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SRI LANKA

December 2025

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SRI LANKA

In the context of the Request for Purchase Under the Rapid Financing Instrument, 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 December 19, 2025, following discussions that ended on December 5, 2025, with the officials of Sri Lanka on economic developments and policies underpinning the IMF arrangement under the Rapid Financing Instrument. Based on information available at the time of these discussions, the Staff Report was completed on December 11, 2025.
- 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.

IMF Executive Board Approves US$206 Million in Emergency Financial Support for Sri Lanka

FOR IMMEDIATE RELEASE

- *The IMF Executive Board approved emergency financing under the Rapid Financing Instrument (RFI), providing Sri Lanka with immediate access to about US$206 million.*
- *The RFI will help Sri Lanka address the urgent needs arising from the catastrophic Cyclone Ditwah and preserve macroeconomic stability.*
- *Given the time needed to assess the impact of the cyclone and evaluate how the IMF-supported program can best support Sri Lanka's recovery and reconstruction efforts, the Fifth Review under the Extended Fund Facility (EFF) is deferred. Discussions will resume in early 2026.*

Washington, DC–December 19, 2025: The Executive Board of the International Monetary Fund (IMF) approved a disbursement of SDR150.5 million (about US$206 million, equivalent to 26 percent of quota) for Sri Lanka under the Rapid Financing Instrument (RFI). This emergency support will help address urgent balance-of-payments and fiscal pressures arising from the catastrophic Cyclone Ditwah, which hit the country on November 28.

The Sri Lankan authorities remain committed to their economic reform program supported by the Extended Fund Facility (EFF). The cyclone hit when the Fifth Review under the EFF was nearing completion. Given the time needed to assess the economic impact of the cyclone and examine how IMF-supported program can best support Sri Lanka's recovery and reconstruction efforts while preserving objectives and policy priorities, the Fifth Review has been deferred. An IMF mission team will visit Sri Lanka in early 2026 to resume discussions.

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

Sri Lanka was hit by a catastrophic cyclone, claiming more than 600 lives and affecting millions more. Flooding and landslides have displaced more than 100,000 people, destroyed critical infrastructure, and devastated livelihoods across the country. The disaster has created urgent humanitarian and reconstruction needs, generating significant fiscal pressures and balance-of-payments needs. The emergency financial support provided by the IMF under the RFI will help address these pressures.

"The government responded swiftly with a package of relief measures, supported by strong fiscal overperformance in 2025. The Central Bank of Sri Lanka stands ready to provide liquidity support to the financial system if needed.

"While recovery and reconstruction needs will be substantial, the authorities remain committed to maintaining fiscal prudence to safeguard fiscal and debt sustainability. All emergency spending will be executed in full compliance with the Public Financial Management Act and supported by enhanced monitoring and regular public reporting in line with transparency and accountability standards. The Central Bank will continue to refrain from monetary financing of the budget.

“The cyclone struck as Sri Lanka is emerging from a deep economic crisis and the IMF-supported reform program under the EFF is bearing fruit. Sustained adherence to the reform agenda has underpinned a robust economic recovery, price stability, substantial revenue-based fiscal consolidation, and progress rebuilding foreign exchange reserves. Nonetheless, the economy remains vulnerable and GDP has not recovered to its pre-crisis level.

“The authorities and IMF team maintain close engagement and will resume discussions at the earliest possible juncture. The IMF stands with the people of Sri Lanka during this difficult time and will continue to support Sri Lanka’s recovery and reconstruction efforts

Sri Lanka: Selected Economic Indicators 2024-2027

	2024	2025	2026	2027
	Act.	Projections		
GDP and inflation (in percent)				
Real GDP	5.0	4.2	2.9	3.1
Inflation (average) 1/	1.2	-0.3	5.4	5.0
Inflation (end-of-period) 1/	-1.5	2.8	5.7	5.2
GDP Deflator growth	3.8	2.2	5.4	5.0
Nominal GDP growth	9.0	6.4	8.5	8.2
Savings and investment (in percent of GDP)				
National savings 2/	28.7	25.5	23.2	23.3
Government	-3.0	-1.2	-0.6	0.1
Private	31.7	26.7	23.8	23.1
National investment	27.0	24.9	23.6	23.2
Government	5.0	4.8	5.4	4.8
Private	21.9	20.1	18.2	18.3
Savings-Investment balance	1.8	0.6	-0.4	0.1
Government	-8.0	-6.0	-6.0	-4.7
Private	9.8	6.6	5.6	4.8
Public finance (in percent of GDP)				
Revenue and grants	13.7	16.0	15.2	15.2
Expenditure	19.1	20.3	20.0	19.0
Primary balance	2.2	3.4	2.0	2.3
Central government balance	-5.4	-4.3	-4.8	-3.7
Central government gross financing needs	21.9	21.6	19.8	14.8
Central government debt	100.8	99.8	100.6	97.9
Public debt 3/	105.7	104.1	104.6	101.3
Money and credit (percent change, end of period)				
Reserve money	15.8	15.8	6.6	8.2
Broad money	8.6	12.0	12.5	8.2
Domestic credit	4.0	12.2	8.2	5.6
Credit to private sector	10.7	22.3	12.2	9.3
Credit to private sector (adjusted for inflation)	9.5	22.6	6.7	4.3
Credit to central government and public corporations	-1.4	3.1	3.9	1.2
Balance of Payments (in millions of U.S. dollars)				
Exports	12,772	13,231	13,382	14,181
Imports	-18,841	-21,281	-22,664	-23,291
Current account balance	1,733	604	-386	107
Current account balance (in percent of GDP)	1.8	0.6	-0.4	0.1
Current account balance net of interest (in percent of GDP)	3.7	2.6	1.5	2.1
Export value growth (percent)	7.2	3.6	1.1	6.0
Import value growth (percent)	12.1	12.9	6.5	2.8
Gross official reserves (end of period)				
In millions of U.S. dollars	6,122	6,550	8,884	13,371
In months of prospective imports of goods & services	3.0	3.0	3.9	5.6
In percent of ARA composite metric	50.5	53.1	70.4	100.0
Gross official reserves accounting for PBOC Swap conditions (end of period) 4/				
In millions of U.S. dollars	4,716	5,144	8,884	13,371
In months of prospective imports of goods & services	2.3	2.3	3.9	5.6
In percent of ARA composite metric	38.9	41.7	70.4	100.0
External debt (public and private) 5/				
In billions of U.S. dollars	57.1	53.4	55.6	59.5
As a percent of GDP	57.7	50.6	52.3	54.8
Memorandum items:				
Nominal GDP (in billions of rupees)	29,899	31,819	34,512	37,351
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/ Cash basis, excluding accrued but not paid interest.
3/ 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.
4/ PBOC swap ($1.4bn based on valuation in 2024) becomes available once the GIR without it is above 3 months of the previous year's imports of goods and services.
5/ Based on market value when available.

