutions through better supervisory capacity and regular supervisory engagements focused on compliance with beneficial ownership requirements and enhanced due diligence measures for politically exposed persons.

VIII. Advancing Growth-Enhancing Structural Reforms

40. Our growth-enhancing reform agenda will focus on key areas critical for unlocking Sri Lanka's growth potential.

- **Trade reforms to bolster exports**. We will implement (i) regulations to rationalize para-tariffs with due consideration to revenue implications; (ii) custom reforms to facilitate trade including through recommendations under the Trade Facilitation Agreements; (iii) a National Export Strategy with a focus on expediting negotiations of Free Trade Agreements and entry into regional trade blocs. Our priorities include improving export competitiveness while enabling the positioning in global value chains, developing the industrial sector to cater for both domestic and global markets, as well transforming the information technology, business process outsourcing, and Tourism sectors to key service exports.

- Private sector development. With the support of development partners, we will facilitate investments by (i) reducing red tape and modernizing the regulatory and business environments; (ii) reducing electricity costs by improving the generation mix and electricity distribution efficiency; (iii) reducing the public sector's role in the economy to enable a more efficient resource allocation and foster competition, and (iv) develop e-land titling and registry to improve access to land and property rights more broadly.

- Labor market reforms. We will: (i) strengthen labor laws to improve labor market flexibility (for example the proposed Employment Act which aims to unify existing labor laws and introduce new measures to improve labor force participation), (ii) improve education to boost productivity and close gender gaps, (iii) promote financial inclusion including through credit guarantee schemes supporting female entrepreneurs, and (iv) increase quantity, quality, and affordability of child and elderly care facilities.

- Climate. We will address climate-related vulnerabilities given their far-reaching implications with large impacts on livelihoods and overall food security. The severity and frequency of climate-related disasters has intensified, underscoring the pressing need to find immediate solutions. Efforts are underway to enhance electricity generation from renewable resources including solar and wind. Private sector financing and multilateral financing are expected to help meet the envisaged annual investments. We will also proactively engage with multilateral partners to build the technical capacity to catalyze the rapid implementation of climate mitigation and adaptation efforts.

IX. Program Risks and Contingency Planning

41. We stand ready to deploy contingency measures should downside risks materialize. Program overperformance will be locked-in to help achieve program objectives and underperformance will be corrected with remedial measures. Given the revenue shortfall risks due to the dependence on motor vehicles related import taxes, we commit to undertake contingency revenue measures immediately if signs of such shortfall emerge (¶5). Targeted spending cuts will be the last line of defense instead of depending solely on across the board under-execution. We stand ready to tighten monetary policy on a data-driven basis should inflation upside risks materialize. Reserves underperformance would be remedied by the introduction of explicit FX intervention rules to avoid hindering necessary exchange rate adjustment. To ensure program performance remains on track, we are conducting weekly monitoring meetings with the IMF.

X. Program Monitoring and Safeguards

42. Our program is subject to semiannual reviews with performance criteria, MPCC bands, and indicative targets set out in Table 1 and structural benchmarks in Table 2 attached to this MEFP and TMU. We continue to request the use of IMF financing for budget support, and, in this respect, the Memorandum of Understanding between the CBSL and the Ministry of Finance on responsibilities for servicing financial obligations to the IMF continues to apply. The Central Bank Act has contributed to addressing some of the safeguard recommendations identified in the 2023 Central Bank safeguards assessment, and the CBSL has initiated steps to implement the remaining recommendations.

43. We request that the Executive Board approves the modification of existing and introduction of new quantitative targets and SBs listed in Tables 1 and 2.

44. We also request waivers of applicability for end-June QPCs for which data is not expected to be available.

Table 1. Sri Lanka: Proposed Quantitative Performance Criteria (PC) and Indicative Targets

(Cumulative from the beginning of the year to the end of the period, unless otherwise noted)

	2024				2025									2026	
	end-Dec				end-Mar				end-June	end-Sep		end-Dec		end-Mar	end-June
										Third Review	Proposed	Third Review	Proposed	Proposed	Proposed
	PC	Adj. PC	Outturn	Status	IT	Adj. IT	Outturn	Status	PC	IT	IT	PC	PC	IT	PC
Quantitative performance criteria															
Central government primary balance (floor, in billion rupees)	300	300	650	**Met**	80	80	397	**Met**	130	300	300	730	730	95	180
Program net official international reserves (Program NIR, floor, end of period stock, in million US$) 1/ 2/	-1,338	-1,212	322	**Met**	-675	-645	285	**Met**	-595	-233	-233	3	448	593	949
Net credit to the government of the CBSL (ceiling, end of period stock, in billion rupees) 3/	2,560	2,560	2,514	**Met**	2,560	2,560	2,508	**Met**	2,560	2,560	2560	2,560	2,560	2,515	2,515
Stock of expenditure arrears of the central government (ceiling, in billion rupees)	0	0	95	**Not Met**	0	0	138	**Not Met**	0						
New expenditure arrears of the central government (ceiling, in billion rupees) 4/											0		0	0	0
Central government tax revenue (floor, in billion rupees)	3,700	3,700	3,705	**Met**	800	800	986	**Met**	1,650	2,750	2750	4,350	4,350	850	1,850
Continuous performance criteria (cumulative from beginning of the program)															
New external payment arrears by the nonfinancial public sector and the CBSL (ceiling, in million US$)	0	0	0	**Met**	0	0			0	0	0	0	0	0	0
CBSL purchases of government securities in the primary market	0	0	0	**Met**	0	0	0	**Met**	0	0	0	0	0	0	0
Monetary policy consultation clause															
Year-on-year inflation in Colombo Consumers Price Index (in percent) 5/															
Outer band (upper limit)	8.0	8.0			8.0	8.0			8.0	8.0	8.0	8.0	8.0	8.0	8.0
Inner band (upper limit)	6.5	6.5			6.5	6.5			6.5	6.5	6.5	6.5	6.5	6.5	6.5
Actual / Center point	5.0	5.0	-1.5	**Not Met**	5.0	5.0	-3.6	**Not Met**	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Inner band (lower limit)	3.5	3.5			3.5	3.5			3.5	3.5	3.5	3.5	3.5	3.5	3.5
Outer band (lower limit)	2.0	2.0			2.0	2.0			2.0	2.0	2.0	2.0	2.0	2.0	2.0
Indicative targets															
Social spending by the central government (floor, in billion rupees)	205	205	186	**Not Met**	53	53	53	**Met**	114	181	167	237	237	58	116
Identified stock of expenditure arrears of the central government (ceiling, in billion rupees) 6/											126		56	51	37
Cost of non-commercial obligations (NCOs) for fuel and electricity (net of government transfers) (ceiling, in billion rupees) 7/	0	0	0	**Met**	0	0	0	**Met**	0	0	0	0	0	0	0
Treasury guarantees (ceiling, in billion rupees)	2,100	2,100	1,452	**Met**	2,100	2,100	1,452	**Met**	2,100	2,100	2,100	2,100	2,100	2,100	2,100
Treasury FX guarantees (ceiling, in billion rupees)	1,275	1,275	912	**Met**	1,275	1,275	912	**Met**	1,275	1,275	1,275	1,275	1,275	1,275	1,275

1/ The CBSL's conventional definition of net official international reserves (NIR) includes outstanding liabilities in foreign exchange swaps with domestic commercial banks. The Program NIR excludes the outstanding liabilities in foreign exchange swaps with domestic commercial banks from the CBSL's conventional NIR definition. See TMU for details.

2/ Program NIR will be adjusted upward/downward by the cumulative amounts of (i) foreign program financing by the central government, (ii) net borrowings from SLDBs and FCBUs by the central government in FX terms, (iii) external commercial loans (including Eurobonds and syndicated loans) by the central government, (iv) the amount of project loans and grants FX cash flows disbursed to the central government, and (v) proceeds from commercialization of public assets to non-residents, that are higher/lower than assumed under the program; and by the cumulative amounts of (vi) amortization of total external debt owed by the central government (excl. IMF), (vii) interest payments on total external debt owed by the central government, (viii) interest payments on SLDBs and FCBUs by the central government in US dollar terms, and (ix) amortization and interest payments in FX for restructured CPC loans, that are lower/higher than assumed under the program. See TMU for details.

3/ Excludes holdings of treasury securities for monetary policy purposes and Rupee-denominated government deposits. See TMU for details on the calculation for the test date.

4/ Defined as a cumulative flow, starting from July 1, 2025.

5/ See the TMU for how to measure year-on-year inflation.

6/ Identified as of May 14, 2025

7/ NCOs refer to the obligation of CPC and CEB to supply fuel and electricity at administered prices. See TMU for how to measure the cost of NCOs.

Sources: Authorities; and IMF Staff.

Table 2. Sri Lanka: Structural Benchmarks and Prior Actions

	Date	Status
Prior Action		
Restore cost recovery electricity pricing		
Amend BSTA guidelines, in line with ¶14 of the MEFP, to ensure the BSTA tariff adjustments are automatic and binding.		
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 with on-budget transfers	Continuous	Met
Maintain cost-recovery level of the end-user electricity tariff schedule (overall across different types of final consumers) with quarterly formula-based adjustments, on a forward-looking basis in January, April, July and October each year (effective from January 1, April 1, July 1, and October 1 respectively); the CEB submits tariff revision requests to the Public Utility Commission of Sri Lanka by end-October (for January tariff revisions), end-January (for April tariff revisions), end-April (for July tariff revisions) and end-July (for October tariff revisions); compensate the electricity sector for providing any residual subsidies with on-budget transfers; and use tariff surcharges in the interim, in case CEB is making losses	Continuous	Not met between January 17, 2025 and June 11, 2025
Track and report the updated quarterly Key Performance Indicators (KPIs) of tax compliance (Annex I)	End-February 2025, end-May 2025, end-August 2025, end-November 2025, end-February, and end-May 2026	Not met for end-February 2025. Implemented with delay on March 5, 2025. Met for end-May 2026
Parliamentary approval of the 2025 Appropriation Act and the spending allocations in line with program parameters	End-March 2025	Met
Formulation and publication of a VAT compliance improvement program identifying, assessing, and prioritizing compliance risks for key taxpayer segments and determining a detailed plan to address those risks	End-May 2025	Met

Table 2. Sri Lanka: Structural Benchmarks and Prior Actions (continued)