SRI LANKA

December 11, 2025

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Context. Sri Lanka was hit by catastrophic Cyclone Ditwah on November 28, claiming more than 600 lives as of December 6 and affecting millions more. Severe flooding and landslides displaced over 100,000 people and caused extensive destruction of houses, roads, bridges, rail lines, buildings including schools and hospitals, and agricultural land nationwide. The natural disaster creates urgent humanitarian and reconstruction needs, leading to acute balance-of-payments (BOP) pressures. The cyclone hit as Sri Lanka is emerging from a deep economic crisis and the IMF-supported reform program under the Extended Fund Facility (EFF) begins to bear fruit.

Request for Fund support. The cyclone struck as the Fifth Review under the EFF was nearing completion, and the scale of the disaster will most likely require adjustment to program parameters. The adjustment will be anchored by an impact assessment and a comprehensive reform package. Given the urgency of addressing the disaster and the time required to evaluate how the EFF program can support Sri Lanka's recovery and reconstruction efforts, the authorities requested support under the Rapid Financing Instrument (RFI) of 26 percent of quota or SDR150.5 million (about US$205 million, 0.2 percent of GDP). The full amount will be available immediately for budget support upon Board approval. The authorities are also seeking financing from other multilateral and bilateral partners.

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

Discussions took place virtually during December 1–5, 2025. The mission met with Central Bank of Sri Lanka Governor Weerasinghe, Secretary to the Treasury Suriyapperuma, Senior Economic Advisor to the President Hulangamuwa, and other senior officials. The mission team comprised E. Papageorgiou (Mission Chief), D. Prihardini, U. Wiriadinata (all APD), S. Kwalingana (SPR), O. Aydin (FAD), D. Palermo (MCM), M. Woldemichael (resident representative), and M. Abeyawickrama (local economist). P. Harischandra (OED) participated in key policy meetings. S. Abebe and P. Mahmud (APD) provided administrative and research support for this report.

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CONTEXT

1. Sri Lanka was hit by catastrophic Cyclone Ditwah on November 28, claiming more than 600 lives as of December 6 and affecting millions more. Hundreds of people are still missing. Severe flooding and landslides displaced over 100,000 people. Houses, roads, bridges, rail lines, and buildings including schools and hospitals across the nation were destroyed. Hundreds of thousands of acres of land were devastated, causing extensive losses of crops, livestock, and livelihoods in a country where one-third of the population depends on agriculture. More than 1.5 million people face moderate or high food insecurity, alongside widespread disruptions to water and electricity supplies. With 23 percent of the population already living below the poverty line, a further 10 percent is now at heightened risk.[1]

2. The scale of disaster has created urgent humanitarian and reconstruction needs, generating significant fiscal and balance-of-payments (BOP) pressures. With support from the international community, the private sector, and civil society, rescue operations are ongoing, and the government is delivering emergency relief. The authorities have pledged additional support to affected populations and committed to rebuilding critical infrastructure (¶9). The extensive damage to harvests, livestock, housing, and public infrastructure is expected to reduce exports and increase import demand—from food and medicines to construction materials. As the cyclone hit during peak tourism season, tourism receipts are expected to decline significantly. The exogenous shock has given rise to urgent BOP needs, which if unaddressed, would result in severe economic disruption.

3. The cyclone hit as Sri Lanka is emerging from a deep economic crisis and the IMF-supported reform program under the Extended Fund Facility (EFF) bears fruit. IMF staff assessed program performance under the EFF as strong when staff-level agreement on the Fifth Review was reached on October 9. Sustained adherence to the reform package has underpinned a robust economic recovery, price stability, substantial revenue-based fiscal consolidation, and progress on rebuilding of foreign exchange reserves. Debt restructuring has delivered significant debt relief and placed public debt on a sustainable path. Public financial management (PFM) reforms and cost-recovery energy pricing have further strengthened fiscal discipline and mitigated fiscal risks. That said, the economy was still fragile and GDP had not returned to its pre-crisis level.

4. Given the urgency of addressing the disaster and the time needed to fully assess its impact, the authorities requested support under the Rapid Financing Instrument (RFI). The cyclone struck as the Fifth Review under the EFF was nearing completion, and the scale of the disaster (¶5) requires evaluating how the EFF-supported program can support Sri Lanka's recovery and reconstruction efforts while preserving objectives and policy priorities under the EFF. Staff will field a mission to resume discussions on the EFF in early 2026. In the meantime, authorities requested access to RFI of SDR150.5 million (26 percent of quota, about US$205 million, 0.2 percent of GDP) to address urgent needs and safeguard the hard-won gains achieved under the program.

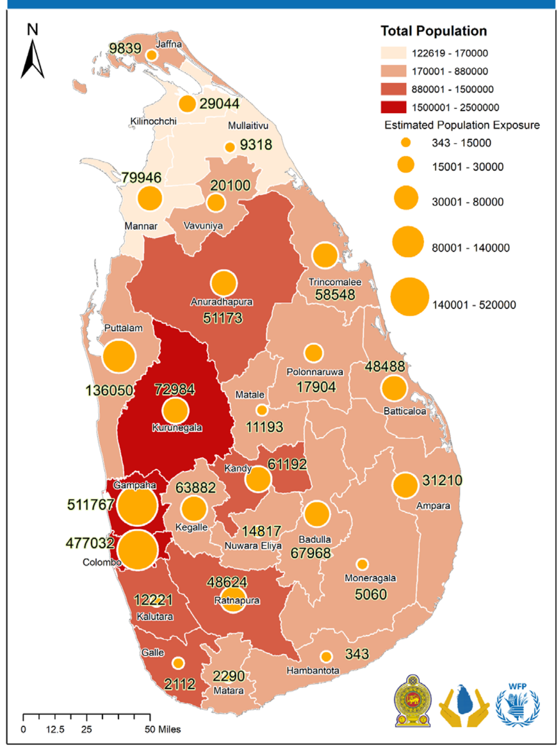
[1] Sri Lanka Disaster Management Center Joint Rapid Needs Assessment by authorities with contributions from UN.

ECONOMIC IMPACT OF THE CYCLONE

5. The impact of the cyclone is expected to be significant, but as uncertainty is high, point estimates of macroeconomic outcomes carry large margins of error.

- **Economic losses.** While the full effect will take time to assess, previous natural disasters of a similar magnitude resulted in economic losses of 2.5-5 percent of GDP.[2] These estimates include the costs of rebuilding houses, roads, and other infrastructure, as well as providing relief assistance. The impacts disproportionately fall on already vulnerable segments of the population. Damage from Cyclone Ditwah appears to be more severe than those of the 2016-17 floods.[3] Recovery needs for the 2016 and 2017 floods were 1.1 and 0.8 percent of GDP, respectively.[4]

Estimated Population Exposure Map in 2025 Floods



Source: Sri Lanka Disaster Management Center.
Note: As of December 2, 2025.

- **Growth.** IMF staff's preliminary assessment indicates growth could slow to 2.9 percent y/y in 2026, from a robust 4.2 percent in 2025. The cyclone's impact on economic activity is significant but highly uncertain, given rapidly evolving developments, incomplete damage assessments, and the size and pace of unfolding policy responses. Agriculture and tourism—together accounting for 11 percent of GDP—are likely to be the hardest-hit sectors. There are severe crop losses, and the cyclone hit during the start of the peak tourism season. However, construction activity is likely to support growth during the rebuilding phase, partially offsetting the slowdown.

- **Prices.** December 2025 inflation is projected to increase to 4.0 percent y/y from 2.1 percent y/y in November, and 2026 average inflation is expected to increase to 5.4 percent y/y from 3.3 percent y/y forecast at the Fourth Review. Inflationary pressures have emerged, with 30-200 percent price surges of selected food items due to shortages. More broadly, supply chain

[2] World Bank Sri Lanka Fiscal Disaster Risk Assessment and Risk Financing Options (2016). Lower bound is based on economic losses from a once in a decade event and upper bound is based on a once in a half century event.

[3] In the 2016 floods 301,602 persons were affected, and in the 2017 floods 879,778 persons were affected (EM-DAT).

[4] World Bank Post-Disaster Recovery Plan: Sri Lanka Floods and Landslides.

disruptions from damaged infrastructure would contribute to rising costs. During the 2016-17 natural disasters, food inflation spiked from 3 percent y/y to 14.4 percent y/y. The exchange rate depreciated in early December but remains rangebound.

- **Balance of payments.** A preliminary assessment indicates the current account deficit could widen by about US$700 million (0.7 percent of GDP) in the next 12 months. Flooding and landslides destroyed agricultural land and livestock, sharply increasing food import needs and reducing agricultural exports. Tourism receipts are expected to fall significantly as the cyclone hit during the peak season and afflicted several popular destinations. Damage to hydropower capacity may temporarily raise oil imports. Disaster relief and reconstruction efforts would further add to import needs. During the 2016-17 natural disasters, food and oil imports increased by 0.2 and 1.0 percent of GDP, respectively. Higher remittances partially offset the pressures.

OUTLOOK AND RISKS

6. **Steadfast reform implementation has bolstered the economy's resilience.** Robust economic recovery was underway and macroeconomic stability had been restored at the time the cyclone hit. Gross reserves had increased to three months of imports and inflation had been low. Against a stronger foundation, growth is expected to return to potential at 3.1 percent in 2027, with inflation returning to target. Sri Lanka recovered quickly from previous national disaster episodes, as reconstruction efforts supported growth. The current account deficit is expected to narrow from 2027 onward, supported by a rebound in tourism, pick-up in agricultural exports, and dissipating imports of emergency goods and reconstruction-related material.

7. **There is a high degree of uncertainty surrounding the economic outlook and risks are tilted to the downside.** The cyclone has disrupted Sri Lanka's economic recovery and heightened external and debt sustainability risks, compounding the pre-existing downside risks. A reimposition of a higher tariff by the US would lower exports and growth. Prolonged trade policy uncertainty and continued geopolitical tensions could further dampen tourism, and trigger commodity price volatility at a time when the country is more exposed to food and fuel price fluctuations. Administrative capacity constraints—as resources are diverted to disaster response and reconstruction—may lead to delays in implementing structural reforms critical for achieving long-term development objectives. On the upside, the reconstruction phase provides an opportunity to build back better and strengthen the country's resilience, though coordination challenges mean there are also risks of implementation delays and under-execution.