	Date	Status
IRD will report the results of a simulation exercise to test the new refund arrangements which will come into place once SVAT is repealed	End-June 2025	
Establish a digital SPRR	End-June 2025	
Abolish the SVAT system	End-September 2025	
Cabinet approval of revenue measures requiring legislative amendments to support fiscal consolidation during 2026, in line with program parameters	End-September 2025	
Submission to parliament for the first reading of the 2026 Appropriation Bill that is in line with program parameters	End-October 2025	
Parliamentary approval of the 2026 Appropriation Act and the spending allocations in line with program parameters	End-December 2025	
Newly Proposed and Reformulated		
Adopt implementing regulations under the Public Financial Management Act (PFM)	End-December 2025	
Amend PUCSL Act to mandate PUCSL to submit to parliament quarterly reports on maintaining cost recovery electricity pricing and publish the reports	End-January 2026	
MOF will use ITMIS to produce a monthly report on the size, maturity, and composition of the stock of arrears, as defined in the TMU	End-June 2026	
Provide no new exemptions to businesses based on the SDP and Port City Acts and regulations in effect as of May 28, 2025	Continuous	
Conduct a review of the electricity tariff methodology in consultation with IMF staff	End-November 2025	
Financial Sector		
SBs		
Parliament to repeal the Foreign Loans Act in full.	End-April 2025	Implemented with delay on May 23, 2025.
Parliament to lift the moratorium on enforcement of collateral, which was introduced during the pandemic, to permit foreclosures by creditors under the Parate Law.	End-June 2025	Met
Newly Proposed and Reformulated		
MoF to conclude the selection of members of the Board of Directors of SOBs and submit to CBSL for fitness and propriety assessment to: (i) ensure the boards have not less than nine and not more than thirteen members, and (ii) that independent directors comprise the majority of the total number of directors of each SOB board.	End-July 2025	

Table 2. Sri Lanka: Structural Benchmarks and Prior Actions (concluded)

	Date	Status
Governance		
SBs		
Publish a strategic plan for the CIABOC, in consultation with IMF staff, describing its mission, objectives, timebound actions for operations, and a monitoring framework, together with submission of CIABOC's annual budget based on the new strategic plan.	End-October 2024	Implemented with delay on February 28, 2025.
Publish updated action plan on governance reforms with detailed progress and new reform initiatives on an annual basis	End-February 2025	Met
Enact a comprehensive Asset Recovery Law to harmonize it with the United Nations Convention Against Corruption, in consultation with IMF staff.	End-April 2025	Met
Strengthen the existing asset declaration system by (i) allowing public access to published declarations through foreign and local phone numbers or email accounts and posted forms to be downloadable, (ii) publishing the remaining asset declarations of senior officials along with the list of non-filers, (iii) revising the existing form to include beneficial ownership information, and (iv) modifying current rules on redactions so that information on the value of bank accounts and other assets is disclosed to the public.	End-June 2025	
Submission to parliament of revisions of the SDP Act, with IMF technical assistance, that introduce transparent, rules-based eligibility criteria, to increase the effectiveness of granted tax expenditures, and to limit the duration for which incentives can be granted	End-August 2025	
Publish on a semi-annual basis on a designated website (i) all public procurement contract above Rs. 1 billion, along with comprehensive information in a searchable format on contract award winners; (ii) a list of all firms receiving tax exemptions through the Board of Investments, the SDP and Port City, and an estimation of the value of these tax exemptions; and (iii) a list of firms receiving tax exemptions on luxury vehicle import.	End-June 2025, end-December 2025	
Newly Proposed and Reformulated		
Submission to Parliament of legislation ensuring the Customs Department has a clear and unfettered responsibility for the clearance, movement, and control of goods to and from special economic zones (SEZ)	End-October 2025	
Submission to Parliament of amendments to the Port City Act, based on IMF technical assistance, that introduce transparent, rules-based eligibility criteria, to increase the effectiveness of granted tax exemptions, and to limit the duration for which incentives can be granted	End-October 2025	

KPI	Baseline	March 2024 Target & Outcomes	June 2024 Target & Outcomes	September 2024 Target & Outcomes	December 2024 Target & Outcomes	March 2025 Target & Outcomes	June 2025 Target	Sept 2025 Target	December 2025 Target	Proposed March 2026 Target	Proposed June 2026 Target
KPI-1.1: Risk Based Audit Shift to data-driven, risk-based audit case selection and assignment, away from discretion-based selection by auditor and/or supervisor.	No cases currently selected on systematic, data-driven, risk basis	Target: 10 LTO cases selected Outcome: 25 cases selected	Target: 20 new LTO cases selected Outcome: 21 cases selected	Target: 30 new LTO cases selected 2 percent of new non-LTO cases selected Outcome: 38 LTO cases & 2 percent of non-LTO cases (18)	40 new LTO cases selected in Q4 5 percent of new non-LTO cases in Q4 Outcome: 50 new LTO cases & over 5% of new non-LTO cases (513)	50 new LTO cases selected in Q1 & 10 percent of new non-LTO cases in Q1 Outcome: 63 new LTO cases & over 10% of new non-LTO cases (304)	50 new LTO cases selected in Q2 10 percent of new non-LTO cases in Q2	50 new LTO cases selected in Q3 10 percent of new non-LTO cases in Q3	50 new LTO cases selected in Q4. 10 percent of new non-LTO cases in Q4	50 percent of new LTO cases selected in Q1 20 percent of new non-LTO cases selected in Q1	60 percent of new LTO cases selected in Q2 30 percent of non LTO cases selected in Q2
KPI-1.2: Audit Effectiveness for large corporates. The strike rate is the percent of completed audit cases that resulted in an adjustment that increased the tax liability by	Baselines currently unknown and must be determined using historic data for large corporates	No Target	No Target	No Target	No Target	No Target	Strike rate is percentage of completed audit cases resulting in adjustment increasing tax liability by 5 percent or more of taxpayer's	*No target as targets for this KPI are only set for Q2 and Q4*	Strike rate is percentage of completed audit cases resulting in adjustment increasing tax liability by 5 percent or more of taxpayer's	*No target as targets for this KPI are only set for Q2 and Q4*	Strike rate is percentage of completed audit cases resulting in adjustment increasing tax liability by 15 percent or more of taxpayer's self-declared

KPI	Baseline	March 2024 Target & Outcomes	June 2024 Target & Outcomes	September 2024 Target & Outcomes	December 2024 Target & Outcomes	March 2025 Target & Outcomes	June 2025 Target	Sept 2025 Target	December 2025 Target	Proposed March 2026 Target	Proposed June 2026 Target
some set percent or more than the taxpayer's self-declared.							self-declared. Outcome: Baseline yet to be determined		self-declared. Outcome: Baseline yet to be determined		
KPI-2.1: Tax Return Filing Compliance of Large Taxpayers This is the percentage of expected tax returns from large taxpayers by the due date: (1) VAT – one-month after monthly or quarterly deadline; (2) PAYE by April 30; (3) CIT by November 30	From 2023 TADAT Assessment (P4.12): On-Time CIT Filing: 93.4 percent On-Time VAT Filing: 82.6 percent Only baseline for PAYE is 23.6 percent but covers all employers not just under LTO control	Target: 85 % of VAT returns on-time Outcome: 95 % of VAT returns on-time	Target: 87 % of VAT returns on-time Outcome: 88% achieved Target: 90 % of PAYE returns on-time Outcome: 56% achieved	Target: 89 % of VAT returns on-time Outcome: 89.6 % of VAT returns on-time	91 % of VAT returns on-time & Outcome: 90.8% VAT returns on-time 95 % of CIT returns on-time Outcome: 92.5 % of CIT returns on-time	95 % of VAT returns on-time Outcome: 91.6% VAT returns on-time	95 % of VAT returns on-time Target: 90 % of PAYE returns on-time	95 % of VAT returns on-time	95 % of VAT returns on-time & Target: 95 % of CIT returns on-time	95 % of VAT returns on-time	95 % of VAT returns on-time Target: 70 % of PAYE returns on-time. (80% by July; 95% by August – performance reported for Q3.)
KPI-2.2: Tax Return Filing Compliance of Non-Large Taxpayers This is the percentage of expected tax	From 2023 TADAT Assessment (P4.12): On-Time CIT Filing: 32 percent	Target: 48 % of VAT returns on-time Outcome: 66% achieved	Target: 52 % of VAT returns on-time Outcome: 54% achieved	Target: 56 % of VAT returns on-time Outcome: 55.8 % of VAT returns on-time	Target: 60 % of VAT returns on-time & Outcome: 49.5% VAT returns on-time	Target: 65 % of VAT returns on-time Outcome: 56.6% VAT returns on-time	Target: 67 % of VAT returns on-time &	Target: 69 % of VAT returns on-time	Target: 70 % of VAT returns on-time	Target: 70 % of VAT returns on time	Target: 70 % of VAT returns on time

KPI	Baseline	March 2024 Target & Outcomes	June 2024 Target & Outcomes	September 2024 Target & Outcomes	December 2024 Target & Outcomes	March 2025 Target & Outcomes	June 2025 Target	Sept 2025 Target	December 2025 Target	Proposed March 2026 Target	Proposed June 2026 Target
returns from non- large taxpayers by the due date.	On-Time VAT Filing: 45.5 percent PAYE Filing: 23.6 percent.		Target: 60 % of PAYE returns on-time Outcome: 12% achieved		Target: 50 % of CIT returns on-time Outcome: Outcome: 28.7 % of CIT returns on-time		Target: 60 % of PAYE returns on-time		Target: 60 % of CIT returns on-time		Target: 25 % of PAYE returns on-time. (60 % by August – performance reported for Q3.)
KPI-2.3: Electronic Filing of Individual Income Tax (IIT) Returns First three quarters will reflect 2022/23 IIT returns, Q4 will reflect 2023/24 IIT return. (Adjust for mandatory filing 2024) year.)	From 2023 TADAT assessment (P4.14): 23 percent of IIT returns electronically filed in 2021	Target: 30 % filed electronically Outcome: 33% achieved	Target: 35 % filed electronically Outcome: 34% achieved	Target: 40 % filed electronically Outcome: 34.2% achieved	Target: 50 % filed electronically. Outcome: 98.4 % filed electronically	Target: 60 % filed electronically Outcome: 98.4 % filed electronically	Target: 60 % filed electronically	Target: 60 % filed electronically	Target: 80 % filed electronically	Target: 95 % filed electronically	Target: 98 % filed electronically
KPI-3.1: Management of Collectible debt Collectible debt is that portion of arrears owed	From 2023 TADAT assessment (P5.18): At end of 2021, ratio of collectible	Target: Collectible debt is not above 15 % of 2024 revenue target	Target: Collectible debt is not above 14 % of 2024 revenue target	Target: Collectible debt is not above 13 % of 2024 revenue target	Collectible debt is not above 12 % of 2024 revenue target.	Collectible debt is not above 11 % of 2025 revenue target	Collectible debt is not above 10 % of 2025 revenue target	Collectible debt is not above 10 % of 2025 revenue target	Collectible debt is not above 10 % of 2025 revenue target	Collectible debt is not above 10 % of 2026 revenue target	Collectible debt is not above 10 % of 2026 revenue target