POLICY ISSUES AND DISCUSSIONS

8. **The primary balance in 2025 significantly outperformed, supported by revenue collection from motor vehicle imports and under-execution of capital spending.** Vehicle imports are expected to exceed the Fourth Review projections significantly (US$1.8 billion vs.

US$1.0 billion). Domestic VAT and income tax collections overperformed, roughly offsetting weaker collections from interest income withholding tax and non-vehicle import tax. Overall, 2025 tax revenues are expected to reach 14.8 percent of GDP, 0.9 percentage points above the Fourth Review projection. Capital expenditure remains under-executed, with only 45 percent of the allocation implemented by end-September. As a result, the 2025 primary balance is expected to reach 3.4 percent of GDP—up from 2.3 percent projected at the Fourth Review—after accounting for the 2025 Supplementary Budget (¶9).

9. Authorities responded swiftly to the disaster on the back of large fiscal outperformance in 2025.

- **2025 Supplementary Budget.** Authorities announced an emergency disaster relief package (Annex I) of about LKR72 billion (0.2 percent of GDP), financed through reallocation within the 2025 Budget. The package includes (i) LKR550 million for disaster relief services, (ii) LKR25,000 per affected family for home restoration, (iii) reallocation of unspent capital expenditures toward reconstructions of damaged infrastructure, (iv) weekly dry-ration allowance of LKR3,600 per affected individual, (v) LKR50,000 per displaced family for relocation, and (vi) up to LKR200,000 per hectare for damaged crops and livestock and LKR400,000 per damaged fishing boat.

- **2026 Budget.** On December 5, Parliament approved the 2026 Budget that entails a primary expenditure allocation of 12.9 percent of GDP and a primary balance target of 2.3 percent of GDP, in line with the staff level agreement reached for the Fifth Review under the EFF. However, authorities also announced their intention to prepare a Supplementary Budget to support affected population and rebuild critical infrastructure. The authorities have a preliminary spending need estimate of around LKR500 billion (1.4 percent of GDP) in 2026 which may require both reallocation of expenditures within the approved budget and a Supplementary Budget to increase the total budget envelope, reducing the primary surplus. Authorities also intend to extend the benefit period for the vulnerable category under the Aswesuma cash transfer program by six months to end-June 2026.

10. Despite considerable progress in restoring debt sustainability, risks remain high and fiscal prudence is paramount to safeguard debt sustainability. Sri Lanka's debt restructuring has delivered substantial debt relief and put public debt on a sustainable path. Between 2022 and 2024, public debt-to-GDP declined from 125.8 percent to 105.7 percent, gross financing needs-to-GDP from 33.9 percent to 21.9 percent, and interest-to-revenue from 79 percent to 56 percent. However, post-restructuring debt indicators remain elevated. Authorities should design a careful strategy to preserve the path to debt sustainability while supporting Sri Lanka's recovery and reconstruction.

11. Emergency spending should be deployed and executed in accordance with the well-defined mechanisms of the PFM Act. The supplementary under the 2026 budget must adhere to the procedures outlined in the PFM Act and should be utilized only when needs cannot be met through virements, the annual budget reserve, or the Contingencies Fund.[5] Any breach of the primary expenditure ceiling must be justified under the Act's escape clauses and accompanied by a recovery plan along with corrective measures in subsequent budgets. Draft PFM regulations[6]—covering budget execution, fiscal rules, and enforcement procedures—are being finalized and will specify these safeguards, thereby reinforcing fiscal discipline even during emergencies. Going forward, government should strengthen financial preparedness for disaster response through dedicated disaster funds, insurance, and other risk-transfer mechanisms.

12. **Robust governance frameworks are essential to ensure transparency, accountability, and effective oversight in the management of public resources.** All emergency spending—including allocations through the announced *Rebuilding Sri Lanka* Fund and donor contributions—must comply with the accountability and transparency requirements of the PFM Act and other governance safeguards.[7] These include publishing procurement contracts and disclosing beneficial ownership on the official government website to ensure public accessibility. Any procurement deviations permitted under disaster response should follow the guidelines set by the National Procurement Commission and be documented and disclosed as part of public reporting. Regular public reporting and independent audits will help ensure that funds are used as intended.

13. **Persevering with public investment management reforms is crucial to ensure the efficient use of public resources in the country's rebuilding efforts.** The significant reconstruction needs underscore the importance of rigorous project selection and prioritization. Authorities may need to defer or cancel lower-priority projects to create fiscal space.[8] Authorities are working to adopt standardized appraisal guidelines to evaluate the technical, economic, and financial feasibility of reconstruction projects. Multi-year reconstruction commitments should be integrated in the Medium-Term Fiscal Framework, and the link between appraisal outcomes and budget allocation should be strengthened. Ex-post evaluations and monitoring systems should be institutionalized to track performance and mitigate fiscal risks. These reforms are critical to ensure that large disaster-related capital expenditure delivers value for money while maintaining transparency and accountability.

[5] Within-year budgetary flexibility mechanisms play a critical role in enabling timely fiscal responses to unforeseen events. Under the PFM Act, a virement is the transfer of an allocation within a Head of Expenditure in the annual Appropriation Act subject to some restrictions. The annual budget reserve is an appropriation for contingencies, not exceeding 2 percent of proposed primary expenditure, to cover urgent and unforeseen expenditures where existing allocations are insufficient. The Contingencies Fund is established under Article 151 of the Constitution and can be utilized for urgent and unforeseen expenditures.

[6] Structural benchmark under the EFF.

[7] The *Rebuilding Sri Lanka* Fund was established by the government to collect donations for reconstructing infrastructure, supporting livelihoods, and community aid. As of December 5, the fund has received close to LKR700 million (about US$2 million).

[8] For example, this could involve reviewing and reprioritizing the list of Major Public Investment Projects for 2026–2028 published by the MoF, which includes ongoing and new projects above specified cost thresholds, as mandated under the PFM Act.