KPI	Baseline	March 2024 Target & Outcomes	June 2024 Target & Outcomes	September 2024 Target & Outcomes	December 2024 Target & Outcomes	March 2025 Target & Outcomes	June 2025 Target	Sept 2025 Target	December 2025 Target	Proposed March 2026 Target	Proposed June 2026 Target
to IRD that is not subject to dispute and where there is no legal impediment to collection action.	debt to annual collections was 13.75 percent, but deteriorated to 15.4 percent by end-2022.	Outcome: 9.2% achieved	Outcome: 8.3% achieved	Outcome: 8.3% achieved	Outcome: 8.3% achieved	Outcome: 8.0% achieved					
KPI-4.1: VAT Registration	The registered VAT population was nearly 29,000 before the 2019 changes and has fallen to 12,000. IRD seeks to rebuild VAT and SSCL taxpayer base to 20,000 by end-2024	Target: 14,000 active VAT and SSCL registered taxpayers Outcome: VAT – 17,209 SSCL – 8,190	Target: 16,000 active VAT and SSCL registered taxpayers Outcome: VAT – 18,902 SSCL – 10,241	Target: 18,000 active VAT & 11,000 SSCL registered taxpayers Outcome: VAT – 20, 214 SSCL – 11,269	20,000 active VAT & 12,000 SSCL registered taxpayers Outcome: VAT – 21,281 SSCL – 12,102	22,000 active VAT & 13,000 SSCL registered taxpayers Outcome: VAT – 22,172 SSCL – 12,724	23,000 active VAT & 14,000 SSCL registered taxpayers	24,000 active VAT & 15,000 SSCL registered taxpayers	25,000 active VAT & 16,000 SSCL registered taxpayers	26,000 active VAT & 17,000 SSCL registered taxpayers	27,000 active VAT & 18,000 SSCL registered taxpayers

Annex II. Business of Strategic Importance (BSI) Applications in Consideration

Primary BSI Applicant	Ceylon Real Estate Holdings (Private) Limited	IFC Colombo 1 (Private) Limited	ICC Port City (Private) Limited	Clothespin Management and Development (Private) Limited
Ownership	Sri Lankan	Foreign	Sri Lankan	Foreign
Purpose	Develop mixed use real estate plot	Develop mixed use real estate plot	Develop residential real estate plot	Develop hotel real estate plot
Date of Authorized Person Approval by Port City Commission	August 7, 2024	August 7, 2024	January 15, 2025	March 7, 2025
Size of committed investment	USD 518 million	USD 143 million	USD 112 million	USD 540 million
Status of Lease Agreements	Land lease agreements already signed in December 2021		Advances against the lease amount paid on September 30, 2024	Advances against the lease amount paid on April 30, 2025
Other Pertinent Facts		Already received BSI status and exemptions for three land plots, attempting to amend to one plot		

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out a framework for monitoring the performance of Sri Lanka under the program supported by the Extended Arrangement under the Extended Fund Facility (EFF). It specifies the performance criteria and indicative targets (including adjustors) under which Sri Lanka's performance will be assessed through semiannual reviews. Monitoring procedures and reporting requirements are also specified.

2. The quantitative performance criteria and indicative targets specified in Table 1 attached to the Memorandum of Economic and Financial Policies (MEFP) are listed as follows.

a) a quantitative performance criterion on central government primary balance (floor);

b) a quantitative performance criterion on central government tax revenue (floor);

c) a quantitative performance criterion on new expenditure arrears of the central government (ceiling);

d) a quantitative performance criterion on net official international reserves (floor);

e) a quantitative performance criterion on the CBSL's net credit to the government (ceiling);

f) a continuous quantitative performance criterion on new external payment arrears of the nonfinancial public sector and the CBSL (ceiling);

g) performance criterion on new CBSL's purchases of government securities in the primary market;

h) a monetary policy consultation clause;

i) an indicative target on social safety net spending (floor);

j) an indicative target on cost of non-commercial obligations for fuel and electricity (net of government transfers) (ceiling);

k) an indicative target on treasury guarantees (ceiling);

l) an indicative target on foreign exchange treasury guarantees (ceiling); and

m) an indicative target on the stock of expenditure arrears of the central government (ceiling).

3. Throughout this TMU, the central government is defined to include line ministries, departments, and other public institutions. The Central Bank of Sri Lanka (CBSL), state-owned enterprises, parastatals and other agencies that do not receive subventions from the central government are excluded from the definition of central government. Debt is defined in accordance with paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 16919-(20/103), adopted October 28, 2020.

I. PERFORMANCE CRITERIA

A. Performance Criterion on Central Government Primary Balance

4. Unless otherwise specified, all definitions follow the GFSM1986. The primary balance of the central government on cash basis is defined as central government revenues and grants minus expenditures and net lending, plus interest payments. The proceeds from privatization or commercialization of public assets to residents or non-residents (as defined in paragraph 10) will not be recorded as part of central government revenues. Spending will be recorded in the period during which cash disbursements are made.

5. For the purpose of program monitoring, the primary balance of the central government on cash basis will be measured as the overall balance of the central government plus the interest payment of the central government. The overall balance of the central government is measured from the financing side, as the negative of the sum of the items listed below. Here, net borrowings refer to gross disbursements minus principal repayments.

a) Net borrowings from issuances of Treasury Bills, Treasury Bonds, and loans in local currency.

b) Net decreases in the balances (deposits minus overdrafts) of the central government in the banking system.

c) Net increases in CBSL advances, net of changes in central government deposits at the CBSL.

d) Net borrowings from Sri Lankan Development Bonds (SLDBs) and domestic loans in foreign currency. In 2023, the total amount was Rs minus 393 billion.

e) Commercial borrowings issued under foreign law, including international sovereign bonds and syndicated loans.

f) Net borrowings from official project and program loans and trade credit lines.

g) Net borrowings from all other bonds, loans, and advances contracted by the central government.

h) Proceeds from privatization or commercialization of public asset to residents and nonresidents.

6. For the purpose of program monitoring, the government's equity injections into banks for recapitalization purposes will not be recorded as central government expenditure. Accordingly, the primary balance as defined in paragraph 5 will be reduced by the amounts transferred to banks. By contrast, the government's equity injections into other corporations (both private and state-owned) will be recorded as central government expenditure, consistent with GFSM 1986. Accordingly, the primary balance as defined in paragraph 5 will not be reduced by the amounts transferred to other corporations. Net lending by the government is recorded as a government expenditure, in line with

GFSM1986. For example, funds lent by the government to CPC in 2022 related to fuel credit lines from India are recorded above the line (increasing the deficit). A repayment will similarly be recorded above the line (reducing the deficit).

B. Performance Criterion on New Expenditure Arrears of the Central Government

7. Expenditure arrears of the central government are defined as financial liabilities unpaid at the maturity date, the latter established by written law or by contract. More specifically: (i) any invoice that has been received by a spending agency of the central government from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period (taking into account any applicable contractual grace period), or in the absence of a grace period, after the due date; and (ii) wages, pensions, or transfers expensed by the central government, for which payment has not been made to domestic or foreign residents by the legally defined date for payment. The maturity dates of other types of payment arrears follow the same principles. In case that the maturity period is not established by either any written law or by contract, the maturity period should be 90 days from the date of the relevant invoice or of satisfaction of the terms of the relevant contract. The QPC will be defined on a cumulative basis starting from July 1, 2025, and will not be reset every year.

C. Performance Criterion on Central Government Tax Revenue

8. Central government tax revenue refers to revenues from taxes collected by the central government. It excludes all revenues from asset sales, grants, and non-tax revenues. The revenue target is calculated as the cumulative flow from the beginning of the year.

D. Performance Criterion on Net Official International Reserves

9. For the purpose of program monitoring, the stock of net official international reserves (NIR) will be measured as the difference between (a) and (b) below, and will be called the "Program NIR." The Program NIR at the test dates will be evaluated at the program exchange rates and gold price specified in paragraph 9.

a) The CBSL's conventional definition of the NIR, which is the sum of (i) the difference between the gross foreign assets and liabilities of the CBSL and (ii) the balance of State Treasury's (DSTs) Special Dollar, Japanese Yen, and Chinese Yuan Revolving accounts, both expressed in terms of market values. Gross foreign assets of the CBSL consists of monetary gold; foreign exchange balances held outside Sri Lanka; foreign securities (valued in market prices); foreign bills purchased and discounted; the reserve position at the IMF and SDR holdings; and the Crown Agent's credit balance. Foreign exchange balances, securities, and bills denominated in Chinese Yuan, including the assets held under the People's Bank of China (PBOC) swap arrangement, are part of the gross foreign assets of the CBSL. Excluded from gross foreign assets will be participation in international financial institutions; holdings of nonconvertible currencies;[1] holdings of precious metals other than monetary gold; claims on residents (e.g., statutory reserves on foreign currency deposits of commercial banks and central bank foreign currency deposits with resident commercial banks); pledged, non-liquid, collateralized or otherwise encumbered foreign assets (such as the ringfenced assets of the Sri Lanka Deposit Insurance Scheme and the government's war risk insurance deposit with Lloyds during 2001/02; except for assets held under the PBOC swap arrangement); claims on overseas subsidiaries of domestic commercial banks and claims in foreign exchange arising from derivative transactions (such as futures, forwards, swaps and options). Gross foreign liabilities are all foreign currency denominated liabilities of the CBSL to non-residents (including currency swap arrangements with foreign central banks); the use of Fund credit (including for budget support purposes); and Asian Clearing Union debit balance. Commitments to sell foreign exchange to residents arising from derivatives such as futures, forwards, swaps, and options, such as commitments arising from currency swaps with domestic commercial banks, are not included in the gross foreign liabilities. DST accounts are foreign currency accounts held by the Treasury and managed by the CBSL as an agent of the government.

b) The CBSL's outstanding liabilities (i.e., net short positions) in foreign exchange swaps with domestic commercial banks.

10. For the purpose of measuring the Program NIR, all foreign-currency related assets and liabilities will be converted into U.S. dollar terms at the exchange rates prevailing on January 3, 2023, as specified in Table 1. Monetary gold will be valued at US$1,831.615 per troy ounce, which was the price prevailing on January 3, 2023 as per CBSL.

Table 1. Sri Lanka: Program Exchange Rates
(Rates as of January 3, 2023)

Currency	Units of Currency per 1 US dollar
Sri Lanka rupee	363.11
British pound	0.838012
Japanese yen	132.650000
Canadian dollar	1.365800
Euro	0.948317
Chinese yuan	6.892800
Australian dollar	1.497006
Swiss franc	0.939650
SDR	0.752014
Memorandum:	
Gold price, US$/oz	1831.62

Source: IMF, CBSL
Note: JPY and AUD rates as of December 23, 2022

[1] Convertible currencies include the currencies of the SDR basket (U.S dollar, U.K pound, Japanese yen, Chinese yuan, Euro) as well as Canadian dollar, Australian dollar, and Swiss franc.

The Following Adjustment Will Apply:

11. If (i) the amount of foreign program financing (exclusive of EFF disbursements) by the central government, (ii) the amount of net borrowings from SLDBs and FCBUs by the central government in FX terms, (iii) the amount of external commercial loans (including international sovereign bonds and syndicated loans) borrowed by the central government, (iv) the amount of project loans and grants disbursed as FX cash flows to the central government, and (v) proceeds from commercialization of public assets to non-residents—as set out in Table 2a. or 2b.—are higher/lower in U.S. dollar terms than assumed under the program, the floor on the program NIR will be adjusted upward/downward by the maximum of the cumulative differences on the test date and the caps on the adjustors as specified. The proceeds from commercialization of public assets are defined as cash receipts from the sale or lease of publicly held assets. Such assets will include, but not be limited to, publicly held land, public holdings of infrastructure or commercial real estate, and public or quasi-public enterprises. These adjustors will apply to the NIR floor for end-December 2022 and thereafter.

12. If the sum of amortization of total external debt and interest payments on total external debt owed by the central government (excluding IMF) in U.S. dollar terms, as well as the sum of interest payments on SLDBs and FCBUs by the central government in U.S. dollar terms—as set out in Table 2a. or 2b.—is higher/lower than assumed under the program, the floor on the Program NIR will be adjusted downward/upward by the cumulative differences on the test date. Total external debt refers to external debt owed by the central government to all foreign creditors (excluding IMF), as defined in the *2013 External Debt Statistics: Guide for Compilers and Users*. These adjustors will apply to the NIR floor for end-December 2022 and thereafter.

Table 2a. Sri Lanka: Program Assumptions (2025)

(Cumulative from the beginning of each calendar year, in million US$)

	Mar. 2025	Jun. 2025	Sep. 2025	Dec. 2025
Foreign program financing of the central government	188	288	573	725
Net borrowings from SLDBs and FCBUs by the central government	0	0	0	0
External commercial loans (including Eurobonds and syndicated loans) by the central government	0	0	0	0
Proceeds from commercialization of public assets to non-residents	0	0	0	0
Amortization of total external debt owed by the central government (excl. IMF)	370	741	1,111	1,435
Interest and Amortization payments on FX restructured CPC loans by central government	58	116	174	213
Interest payments on total external debt owed by the central government (excl. IMF)	290	580	870	1,189
Interest payments on SLDBs and FCBUs by the central government in US dollar terms	0	0	0	0
Project loans and grants disbursed to the central government	175	350	525	700

13. The adjustor on the amount of project loans and grants disbursed as FX cash flows to the central government will be capped at US$250 million in 2024 and 2025, and at $125 million for January-June 2026. The other adjustors will be uncapped.

Table 2b. Sri Lanka: Program Assumptions (2025-26)

(Cumulative from the beginning of each calendar year, in million US$)

	Sep. 2025	Dec. 2025	Mar. 2026	Jun. 2026
Foreign program financing of the central government	573	725	65	405
Net borrowings from SLDBs and FCBUs by the central government	0	0	0	0
External commercial loans (including Eurobonds and syndicated loans) by the central government	0	0	0	0
Proceeds from commercialization of public assets to non-residents	0	0	0	0
Amortization of total external debt owed by the central government (excl. IMF)	1,111	1,435	294	752
Interest and Amortization payments on FX restructured CPC loans by central government	174	213	53	106
Interest payments on total external debt owed by the central government (excl. IMF)	870	1,189	274	550
Interest payments on SLDBs and FCBUs by the central government in US dollar terms	0	0	0	0
Project loans and grants disbursed to the central government	525	700	175	350

14. In the event NIR outcome outperforms its program target(s), the CBSL will consult with IMF staff on raising the targets for subsequent test dates accordingly to safeguard such overperformance.

E. Performance Criterion on the CBSL's Net Credit to the Government (NCG)

15. **The CBSL's net credit to the Government (NCG)** will be measured as the difference between a) and b) below.

a) The CBSL's claims on the central government, which include provisional advances, government securities acquired by the CBSL through primary market purchases, the central government's special direct issuances to the CBSL, and long-term or outright open market operations. For the program monitoring purpose, government securities acquired through purchases of government securities, solely for monetary policy purposes (e.g., standing lending facility and short-term open market operations) and emergency liquidity assistance (ELA) operations, on a temporary basis with an agreement to reverse the transaction in less than 90 days, will be excluded from the CBSL's claims on the central government. For the program monitoring purpose, the stock of government securities held by the CBSL will be measured in the face value.

b) The central government's Rupee-denominated deposits at the CBSL. The deposits related to foreign program financing (including IMF disbursements) placed at the government's account at the CBSL are not part of the central government's Rupee-denominated deposits at the CBSL.

The Following Adjustment Will Apply:

16. The ceiling on the CBSL's NCG will be adjusted upward by the amount of shortfalls in foreign program financing of the central government (measured against programmed amounts as set out in Table 2). This adjustor will only apply to the NCG ceiling during six months after the Board date of the First review. The foreign currency amounts will be converted to Sri Lankan rupees using the program exchange rates defined in paragraph 9.

II. CONTINUOUS PERFORMANCE CRITERIA

F. Performance Criterion on New External Payment Arrears of the Nonfinancial Public Sector and the CBSL

17. A continuous performance criterion applies to the non-accumulation of new external payments arrears on external debt contracted or guaranteed by the nonfinancial public sector and the CBSL. The nonfinancial public sector is defined following the 2001 Government Finance Statistics Manual and the 1993 System of National Accounts. It includes (but is not limited to) the central government as defined in paragraph 3 and nonfinancial public enterprises, i.e., boards, enterprises, and agencies in which the government holds a controlling stake. External payments arrears consist of debt-service obligations (principal and interest) to nonresidents that have not been paid at the time they are due, as specified in the contractual agreements, subject to any applicable grace period. However, overdue debt and debt service obligations that are in dispute will not be considered as external payments arrears for the purposes of program monitoring. Arrears resulting from the nonpayment of debt service, for which a rescheduling or restructuring agreement is being sought, are excluded from this definition. This continuous performance criterion will be monitored continuously by the authorities and any non-observance will be immediately report to the Fund.

G. Performance Criterion on New CBSL's Purchases of Government Securities in the Primary Market

18. A continuous performance criterion applies a ceiling of zero on new purchases of government securities by the CBSL in the primary market on the continuous basis.

The Following Adjustment Will Apply:

19. The ceiling (¶17) will be adjusted upward by the amount of shortfalls in foreign program financing of the central government (measured against programmed amounts as set out in Table 2). This adjustor will only apply to the ceiling ((¶17) during six months after the Board date of the First

review. The foreign currency amounts will be converted to Sri Lankan rupees using the program exchange rates defined in paragraph 9.

H. Other Continuous Performance Criteria

20. During the program period, Sri Lanka will not:

a) impose or intensify **restrictions on the making of payments and transfers** for current international transactions;

b) introduce or modify **multiple currency practices** (MCPs);

c) conclude **bilateral payment agreements** that are inconsistent with Article VIII of IMF Articles of Agreement; and

d) impose or intensify **import restrictions** for balance of payments purposes.

III. MONETARY POLICY CONSULTATION CLAUSE

21. The inflation target bands around the projected 12-month rate of inflation in consumer prices, as measured by the headline Colombo Consumer Price Index (CCPI) published by the Department of Census and Statistics of Sri Lanka, are specified in Table 1 attached to the MEFP. The CCPI index (2021=100) will be used to measure actual inflation. For this purpose, the year-on-year inflation for each test date is measured as follows:

$$\{ CCPI^*(t) - CCPI^*(t-12) \} / CCPI^*(t-12)$$

where

t = the month within which the test date is included

CCPI(t) = CCPI index (all items) for month t

CCPI(t-k) = CCPI index (all items) as of k months before t

$CCPI^*(t) = \{ CCPI(t-2) + CCPI(t-1) + CCPI(t) \} / 3$

$CCPI^*(t-12) = \{ CCPI(t-14) + CCPI(t-13) + CCPI(t-12) \} / 3$

If the observed year-on-year inflation for the test date falls outside the outer bands specified in Table 1 attached to the MEFP, the authorities will complete a consultation with the IMF Executive Board which would focus on: (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for the deviation; and (iii) on proposed policy response. When the consultation with the IMF Executive Board is triggered, access to Fund resources would be interrupted until the consultation takes place and the relevant program review is completed. In addition, if the observed year-on-year inflation falls outside the inner bands specified in Table 1 attached to the MEFP for the test date, the authorities will complete a consultation with IMF staff on the reasons for the deviation and the proposed policy response.