14. Central Bank of Sri Lanka (CBSL) announced measures to support affected borrowers. Banks have been instructed to consider (i) suspending repayment on credit facilities for 3-6 months, (ii) extending loan facilities by up to two years to affected parties, and (iii) suspending cheque return charges and late payment fees until end-January 2026. While non-performing loans may rise further due to income losses and collateral damage, banks appear well positioned to absorb the impact, with capital ratios well above regulatory requirements. Although insurance penetration is low, insurers may experience higher loss ratios and liquidity strains in the short term as claims are settled. CBSL stands ready to provide liquidity support to the financial system if necessary. Monetary policy will remain agile to balance the need to support the economy and maintain price stability. Foreign exchange sales will be limited to addressing disorderly market conditions. CBSL should continue refraining from monetary financing of the budget.

ACCESS, MODALITIES, DEBT SUSTAINABILITY, AND CAPACITY TO REPAY

A. Access Level and Modalities

15. The Sri Lankan authorities have requested a purchase under the RFI of 26 percent of quota or SDR150.5 million (about US$205 million, 0.2 percent of GDP). Cyclone Ditwah has worsened Sri Lanka's short-term outlook, giving rise to an urgent BOP need, which if unaddressed, would result in immediate and severe economic disruption (¶5).

16. Staff considers the RFI an appropriate instrument to support Sri Lanka in the very near term. The RFI will provide crucial budget support to finance disaster response, including restoration of essential services, macro-critical infrastructure repairs, and emergency assistance to those affected. The urgent BOP need triggered by Cyclone Ditwah is expected to be resolved within 12 months, without major changes to the authorities' policy plans. Authorities' track record of reform implementation, current policies under the EFF—particularly safeguards under the PFM Act—and the limited size of the RFI mitigate risks to fiscal and debt sustainability. Authorities remain committed to the policy objectives of the IMF-supported program, which has underpinned a robust economic recovery, price stability, revenue-based fiscal consolidation, and the rebuilding of international reserves.

17. The proposed RFI access is calibrated to the urgent BOP need, estimated at US$720 million based on information available to date. The RFI size represents about 28 percent of the total urgent BOP need caused by the cyclone (text table). Other development partners, including the World Bank and Asian Development Bank, are actively exploring options to provide rapid assistance.[9] The options include accelerating pre-committed financing and mobilizing new funding, including budget support. Other development partners have also been providing rescue

[9] On December 3, the Asian Development Bank announced US$3 million emergency grant for Sri Lanka for flood relief.

assistance, emergency relief, and financial support. With the proposed RFI and its catalytic effect, the decline in reserves is expected to be contained at US$115 million, thereby allowing the authorities to maintain the path of reserve accumulation and strengthening market confidence and external sustainability.

Sri Lanka: Estimated External Financing Gap and Financing due to Cyclone Ditwah
(In US$ million)

	Dec 2025-Nov 26
Balance of Payments Impact	**-720**
Higher trade deficit	-420
Lower services balance	-350
Higher remittances	50
Disaster relief commitments from Development Partners 1/	400
Change in gross reserves 2/	115
BOP Gap	-205
IMF (RFI)	205

Sources: News reports, development partners, and IMF staff estimates.

1/ Includes financing from multilateral and bilateral partners and NGOs. To estimate the financing gap, only additional financing expected to be available in the next 12 months following the cyclone is accounted.

2/ (- = accumulation)

B. Debt Sustainability

18. **As assessed in the Fourth Review under the EFF, Sri Lanka's debt sustainability is expected to be restored on forward looking basis following the completion of the recent comprehensive debt restructuring.** In the specific circumstances of this RFI request, the assessment of debt sustainability is based on the information presented in the Sovereign Risk and Debt Sustainability Analysis Annex in the IMF Country Report No. 25/162. This is guided by the fact that the increase in overall Fund credit commitments is small (26 percent of quota), the cyclone hit when the IMF-supported program was on track, and no significant changes to the medium-term macroeconomic framework and the medium-term debt outlook are expected from the disaster.

C. Capacity to Repay and Safeguards Assessment

19. **Sri Lanka's capacity to repay (CtR) is adequate but subject to significant risks.** This assessment is contingent on successful EFF program implementation. With high debt level and gross financing needs, debt sustainability risks remain high, highlighting the importance of strengthening institutions and building frameworks that will support lasting fiscal sustainability. CtR indicators have deteriorated temporarily compared to the Fourth Review. Under the RFI and EFF, Fund credit

outstanding would peak at 3.1 percent of GDP in 2027, unchanged from the Fourth Review, but are higher when expressed as a percent of goods and services exports (15.6 percent vs 14.1 percent), and gross reserves (25.6 percent vs 24.2 percent). Repurchases and charges would peak later in 2032, but are of similar magnitude to the Fourth Review, at 2.3 percent of goods and services exports, and 3.6 percent of gross reserves (Table 7).

20. Adequate safeguards are in place. CBSL has implemented most recommendations from the 2023 Safeguards Assessment. CBSL's balance sheet continues to strengthen with equity reaching 1 percent of GDP at end-2024, reducing risks highlighted in the Safeguards Assessment. CBSL continues to monitor its financial position and strengthen its balance sheet stress testing approach, including through an upcoming IMF TA. CBSL has also strengthened its internal audit and risk management practices. The RFI requires an update to the Safeguards Assessment, which will be completed in due course.

STAFF APPRAISAL

21. The authorities remain committed to the IMF-supported economic reform program, and welcome ongoing policy to complete the next review under the EFF. Sri Lanka's ambitious reform agenda is bearing fruit and program performance has been strong. Authorities are committed to the objectives of the IMF-supported reform program with appropriate re-design to incorporate the disaster and continue to engage with staff to complete the Fifth Review at the earliest possible juncture. Program objectives remain: (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.