IV. INDICATIVE TARGETS

I. Indicative Target on Social Safety Net Spending

22. The Social Safety Net (SSN) spending is the central government's spending on SSN programs comprising of: (1) Aswesuma cash transfers, consisting (i) cash grants for low-income households, (ii) assistance to the elderly (over 70 years of age), (iii) allowance for disabled people, (iv) financial support for kidney patients, and (v) financial assistance to purchase school stationery; and (2) support under the empowerment program. These classifications are in line with the reporting in the Ministry of Finance Annual Report as in Table 9).

J. Indicative Target on Cost of Non-Commercial Obligations for Fuel and Electricity (Net of Government Transfers)

23. The non-commercial obligations (NCOs) for fuel and electricity refer to the obligations of Ceylon Petroleum Corporation (CPC) and Ceylon Electricity Board (CEB) to supply fuel and electricity at prices below cost-recovery levels. The indicative target is set on the cost of fuel and electricity NCOs net of government transfers, which corresponds to the cost of the NCOs that are not compensated by the central government budget.

24. The cost of NCOs for fuel during each quarter is measured as the cost of sales (including fuel cost, terminal charges, transport charges, personnel cost, other operational expenses, exchange rate variation, and finance cost; excluding sales taxes) minus revenues (net of sales taxes) with regard to fuel supplies by CPC for transport, power generation, aviation, industries, kerosene and LPG, and agrochemicals. If the revenues (net of taxes) exceed the cost of sales, the cost of NCOs for fuel is zero. The government transfers to cover the cost of fuel NCOs are measured as central government current transfers disbursed to CPC.

25. Starting on January 1, 2024, the cost of NCOs for electricity during each quarter will be measured as total expenditures (including energy purchases and allowed revenue for transmission) minus total sales revenues from 5 distribution licensees under CEB, as shown in the statement of the Bulk Supply Transaction Account managed by CEB. Until January 1, 2024, the cost of NCOs for electricity during each quarter will be measured by total losses as reported on the CEB's financial statement. If the total sales revenues exceed the total expenditures, the cost of NCOs for electricity is zero. The government transfers to cover the cost of electricity NCOs are measured as central government transfers disbursed (including capital injection as specified in paragraph 6) to CEB.

26. For the purpose of program monitoring, the cost of fuel and electricity NCOs net of government transfers is calculated as follows. This takes account of a time lag in estimating the cost of fuel and electricity NCOs.

For the test date of end-March 2025:

NCO(2024Q4) – G(2025Q1)

For the test date of end-June 2025:

{ NCO(2024Q4) + NCO(2025Q1) } – { G(2025Q1) + G(2025Q2) }

For the test date of end-September 2025:

{ NCO(2024Q4) + NCO(2025Q1) + NCO(2025Q2) }

– { G(2025Q1) + G(2025Q2) + G(2025Q3) }

For the test date of end-December 2025:

{ NCO(2024Q4) + NCO(2025Q1) + NCO(2025Q2)) + NCO(2025Q3) }

– { G(2025Q1) + G(2025Q2) + G(2025Q3) + G(2025Q4) }

where

NCO(q) = cost of NCOs for fuel and electricity during quarter "q"

NCO_fuel(q) = cost of NCOs for fuel during quarter "q"

NCO_electricity(q) = cost of NCOs for electricity during quarter "q"

NCO(q) = NCO_fuel(q) + NCO_electricity(q)

G(q) = central government transfers to CPC and CEB disbursed during quarter "q"

G_fuel(q) = central government transfers to CPC disbursed during quarter "q"

G_electricity(q) = central government transfers to CEB disbursed during quarter "q"

G(q) = G_fuel(q) + G_electricity(q).

K. Indicative Target on Treasury Guarantees

27. Treasury guarantees are defined as outstanding debt guarantees issued by the central government. A guarantee of a debt refers to any explicit legal obligation of the central government to service such a debt in the event of nonpayment by the recipient. Treasury guarantees exclude letters of comfort. Outstanding guarantees are defined as the drawn amounts of guaranteed debts. They differ from issued guarantees, which are defined as the total amount of guaranteed debts

(including for debts that are not disbursed yet). Treasury guarantees include outstanding treasury guarantees published in the Statement of Contingent Liabilities contained in the Annual Report of the Ministry of Finance. Rupee values for guarantees issued in other currencies will be calculated using the exchange rate for the last day of the calendar year as it appears in the Statement of Contingent Liabilities in the Annual Report of the Ministry of Finance.

L. Indicative Target on Foreign Exchange Treasury Guarantees

28. Foreign exchange treasury guarantees are defined as outstanding debt guarantees issued in foreign currency by the central government. A guarantee of a debt refers to any explicit legal obligation of the central government to service such a debt in the event of nonpayment by the recipient. Treasury guarantees exclude letters of comfort. Outstanding guarantees are defined as the drawn amounts of guaranteed debts. They differ from issued guarantees, which are defined as the total amount of guaranteed debts (including for debts that are not disbursed yet). Treasury guarantees include outstanding treasury guarantees published in the Statement of Contingent Liabilities contained in the Annual Report of the Ministry of Finance. Rupee values for the FC guarantees will be calculated using the exchange rate for the last day of the calendar year as it appears in the Statement of Contingent Liabilities in the Annual Report of the Ministry of Finance.

M. Indicative Target on Stock of Central Government's Expenditure Arrears

29. The same definition of arrears as in Para 7 will apply. The stock of arrears will be based on those identified as of May 14, 2025.

V. DATA REPORTING REQUIREMENTS

30. Sri Lanka shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Sri Lanka in achieving the objectives and policies set forth in the Memorandum of Economic and Financial Policies and Letters of Intent. All the program monitoring data will be provided by the Ministry of Finance and the CBSL. For the purpose of monitoring the fiscal performance and expenditure arrears under the program, data will be provided in the format as shown in Tables 3, 4, and 5. For the purpose of monitoring the NCG targets under the program, data will be provided in the format shown in Table 6. For the purpose of monitoring the external sector performance under the program, data will be provided in the format shown in Tables 7 and 8. For the purpose of monitoring the performance against the indicative target on social safety net spending, data will be provided in the format shown in Table 9 on a quarterly basis. For the purpose of monitoring the financial performance of three state-owned enterprises—CEB, CPC, and Sri Lankan Airlines—data will be provided in the format shown in Tables 10, 11, and 12, respectively, on a quarterly basis. In addition, BSTA weekly operation statements of the CEB will be provided no later than seven days after the end of each week. For the purpose of monitoring the performance against the indicative target on the cost of fuel NCO (net of government transfers), data will be provided in the format shown in Table 13 on a quarterly basis. For the purpose of monitoring the performance against the indicative target on treasury guarantees, data will be provided in the format shown in Table 14 on a quarterly basis.

For the purposes of the assessment of Multiple Currency Practices, data and information on official exchange rate action and impact on rates will be provided, as requested by IMF staff.

31. Data relating to the fiscal targets (Table 3, Table 4, and Table 5) will be furnished within no more than five weeks after the end of each month, except for the data on salaries and wages, goods and services, subsidies and transfers (and its subcomponents) that will be furnished within no more than seven weeks after the end of each month (the data on total recurrent expenditure and interest payments will be furnished within no more than five weeks after the end of each month). Data relating to the monetary targets (Table 6) will be furnished within no more than four weeks after the end of each month. Data relating to the external targets (Table 7 and Table 8) will be furnished within no more than 25 days after the end of each month. Data relating to the indicative target on social safety net spending (Table 9) will be furnished within no more than two months after the end of each quarter. Data relating to the three state-owned enterprises (Tables 10-12) will be furnished within no more than 2 months after the end of each quarter. Data relating to the indicative target on the cost of fuel NCO (net of government transfers) (Table 13) will be furnished within no more than 5 weeks after the end of each quarter. Data relating to the indicative target on treasury guarantees (Table 14) will be furnished within no more than two months after the end of each quarter.

32. For the purpose of monitoring the financial sector, the authorities will provide a quarterly written update and the following information on a bank-by-bank basis:

- Liquidity monitoring template, with breakdown by currency (daily)
- LCR template, with breakdown by currency (monthly)
- Net open foreign currency positions (weekly)
- Exposures to the central government and large SOEs (CEB, CPC, SLA, RDA), with breakdown by entity, currency, and instrument (monthly)
- Maturities of exposures to the central government and large SOEs (CEB, CPC, SLA, RDA), (monthly)
- Arrears of state-owned banks (monthly)
- Impairment schedule including breakdown of impairments on public sector exposures (monthly)
- Monthly supervisory returns to CBSL including statements of financial position and comprehensive income (monthly)
- Top 10 largest depositors (quarterly)
- Large exposures exceeding 15 percent of capital (quarterly)
- Capital adequacy template (quarterly)

- Financial soundness indicators (quarterly)
- Daily financial sector data will be provided within one week of the end of the reporting period; weekly data within two weeks; monthly data within four weeks; quarterly data within six weeks.

33. For the purposes of monitoring tax exemptions granted under the SDP and Port City Acts, authorities will provide data on a monthly basis on the list of all firms receiving new exemptions under both the Port City and SDP Acts. This data will be provided two weeks after the end of each month.

Table 3. Sri Lanka: Central Government Operations
(In millions of rupees)

Total Revenue and Grants
Total Revenue
Tax Revenue
Income Taxes
Personal & corporate
Corporate & non-corporate
Personal
Corporate
Personal Income Tax (PAYE)
Economic Service Charge
Interest Income tax
Tax on goods & services
VAT
Domestic
Imports
Excise Taxes
Liquor
Cigarettes
Motor vehicles
Petroleum
Other
Other taxes & levies incl. SSCL
Social Security Contribution L
Domestic
Imports
Other Taxes and Levies
Tax on external trade
Import Duties
Cess Levy
Special Commodity Levy
Ports & Airporst Development Levy
Non Tax Revenue
Property Income
Fines, Fees and Charges
Other
Grants
Total Expenditure
Current Expenditure
Salaries & wages
Goods & services
Interest payments
Subsidies & transfers
Public Corporations
Public Institutions
Households
Capital Expenditure
Net Lending
Primary balance
Overall balance
Total Financing
Total Foreign Financing (Net)
Total Domestic Financing (Net)
Privatization

Table 4. Sri Lanka: Central Government Financing

(In millions of rupees)

	(i) Borrowing/ Cash inflow	(ii) Repayment/ Cash outflow	(iii) Net
1. Domestic financing in local currency			
T-bills 1/			
T-bonds 1/			
Loans			
Deposits and overdrafts at banks			
CBSL advances and deposits			
Other (specify)			
2. Domestic financing in foreign currency			
Sri Lanka Development Bond (SLDB) 1/			
Loans			
Other (specify)			
3. Net foreign financing			
International Sovereign Bonds 2/			
Official project loans			
Official program loans			
Official trade credit			
Syndicated loans			
Other (specify)			
4. Change in Treasury Single Account 3/			
5. Privatization receipts			
Total financing (1+2+3+4+5)			

1/ including net purchases by non-residents
2/ including net purchases by residents
3/ A negative sign means an increase in the TSA and vice versa.

Note: The template has been modified to include the change in the Treasury Single Account as a financing item.

Table 5. Sri Lanka: Unpaid Bills and Arrears 1/

(In millions of rupees)

Recurrent
Capital
Total
o.w. more than 3 months:
Recurrent
Capital
Total

1/ as agreed for the purpose of monitoring the program

Table 6. Sri Lanka: CBSL's Balance Sheet 1/

(In millions of rupees)

Net foreign assets
Foreign assets
Foreign liabilities
o.w. Reserve liabilities
Net dometic assets
Net credit to government
Claims on government
Provisional advances
Treasury bills, o.w.,
Acquired through primary market purchases 1/
Acquired through standing lending facility operations
Acquired through ST OMOs
Acquired through LT OMOs
Acquired through outright OMOs
Acquired through emergency liquidity assistance
Treasury bonds, o.w.,
Acquired through standing lending facility operations
Acquired through ST OMOs
Acquired through LT OMOs
Acquired through outright OMOs
Government deposits 2/
Claims on commercial banks
Other items (net)
Reserve money
Currency in circulation
Commercial bank deposits
Memo: Net worth of the CBSL

1/ includes direct issuances of treasury securities by the government to the CBSL.

2/ Rupee-denominated deposits, excluding those converted from foreign program financing.

Table 7. Sri Lanka: Foreign Exchange Cashflows of the Central Bank and the Government 1/

(In millions of U.S. dollars)

1. Total inflows, without swaps
Loans (public sector)
Program loans (budget support)
Project loans and grants
SLDBs
FCBUs
Commerical loans
Syndicated loans
Sovereign bonds
Other inflows
Interest receipts, forex trading profits, capital gains
Change in balances in DST account
o/w proceeds from public assets
2. Total outflows, without swaps
Public sector debt service
Public sector amortization (excl. to IMF)
Official loans
multilateral creditors
India credit lines
other loans
SLDBs
FCBU loans
Syndicated loans
Settlement of ISBs
Public sector interest payment (incl. to IMF)
Interest to IMF
Interest to external creditors
Interest on domestic FX debt (SLDB, FCBU, etc)
3. Net FX purchases from market
Outright purchases of FX from commercial banks
Outright sales of FX to commercial banks
4. Swaps with domestic commercial banks
OMO FX swap transactions-inflows
OMO FX swap transactions-outflows
Net inflows (incl. swaps = 1-2+3+4) at current rates
Net inflows (excl. swaps = 1-2+3) at current rates
Net International Reserves (at market rates)
Net International Reserves (at program rates)
Gross International Reserves (at market rates)
Changes in Reserve Related Liabilities
Change in ACU liabilities
Change in liabilities to IMF
existing debt service (amortization)
new purchases
International swaps with foreign CBs
inflows
outflows
Valuation changes
Changes in CBSL other liabilities

1/ As agreed for the purpose of monitroing the program.

Table 8. Sri Lanka: Gross Official Reserve Position 1/

(In millions of U.S. dollars)

Date	Central Bank				Government				Gross Official Reserves				Liabilities					Net International Reserves	IMF-EFF liability of the Government	Outstanding domestic swaps liabilities	IMF-EFF Programme NIR at market exchange rate
	Reserves managed by IOD		Reserves Position at IMF & SDR holdings	Total	Crown Agent's Credit Balance	DST's Special Dollar Revolving Credit Balance	DST's Yen Accounts	Total	(without ACU & DA & with swap)	(with ACU & swap & without DA)	Outstanding assets of BOC London branch deposit, NZD assets and SEK assets*	(with ACU & swap & without DA & excluding outstanding assets of BOC London branch deposit, NZD assets and SEK assets)	Other Deposits	Asian Clearing Union	Drawings from the IMF	International currency swap	Total				
	Foreign Assets (FA) (with ACU & without DA)	Domestic Assets (DA) (BOC & PB)																			
				(1+2)				(4+5+6)	(8-10)	(3+7)		(9-8)						(10-11)			(12-13-14)
	1		2	3	4	5	6	7		8	9	10					11	12	13	14	15

1/ As agreed for the purpose of monitoring the program.

Table 9. Sri Lanka: Social Safety Net Spending 1/ (by Month)

(In millions of rupees)

Budget Code		Total	Of which, externally financed
	Total Social Safety Net Spending = (1)+(2)		
	Cash transfers to empower the vulnerable and needy		
102-1-2-040-1501	(1) Aswesuma cash transfers		
102-1-2-040-1501 -033	Cash grant for low income families		
102-1-2-040-1501 -034	Financial support for low income disabled persons		
102-1-2-040-1501 -035	Financial support for elderly (over 70 years of age)		
102-1-2-040-1501 -036	Financial support for elderly (over 100 years of age)		
102-1-2-040-1501 -037	Financial support for kidney patients		
102-1-2-040-1501 -039	Financial assistance to purchase school stationery		
	(2) Empowerment Program		
331-2-02-003-1504	Empowering Aswesuma beneficiaries		
331-2-02-003-2202	Empowering Aswesuma beneficiaries		
124-2-05-002-2202	Social Protection Project (World Bank)		
237-1-01-020-2202-12	Food Security and Livelihood Recovery Emergency Assistance Project - Development Assistance (Asian Development Bank)		

1/ In line with the reporting of the Ministry of Finance Annual Report

Table 10. Sri Lanka: Financial Outturn of Ceylon Electricity Board 1/
(In millions of rupees)

Total revenue
Sale of electricity
Other income
Total expenditure
Direct generation cost
Generation, transmission, and distribution O&M cost
Corporate expenses
Interest on borrowings and delayed payments
Depreciation
Other cost
Operating profit/loss
Liquidity position
Borrowings from banks
Payments to banks
Outstanding debt to banks
Purchases from CPC and IPP
Payments to CPC and IPP
Outstanding to CPC and IPP

1/ As agreed for the purpose of monitoring the program.

Table 11. Sri Lanka: Financial Outturn of Ceylon Petroleum Corporation 1/
(In millions of rupees)

Total revenue	
Octane 90	
Diesel	
Other products	
Other income	
Total expenditure	
Cost of sales	
Sales and distribution	
Administration	
Finance cost	
Depreciation	
Other cost	
Operating profit/loss	
Outstanding dues to state banks	

1/ As agreed for the purpose of monitoring the program.

Table 12. Sri Lanka: Financial Outturn of Sri Lankan Airlines 1/
(In millions of rupees)

Total revenue
Passenger
Cargo
Other income
Total expenditure
Aircraft fuel cost
Employee cost
Other operating expenses
Financial cost
Operating profit/loss
Capital contribution

1/ As agreed for the purpose of monitoring the program.

Table 13. Sri Lanka: Cost of Non-Commercial Obligations for Fuel 1/

(In millions of rupees, unless otherwise noted)

Product	a=e-b **Cost of NCOs** Rs millions	b=c-d **revenue (net of sales** Rs millions	c Sales revenue Rs millions	d Sales taxes Rs millions	e=f+g+h+i +j+k+l **(net of sales taxes)** Rs millions	f Cost of sales Rs millions	g Terminal charge Rs millions	h Transport charge Rs millions	i Personnel cost Rs millions	j Other expenses Rs millions	k Exchange rate variation Rs millions	l Finance cost Rs millions	m Sales quantity Million liters
A.TRANSPORT													
Super petrol (92 octane)													
Unladed petrol (95 octane)													
Auto diesel													
Super diesel													
B.POWER GENERATION													
Auto diesel													
Fuel oil 800'													
Fuel oil 1500'													
Fuel oil 1500' low sulphur													
Fuel oil 200'													
Naphtha													
C.AVIATION													
Jet A-1 (Foreign)													
Jet A-1 (Sri Lankan Airline)													
Jet A-1 (Local)													
Avgas													
D.INDUSTRIES													
Ind Kero													
Fuel oil 800'													
S.B.P.													
Bitumen													
Lubricant													
E.DOMESTIC													
Kerosene													
LPG													
F.AGRO													
Agro chemicals													
Total (A-F)													

Memorandum item:	
Central government current transfers to CP	[x]

1/ As agreed for the purpose of monitoring the program.

Table 14. Sri Lanka: Treasury Guarantees 1/
(In millions of rupees)

	Treasury Guarantees Issued	Treasury Guarantees Outstanding
Total Treasury Guarantees		
Ceylon Electricty Board		
Ceylon Petroleum Corporation		
National Water Supply and Drainage Board		
Road Development Authority		
SriLankan Airlines		
Other		

1/ As agreed for the purpose of monitoring the indicative target under the program.

INTERNATIONAL MONETARY FUND

SRI LANKA

FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR WAIVER OF APPLICABILITY OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, FINANCING ASSURANCES REVIEW, AND MONETARY POLICY CONSULTATION CLAUSE—SUPPLEMENTARY INFORMATION AND SUPPLEMENTARY MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

June 30, 2025

Prepared By | Asia and Pacific Department

This supplement provides an update on recent developments since the issuance of the report on June 16, 2025. The update does not alter the thrust of the staff appraisal.

1. **Headline inflation in Q2 2025 has rebounded to -1.1 percent y/y, however, it remains below the 2 percent lower outer band of the Monetary Policy Consultation Clause (MPCC).** To this end, Staff support the authorities' request to complete monetary policy consultation with the Executive Board (Appendix I). The low inflation is largely driven by energy price reductions and the remaining (albeit shrinking) output gap. The current monetary policy stance remains appropriate.

2. **Staff are collecting information to assess end-June structural benchmarks (SBs).** The SBs on (i) enhancing the asset declaration system, and (ii) publishing procurement contracts and tax expenditure reports under the SDP and Port City Acts, including the list of recipient firms, are both on track. Staff expect both SBs to be met.