22. Even while addressing the emergency, sustaining revenue-based fiscal consolidation and comprehensive structural reforms remains crucial to durably restoring macroeconomic stability. Debt sustainability risks are still high, and sustained improvement in public debt dynamics relies on continued fiscal discipline, leaving no room for policy slippage. Emergency spending, social support, and reconstruction efforts need to be efficient and well-targeted amid limited fiscal space. Authorities should design a careful strategy to preserve the path to debt sustainability while supporting Sri Lanka's recovery and reconstruction. Prioritizing spending is essential. Clear communication of reform efforts, objectives, and constraints will be vital to foster public support and sustain reform momentum amid challenging circumstances.

23. Given the nature of the emergency and the government's steadfast reform implementation, staff support the authorities' request for a purchase under the RFI of SDR150.5 million (26 percent of quota). The RFI is justified by the urgent and temporary BOP need stemming from the exogenous shock, which if unaddressed, would result in immediate and severe economic disruption. The RFI is also expected to catalyze additional external financing. In view of urgent fiscal financing needs and the delay in completing the Fifth Review under the EFF, staff also support providing the RFI in the form of budget support.

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

	2024		2025		2026		2027		2028	2029	2030
	Fourth Review	Act.	Fourth Review	Proj.	Fourth Review	Proj.	Fourth Review	Proj.	Proj.		
GDP and inflation (in percent)											
Real GDP growth	5.0	5.0	3.5	4.2	3.1	2.9	3.1	3.1	3.1	3.1	3.1
Inflation (average) 1/	1.2	1.2	3.3	-0.3	5.2	5.4	5.0	5.0	5.0	5.0	5.0
Inflation (end-of-period) 1/	-1.5	-1.5	8.9	2.8	5.2	5.7	5.0	5.2	5.0	5.0	5.0
GDP Deflator growth	3.8	3.8	3.6	2.2	5.3	5.4	5.1	5.0	5.0	5.0	5.0
Nominal GDP growth	9.0	9.0	7.1	6.4	8.5	8.5	8.4	8.2	8.3	8.3	8.2
Savings and investment (in percent of GDP)											
National savings 2/	25.2	28.7	21.8	25.5	22.2	23.2	22.9	23.3	22.8	22.6	22.6
Government	-3.2	-3.0	-2.0	-1.2	-0.8	-0.6	-0.1	0.1	0.2	0.3	0.5
Private	28.4	31.7	23.8	26.7	23.0	23.8	23.0	23.1	22.6	22.3	22.2
National Investment	27.0	27.0	21.8	24.9	22.1	23.6	22.5	23.2	23.0	22.8	22.7
Government	5.0	5.0	4.3	4.8	4.5	5.4	4.6	4.8	4.8	4.7	4.7
Private	21.9	21.9	17.4	20.1	17.6	18.2	17.9	18.3	18.2	18.1	17.9
Savings-Investment balance	-1.8	1.8	0.0	0.6	0.1	-0.4	0.4	0.1	-0.2	-0.2	0.0
Government	-8.2	-8.0	-6.3	-6.0	-5.3	-6.0	-4.6	-4.7	-4.6	-4.4	-4.2
Private	6.4	9.8	6.4	6.6	5.4	5.6	5.1	4.8	4.4	4.2	4.2
Public finances (in percent of GDP)											
Revenue and grants	13.7	13.7	15.0	16.0	15.2	15.2	15.3	15.2	15.3	15.3	15.3
Expenditure	19.3	19.1	20.5	20.3	19.7	20.0	19.2	19.0	19.0	18.9	18.8
Primary balance	2.2	2.2	2.3	3.4	2.3	2.0	2.3	2.3	2.3	2.3	2.3
Central government balance	-5.6	-5.4	-5.4	-4.3	-4.5	-4.8	-3.9	-3.7	-3.7	-3.6	-3.5
Central government gross financing needs	21.9	21.9	22.6	21.6	19.6	19.8	14.9	14.8	13.9	11.7	11.3
Central government debt	100.5	100.8	105.1	99.8	103.4	100.6	100.2	97.9	96.3	93.7	91.1
Public debt 3/	105.2	105.7	109.6	104.1	107.4	104.6	103.6	101.3	99.4	96.5	93.7
Money and credit (percent change, end of period)											
Reserve money	15.8	15.8	6.5	15.8	8.5	6.6	8.4	8.2	8.3	8.3	8.2
Broad money	8.6	8.6	6.5	12.0	8.5	12.5	8.4	8.2	8.3	8.3	8.2
Domestic credit	4.0	4.0	4.5	12.2	3.0	8.2	3.8	5.6	5.7	6.2	6.3
Credit to private sector	10.7	10.7	9.4	22.3	9.2	12.2	9.3	9.3	9.3	9.3	9.3
Credit to private sector (adjusted for inflation)	9.5	9.5	6.1	22.6	4.1	6.7	4.3	4.3	4.3	4.3	4.3
Credit to central government and public corporations	-1.4	-1.4	0.0	3.1	-3.3	3.9	-2.5	1.2	1.1	1.8	2.0
Balance of payments (in millions of U.S. dollars)											
Exports	12,772	12,772	12,880	13,231	13,490	13,382	14,194	14,181	15,049	15,880	16,841
Imports	-18,828	-18,841	-21,363	-21,281	-22,447	-22,664	-23,578	-23,291	-24,479	-25,634	-26,516
Current account balance	1,746	1,733	-48	604	-77	-386	-439	107	-199	-299	-17
Current account balance (in percent of GDP)	1.8	1.8	0.0	0.6	-0.1	-0.4	-0.4	0.1	-0.2	-0.2	0.0
Current account balance net of interest (in percent of GDP)	3.7	3.7	2.1	2.6	2.0	1.5	1.7	2.1	1.8	1.7	1.8
Export value growth (percent)	7.2	7.2	0.8	3.6	4.7	1.1	5.2	6.0	6.1	5.5	6.0
Import value growth (percent)	12.0	12.1	13.5	12.9	5.1	6.5	5.0	2.8	5.1	4.7	3.4
Gross official reserves (end of period)											
In millions of U.S. dollars	6,122	6,122	7,255	6,550	9,273	8,884	12,974	13,371	15,651	16,479	17,547
In months of prospective imports of goods & services	3.0	3.0	3.3	3.0	4.0	3.9	5.4	5.6	5.9	6.3	6.5
In percent of ARA composite metric	50.5	50.5	60.3	53.1	75.5	70.4	100.0	100.0	107.4	116.4	121.4
Gross official reserves accounting for PBOC Swap conditions (end of period) 4/											
In millions of U.S. dollars	4,686	4,716	7,255	5,144	9,273	8,884	12,974	13,371	15,651	16,479	17,547
In months of prospective imports of goods & services	2.3	2.3	3.3	2.3	4.0	3.9	5.4	5.6	5.9	6.3	6.5
In percent of ARA composite metric	38.6	38.9	60.3	41.7	75.5	70.4	100.0	100.0	107.4	116.4	121.4
External debt (public and private) 5/											
In billions of U.S. dollars	53.9	57.1	54.6	53.4	56.3	55.6	59.9	59.5	61.3	61.8	62.1
As a percent of GDP	54.4	57.7	55.1	50.6	58.6	52.3	59.4	54.8	53.6	51.1	48.7
Memorandum items:											
Nominal GDP (in billions of rupees)	29,899	29,899	32,036	31,819	34,754	34,512	37,664	37,351	40,444	43,792	47,397
Nominal GDP (in billions of U.S. dollars)	99.0	99.0	99.1	105.4	96.1	106.4	100.9	108.5	114.5	120.9	127.5
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/ Cash basis, excluding accrued but not paid interest.
3/ 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.
4/ PBOC swap ($1.4bn based on valuation in 2024) becomes available once the GIR without it is above 3 months of the previous year's imports of goods and services.
5/ Based on market value when available.

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

(In billions of rupees)

	2024	2025		2026		2027		2028	2029	2030
	Act.	Fourth Review	Proj.	Fourth Review	Proj.	Fourth Review	Proj.	Proj.		
Total revenue and grants	4,091	4,819	5,076	5,296	5,247	5,764	5,696	6,180	6,691	7,253
Total revenue	4,031	4,789	5,047	5,263	5,215	5,728	5,661	6,142	6,649	7,209
Tax revenue	3,705	4,439	4,703	4,922	4,859	5,364	5,316	5,788	6,282	6,823
Income taxes	1,026	1,100	1,085	1,177	1,196	1,293	1,293	1,401	1,523	1,651
VAT	1,310	1,524	1,691	1,740	1,859	1,883	2,024	2,198	2,388	2,608
Excise taxes	597	828	920	915	765	983	837	905	985	1,069
Other taxes on goods and services	294	315	351	334	381	361	410	441	478	513
Taxes on international trade	477	672	655	756	659	787	696	722	777	841
Property taxes	0	0	0	0	0	56	56	121	131	142
Nontax revenue	326	350	343	342	356	365	345	354	367	386
Grants	60	30	30	33	32	36	35	38	41	44
Total expenditure and net lending 1/	5,713	6,555	6,449	6,850	6,896	7,220	7,096	7,678	8,272	8,896
Primary spending	3,440	4,082	3,995	4,490	4,557	4,881	4,820	5,241	5,675	6,154
Current expenditure 2/	4,922	5,425	5,416	5,551	5,410	5,751	5,613	6,051	6,516	6,981
Wages and salaries	1,047	1,230	1,230	1,321	1,323	1,446	1,434	1,553	1,682	1,820
Goods and services	370	416	472	451	401	489	434	470	509	551
Subsidies and transfers	1,233	1,306	1,260	1,420	1,347	1,476	1,468	1,591	1,728	1,868
of which: social safety net transfers	186	237	233	245	240	257	255	276	299	323
Other current transfers 1/ 2/	130									
Interest payments	2,272	2,473	2,454	2,360	2,339	2,339	2,276	2,437	2,598	2,742
Capital expenditure and net lending	777	1,130	1,033	1,298	1,486	1,469	1,483	1,627	1,756	1,915
Capital expenditure	777	1,115	1,048	1,282	1,497	1,452	1,495	1,640	1,770	1,930
Net lending	0	15	-15	17	-11	18	-12	-13	-14	-15
Overall balance 1/ 3/	-1,752	-1,736	-1,372	-1,553	-1,649	-1,456	-1,400	-1,498	-1,582	-1,642
Overall balance (program definition) 1/3/	-1,622	-1,736	-1,372	-1,553	-1,649	-1,456	-1,400	-1,498	-1,582	-1,642
Financing	1,752	1,736	1,372	1,553	1,649	1,456	1,400	1,498	1,582	1,642
Privatization	0	0	0	0	0	0	0	0	0	0
Net external financing	285	460	424	623	557	956	876	432	397	386
Net domestic financing	1,467	1,277	949	930	1,093	500	524	1,066	1,185	1,256
Memorandum items:										
Central government primary balance	520	737	1,082	806	690	883	876	938	1,016	1,100
Central government primary balance (program definition) 1/3/	650	737	1,082	806	690	883	876	938	1,016	1,100
Central government debt 1/	30,150	33,659	31,747	35,953	34,717	37,750	36,550	38,956	41,029	43,198
Nominal GDP (in billion of rupees)	29,899	32,036	31,819	34,754	34,512	37,664	37,351	40,444	43,792	47,397
Stock of Expenditure Arrears (in billion of rupees)	95	56	7	28	0	0	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
	Fourth Review	Act.	Fourth Review	Proj.	Fourth Review	Proj.	Fourth Review	Proj.	Proj.		
Total revenue and grants	13.7	13.7	15.0	16.0	15.2	15.2	15.3	15.2	15.3	15.3	15.3
Total revenue	13.5	13.5	14.9	15.9	15.1	15.1	15.2	15.2	15.2	15.2	15.2
Tax revenue	12.4	12.4	13.9	14.8	14.2	14.1	14.2	14.2	14.3	14.3	14.4
Income taxes	3.4	3.4	3.4	3.4	3.4	3.5	3.4	3.5	3.5	3.5	3.5
VAT	4.4	4.4	4.8	5.3	5.0	5.4	5.0	5.4	5.4	5.5	5.5
Excise taxes	2.0	2.0	2.6	2.9	2.6	2.2	2.6	2.2	2.2	2.3	2.3
Other taxes on goods and services	1.0	1.0	1.0	1.1	1.0	1.1	1.0	1.1	1.1	1.1	1.1
Taxes on international trade	1.6	1.6	2.1	2.1	2.2	1.9	2.1	1.9	1.8	1.8	1.8
Property taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.3	0.3	0.3
Nontax revenue	1.1	1.1	1.1	1.1	1.0	1.0	1.0	0.9	0.9	0.8	0.8
Grants	0.2	0.2	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	19.1	20.5	20.3	19.7	20.0	19.2	19.0	19.0	18.9	18.8
Primary spending	11.5	11.5	12.7	12.6	12.9	13.2	13.0	12.9	13.0	13.0	13.0
Current expenditure 2/	19.7	19.5	16.9	17.0	16.0	15.7	15.3	15.0	15.0	14.9	14.7
Wages and salaries	3.5	3.5	3.8	3.9	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Goods and services	1.2	1.2	1.3	1.5	1.3	1.2	1.3	1.2	1.2	1.2	1.2
Subsidies and transfers	4.1	4.1	4.1	4.0	4.1	3.9	3.9	3.9	3.9	3.9	3.9
of which: social safety net transfers	0.6	0.6	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	7.6	7.7	7.7	6.8	6.8	6.2	6.1	6.0	5.9	5.8
Capital expenditure and net lending	2.6	2.6	3.5	3.2	3.7	4.3	3.9	4.0	4.0	4.0	4.0
Capital expenditure	2.6	2.6	3.5	3.3	3.7	4.3	3.9	4.0	4.1	4.0	4.1
Net lending	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	-5.9	-5.4	-4.3	-4.5	-4.8	-3.9	-3.7	-3.7	-3.6	-3.5
Overall balance (program definition) 1/3/	-5.6	-5.4	-5.4	-4.3	-4.5	-4.8	-3.9	-3.7	-3.7	-3.6	-3.5
Financing	6.1	5.9	5.4	4.3	4.5	4.8	3.9	3.7	3.7	3.6	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	1.0	1.0	1.4	1.3	1.8	1.6	2.5	2.3	1.1	0.9	0.8
Net domestic financing	5.1	4.9	4.0	3.0	2.7	3.2	1.3	1.4	2.6	2.7	2.6
Memorandum items:											
Central government primary balance	1.7	1.7	2.3	3.4	2.3	2.0	2.3	2.3	2.3	2.3	2.3
Central government primary balance (program definition) 1/3/	2.2	2.2	2.3	3.4	2.3	2.0	2.3	2.3	2.3	2.3	2.3
Central government debt 1/	100.5	100.8	105.1	99.8	103.4	100.6	100.2	97.9	96.3	93.7	91.1
Nominal GDP (in billion of rupees)	29,899	29,899	32,036	31,819	34,754	34,512	37,664	37,351	40,444	43,792	47,397
Stock of Expenditure Arrears	0.3	0.3	0.2	0.0	0.1	0.0	0	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, 2024-27 1/