3. **Real GDP growth for Q1 2025 reached 4.8 percent y/y, higher than 2.9 percent y/y projected in the framework**. The continued recovery is supported by manufacturing, construction, tourism, and financial sectors. Staff will reflect the GDP outturn in the Fifth Review and re-examine their assumptions for growth, while also considering the latest developments in the external environment.

4. **Debt restructuring continues to progress.** France has signed the bilateral restructuring agreement with Sri Lanka, joining India and Japan. Saudi Arabia and Kuwait also reached an Agreement in Principle consistent with program parameters with Sri Lanka. Sri Lankan Airlines has now hired financial and legal advisors to restructure its international bond.

Appendix I. Supplementary Memorandum of Economic and Financial Policies—Consultation with the IMF Executive Board on Missed Inflation Target Under the Monetary Policy Consultation Clause June 30, 2025

Inflation remains negative at -1.1 percent y/y in the second quarter of 2025 which was below the 2 percent lower outer band of the MPCC.[1] In fulfillment of our obligation to consult with the IMF Executive Board under the Extended Fund Facility, this annex: (1) explains the reasons why inflation fell below the lower outer limit of the MPCC band; (2) discusses the policy response; and (3) presents the inflation outlook.

I. Inflation Deviation from the MPCC Band

Headline inflation came at -1.1 percent y/y in Q2 2025. It has been lower than the target since the second quarter of 2024, and in deflation since Q4 2024. The disinflation was largely driven by electricity tariffs reductions, declining energy prices, relatively stable exchange rate, and muted demand pressures (see below). Prices have started to rebound since May 2025, but inflation remains low.

- **Electricity, other energy, and transport prices reductions.** Prices of energy, utilities, and transport declined significantly. The electricity tariff was reduced significantly in March 2024, July 2024, and January 2025 by 22, 22.5, and 20 percent respectively. Water tariffs were also reduced following lower electricity input cost. Multiple domestic fuel and LP gas price reductions were implemented in line with global commodity prices.

- **Relatively stable exchange rate.** The rupee remains relatively unchanged year-on-year in nominal terms against the US dollar as of end-June 2025, although it has depreciated marginally by about 2.6 percent since the beginning of the year. This relative stability reflects buoyant external sector developments supported by strong tourism and remittances.

- **Output gap.** Some residual slack in the economy— seen in the level of output which remains below potential—has contained any significant price pressures from recovering demand.

II. Policy Response

Following around 125 basis points (bps) of cuts of effective policy rates in 2024, the CBSL cut the monetary policy rate by 25 bps in May 2025, bringing the policy rate to 7.75 percent. These decisions were justified by the lower-than-expected inflation in the near term, further moderation of

[1] As defined in the TMU.

inflation expectations, and higher trade policy uncertainty going forward, notwithstanding the better-than-expected external sector performance so far in 2025.

Given the nature of the recent inflation drivers, the CBSL will remain vigilant against upside inflation risks that may emerge. The upside risks could emerge from the external sector, particularly due to global commodity price volatility associated with heightened geopolitical tension and global trade policy shocks, and from domestic factors, particularly the continuing demand recovery and possible food supply disruptions due to weather effects. The CBSL remains committed to its price stability mandate.

III. Inflation Outlook

The CBSL forecasts suggest inflation should turn positive in the near term and gradually converge to the 5 percent target thereafter. This rebound is supported by appropriate monetary policy adjustments, electricity tariffs adjustment, demand recovery, and exchange rate effects.

The CBSL will continue to closely monitor the impact of its policy measures and developments in the global and domestic economy. The CBSL stands ready to take measures as necessary to achieve the price stability objective.

Statement by PKG Harischandra, Alternate Executive Director for Sri Lanka
July 1, 2025

On behalf of the Sri Lankan authorities, we thank the Executive Board, Management, and Staff for their support during the 48-month Extended Fund Facility (EFF) arrangement approved in March 2023. We appreciate the unwavering dedication of the mission team, led by Mr. Papageorgiou, and their constructive engagement with the authorities and stakeholders. The ambitious reforms agenda and performance targets under the EFF arrangement, coupled with the complexities of the debt restructuring efforts, demanded a high level of commitment from both the authorities and the staff to remain steadfast. We broadly concur with the assessment presented in the comprehensive Staff Report.

Sri Lanka's debt restructuring process has now largely concluded, instilling significant market confidence, as evidenced by the substantial reduction in risk premia for international debt instruments in secondary markets. The authorities express their gratitude to all creditor nations, represented by the Official Creditor Committee (OCC) co-chaired by France, India, and Japan, as well as China and other non-OCC creditor nations, for their unwavering support, which has facilitated this fourth review under the EFF arrangement. Furthermore, the authorities are appreciative of the strong financing assurances provided by the World Bank and the Asian Development Bank (ADB), whose support has been pivotal in meeting the country's financing requirements. The authorities also acknowledge the collaboration of private creditors, whose cooperation was instrumental in concluding the debt restructuring negotiations in late 2024.

THE CONTEXT AND PROGRAM PERFORMANCE

Sri Lanka has reached the halfway mark of its 48-month EFF arrangement, despite significant socio-economic disruptions, political tensions, and unprecedented debt restructuring efforts. The program has continued successfully due to the commitment of the authorities, support from the Fund Management and Staff, international financial institutions, creditor nations, and the perseverance of the Sri Lankan people. Historically, many IMF programs in Sri Lanka have faced significant challenges that hindered their successful completion. Frequent changes in government disrupted the continuity of economic policies and reforms, while external and domestic economic shocks diverted focus and resources away from long-term reforms to immediate crisis management. The rigorous, yet essential adjustments required by IMF programs often led to "reform fatigue" among policymakers and the public, resulting in resistance and a lack of sustained commitment. Deep-rooted structural issues, such as inefficiencies in public enterprises and substandard governance, further complicated the implementation of reforms. Additionally, high levels of public debt constrained the government's ability to implement fiscal reforms, as debt servicing consumed a significant portion of government revenue. These factors collectively contributed to the incomplete implementation of many past IMF programs in Sri Lanka.

The current EFF arrangement distinguishes itself from past initiatives by being preconditioned on implementing measures to ensure public debt sustainability and it was negotiated during the worst socio-economic crisis. This program places an enhanced focus on structural reforms, targeting the root causes through improvements in public financial and debt management, governance, and anti-corruption measures. Importantly, there is a stronger emphasis on social protection measures designed to safeguard vulnerable populations from the adverse effects of fiscal consolidation and structural adjustments. The authorities appreciate the program's design, which includes flexibility and adaptability, supported by provisions for periodic reviews and adjustments to address evolving economic conditions. The increased engagement by Fund Management and Staff with a broad range of stakeholders, such as the private sector and international partners, continues to help build wider support for the reforms.

Sri Lanka’s performance under this EFF arrangement remains robust, showcasing a strong commitment to the ambitious reform agenda. All end-March 2025 indicative targets, except for the stock of arrears, have been met. All structural benchmarks due by end-May 2025 were either met or implemented with some delay. The authorities are actively taking measures to clear the domestic payment arrears within the EFF arrangement, ensuring that this effort does not compromise other commitments, such as the primary balance target. To address the issue of domestic arrears, the authorities are introducing system improvements, best practices and guidelines with stricter controls in line with the new PFM law. They remain resolute in their commitment to addressing any remaining gaps and achieving the program's objectives.

RECENT ECONOMIC DEVELOPMENTS AND RISKS TO THE OUTLOOK

Sri Lanka's economic growth exceeded expectations, reaching 5% in 2024, compared to the projected 4.5% during the Third Review. In Q1-2025, the economy recorded an estimated growth of 4.8%, over 5.1% growth in Q1-2024. This strong growth momentum was driven mainly by significant increases in manufacturing (9.6% y/y) and construction (10.7% y/y). The services sector, accounting for 60% of the economy, grew modestly by 2.8% (y/y), with strong gains in financial services, insurance, hospitality, and ICT sector activities. The tourism sector's rebound has also contributed to broad-based growth. High-frequency indicators, such as the Purchasing Mangers’ Index (PMI) for Manufacturing at 55.5 and Services at 57.0 in May 2025, highlight ongoing economic resilience. Deflationary pressures are easing, with headline inflation expected to return to positive territory sooner than previously anticipated. In May 2025, deflation moderated to 0.7% (y/y), from 2% (y/y) deflation recorded in April 2025, driven mainly by an increase in food inflation to 5.2% (y/y) reflecting seasonality and weather-related effects. Inflation expectations have aligned more closely with the Central Bank's projections, which foresee a near-term return to positive inflation and a gradual convergence toward the 5% target over time. Sri Lanka's external current account remains in surplus, supported by strong remittance inflows and trade in services. International official reserves increased to US$ 6.3 billion by the end of May 2025, providing about four months of import coverage. Fiscal adjustments and improved tax revenues are progressing well, with government revenue on track to reach 15% of GDP in 2025, the highest level in 15 years. The primary surplus is estimated at 1.7% of GDP for January-April, aligning with the projected 2.3% of GDP for 2025. The authorities are committed to meeting the capital budget and addressing any remaining gaps.

The authorities broadly agree with the Staff's assessment of risks to the economic outlook. Recent tensions in the Middle East could add further downside risks. The outlook for the Sri Lankan economy faces several risks: global trade tensions could disrupt external demand and trade flows, impacting export performance; rising uncertainty in the Middle East may affect remittances, a crucial source of foreign exchange for Sri Lanka; risks to energy prices and transportation costs could weigh on the external balance; and a possible global economic slowdown could dampen tourism and reduce external demand for goods and services. Domestically, weather-related disruptions, exacerbated by climate change, pose significant risks to agricultural production, potentially leading to higher food prices and economic instability. These factors collectively present challenges to the country's economic stability and growth prospects.

FISCAL CONSOLIDATION AND FISCAL STRUCTURAL REFORMS

Revenue-based fiscal consolidation is advancing as Sri Lanka meets its revenue targets, while fiscal structural reforms are progressing well to ensure broad-based and sustained macro-fiscal stability. Government revenue, which fell to 8.2% of GDP in 2022, is projected to reach 15% of GDP in 2025, reflecting an annual adjustment of about 2.3 percentage points on average. The primary balance, which was recorded at -3.7% of GDP in 2022, is expected to reach 2.3% of GDP in 2025. The authorities remain committed to addressing long-standing issues in public finance management, including the tendency to overestimate revenue and the underspending of the capital budget, which is often due to weaknesses in project appraisal, monitoring, and evaluation. The Fund's ongoing technical assistance in revenue forecasting and expected support to update the 2018 Public Investment Management Assessment (PIMA) will help address these issues. The enactment of the Parliamentary Budget Office Act of 2023 and the Public Financial Management (PFM) Act of 2024 will enhance public finance management by improving transparency, accountability, and efficiency. The authorities are focused on raising government revenue incrementally by strengthening tax administration and compliance. Efforts include improving the Value Added Tax (VAT) refund system, enhancing VAT compliance with timebound targets, and modernizing tax collection authorities, particularly the Inland Revenue Department. Outreach efforts to re-register VAT payers and intensive audits on high-risk High Worth Individuals (HWI) continue. Preparatory measures for introducing a possible property tax by 2027 include digitizing historical property valuation records and creating a provisional digital nationwide Sales Price and Rents Register (SPRR), aiming to generate a database of properties with estimated market values by mid-2026. The authorities are committed to improving public financial management procedures in alignment with the new PFM law, with timebound targets to enhance reporting, recording, and monitoring of public expenditure, and to prevent arrears accumulation. The rollout of the Integrated Treasury Management Information System (ITMIS) is nearing completion. The planned integration of ITMIS with e-Procurement will enhance efficiency and governance of public procurement, as well as strengthen the timeliness and accuracy of fiscal reporting. The authorities remain committed to the full implementation of the new PFM law by the end of 2025, ensuring future budget submissions include all required documentation.

The authorities continue to implement measures to mitigate fiscal risks from state-owned enterprises (SOEs) by meeting program commitments to restore cost recovery energy pricing and strengthen SOE governance. Poorly managed SOEs in Sri Lanka have significantly strained public financial management, with persistent losses in sectors like energy and transport requiring continuous government financial support. This support often came in the form of subsidies, guarantees, and capitalization, increasing fiscal risks and burdening public finances. Additionally, SOEs' debt, frequently funded by state banks, created a complex and undesirable sovereign-bank nexus, further endangering macro-fiscal stability. The lack of adequate internal controls and governance frameworks within SOEs exacerbated these issues, highlighting the need for comprehensive reforms, which are being carefully addressed within the EFF arrangement. Cost recovery energy pricing was a major undertaking during the program, as the people of Sri Lanka have been accustomed to subsidized utilities for decades. Monthly retail fuel prices are now set at cost recovery levels, with minimal public agitation. However, setting cost recovery electricity tariffs has faced procedural and technical challenges. Authorities have managed to set electricity tariffs at cost recovery levels in the recent revision in June and are taking necessary measures to address these issues in consultation with the Fund staff and other stakeholders. Legacy debt of energy sector SOEs is being paid off within the price-setting mechanism. The authorities are working towards enacting an SOE law by the end of 2025, in alignment with the PFM law, aimed at strengthening SOE governance, financial transparency, and accountability.

BOLSTERING SUPPORT FOR VULNERABLE AND SOCIAL SAFETY NET (SSN) REFORMS

The authorities remain steadfast in their commitment to strengthening support for the vulnerable through Social Safety Net (SSN) reforms. They have successfully met the Indicative Target (IT) on social spending for the first time by the end-March 2025, marking a significant achievement since September 2023. This target was previously missed due to technical onboarding difficulties. Payments to identified groups have been increased, and the benefit payment periods have been extended for transitional and vulnerable groups. Retroactive payments are currently being processed for those who were initially left out due to onboarding challenges. The enumeration of second-round applicants is nearing completion, with a 93% completion rate by end-May 2025, and grievance handling will be expedited. The authorities are revamping the digital platform of the social registry, the Integrated Welfare Management System, to further improve the targeting efficiency for the 3.4 million first-round applicants. Recognizing the importance of addressing the moral hazard of welfare benefit schemes, empowerment programs are underway to encourage individuals to develop skills and seek employment, thereby reducing dependency on welfare and promoting self-sufficiency. An empowerment pilot program led by the World Bank and ADB is being implemented. A national empowerment program is set to launch, aiming to support approximately 1.2 million beneficiaries over the next three years.

MAINTAINING PUBLIC DEBT SUSTAINABILITY

The authorities appreciate the Staff's assessment that Sri Lanka's debt remains sustainable, yet they remain cognizant of the high risks to debt sustainability in the coming years. Following the agreement with China Exim Bank and the successful completion of the Eurobond exchange, the authorities are currently focused on finalizing bilateral agreements with the OCC members and reaching agreements with the remaining non-OCC members and commercial creditors during 2025. Bilateral agreements have already been signed with France, India, and Japan. The establishment of the Public Debt Management Office (PDMO) under the Public Debt Management Act of 2024 is nearing completion, with full operationalization aimed for December 2025. The parliament has repealed the Foreign Loan Act, allowing for the consolidation of debt management functions within the PDMO. Additionally, the PDMO will update the medium-term debt strategy (MTDS) and formulate the annual borrowing plan (ABP) in line with the PFM law, to be published alongside the 2026 Budget.

MAINTAINING PRICE STABILITY AND EXTERNAL STABILITY

The authorities' commitment to proactive and data-driven monetary policy, along with the elimination of monetary financing, has helped anchor inflation expectations. The combination of global trade tensions and Middle East conflicts creates a complex and uncertain environment that can drive up commodity prices, affecting economic stability and growth prospects. Sri Lanka continues to experience deflation from September 2024, driven mainly by supply-side factors such as reductions in electricity tariffs, fuel prices, and transport costs. This deflation helped alleviate the burden on businesses and households following a significant cumulative rise in prices since the onset of the crisis. The Central Bank of Sri Lanka (CBSL) is dedicated to a 5% inflation target, monitored through the Monetary Policy Consultation Clause (MPCC), with regular consultations held with Fund Staff during Monetary Policy rounds. The CBSL will closely monitor both upside and downside risks to the inflation and economic outlook and conduct monetary policy to achieve its price stability mandate. The CBSL's equity continues to improve and will be regularly assessed to maintain adequate capital levels for effective monetary policy. The CBSL is also building external buffers through market purchases of foreign exchange (FX) to meet program objectives of official reserve accumulation, while committing to maintaining exchange rate flexibility and limiting any sales of FX only to address disorderly market conditions. The authorities remain committed to phasing out the remaining administrative measures introduced to support the balance of payments.

STRENGTHENING FINANCIAL SECTOR RESILIENCE

Sri Lanka's financial system remains resilient and well-capitalized, yet further measures are being implemented to strengthen financial sector supervision and crisis management. Credit growth has picked up, supporting the economic recovery, and the non-performing loans (NPLs) ratio has started to decline from elevated levels. Authorities plan to enact the Rescue, Rehabilitation, and Insolvency Bill in 2025 to facilitate an orderly insolvency process and NPL recovery. The CBSL continues to closely monitor the capital and liquidity positions of banks and stands ready to take appropriate measures if needed. The Finance Business Act is under review to enhance supervision, regulation, and resolution frameworks, while the Finance Leasing Act is being revised to address any irregularities. The amended Finance Business Act is expected to be submitted to parliament by end-September 2025. Governance of state-owned banks (SOBs) will be strengthened through a recently adopted framework, ensuring that SOBs meet the same regulatory requirements as private banks.

ADVANCING GOVERNANCE AND ANTI-CORRUPTION REFORMS

The authorities pledge to uphold their commitment to advancing anti-corruption and governance reforms, with annual updates to the Government Action Plan and quarterly assessments of its implementation. Measures are underway to operationalize the Anticorruption Act. A comprehensive Asset Recovery Law was enacted in April 2025, and the asset declaration system will be strengthened. The authorities remain committed to refining the tax exemptions framework by learning from past shortcomings. Necessary amendments to the Strategic Development Projects Act and Port City Act will be introduced by end-August and October 2025, respectively. Revenue leakages at the Customs Department will be addressed through legislation by end-October 2025. The authorities are also committed to reducing corruption vulnerabilities in procurement processes, with a Public Procurement Law set to be enacted in 2025, for which drafting is already underway. Public asset oversight and management will be strengthened through the forthcoming Public Asset Management Bill, while amendments to the National Audit Act will facilitate the effective levying of fines. Efforts to strengthen the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime continue, building on the AML/CFT National Policy for 2023-2028. Amendments to the Companies Act will soon be introduced to align the beneficial ownership framework with Financial Action Task Force (FATF) standards. Additionally, measures are underway to improve the effectiveness of money laundering investigations, prosecutions, and asset recovery; strengthen the use of financial intelligence to identify potential corruption activities; and enhance the risk-based AML/CFT supervision of financial institutions.

GROWTH ENHANCING STRUCTURAL REFORMS

The authorities' growth strategy is centered on fostering private sector-led growth by creating a conducive business environment that bolsters both foreign and domestic investment. Key priorities include trade liberalization, encouraging private sector participation, implementing labor market reforms, and addressing climate adaptation and mitigation. This strategy aims to ensure inclusive and sustainable growth by distributing economic benefits across all societal strata. Enhancing public sector efficiency through digitalization and reducing government intervention in the economy are major priorities of the Government to improve productivity and resource allocation. The Proposed Employment Act is expected to enhance labor market flexibility and increase women's participation in the workforce. Additionally, efforts are underway to boost renewable energy sources, contributing to a more sustainable energy future. The authorities also plan to introduce educational reforms aimed at improving human capital in line with evolving labor market dynamics. These reforms are designed to enhance the growth potential of the economy by equipping the workforce with the necessary skills and knowledge to meet future demands.

CONCLUSION

The authorities believe that the commitments under the EFF arrangement will significantly strengthen public financial management and improve governance, addressing long-standing issues that have hindered Sri Lanka's progress for many decades. They extend their gratitude to the Fund Management and Staff for their invaluable technical and capacity development support, which has been instrumental in strengthening the country's institutions, along with the support from other multilateral and bilateral partners. The Mission Team and authorities are closely monitoring the progress of the deliverables under the EFF on a weekly basis, allowing for timely corrective measures and contingency planning when needed. Given the unwavering commitment of the authorities to achieving satisfactory program performance, they appreciate the support of the Executive Directors for the completion of the fourth review under the EFF arrangement.