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

	2024	2025	2026	2027
	Act.	Proj.		
Central Bank of Sri Lanka				
Net foreign assets	222	441	1,207	2,632
Net domestic assets	1,317	1,342	693	-576
Net claims on central government	1,774	1,254	734	264
o.w. Holdings of government securities for monetary operations 2/	487	467	447	427
Other items, net	-450	95	-35	-834
Reserve Money	1,539	1,783	1,900	2,056
Currency in circulation	1,359	1,100	1,102	1,162
Commercial banks' deposits	181	683	798	894
Monetary survey				
Net foreign assets	573	904	1,716	3,155
Monetary authorities	222	441	1,207	2,632
Deposit money banks	351	463	509	523
Net domestic assets	13,749	15,142	16,334	16,380
Net claims on central government	8,270	8,541	8,896	9,010
Credit to corporations	8,813	10,630	11,842	12,879
Public corporations	657	659	659	659
Private corporations	8,156	9,971	11,183	12,221
Other items (net)	-3,334	-4,030	-4,405	-5,510
Broad money	14,322	16,046	18,050	19,535
Memorandum Items				
Gross international reserves (in millions of U.S. dollars)	6,122	6,550	8,884	13,371
Net international reserves (in millions of U.S. dollars)	1,493	2,159	4,290	8,620
Net Foreign Assets of commercial banks (in millions of U.S. dollars)	1,199	1,499	1,499	1,499
Reserve money (in percent of GDP)	5.1	5.6	5.5	5.5
Private credit (in percent of GDP)	27.3	31.3	32.4	32.7
Money multiplier	9.3	9.0	9.5	9.5
Broad money velocity	2.1	2.0	1.9	1.9
	(Annual percentage change)			
Nominal GDP	9.0	6.4	8.5	8.2
Broad money	8.6	12.0	12.5	8.2
Reserve money	15.8	15.8	6.6	8.2
Credit to private sector	10.7	22.3	12.2	9.3
Credit to private sector (adjusted for inflation)	9.5	22.6	6.7	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
	Act.	Fourth Review	Proj.	Fourth Review	Proj.	Fourth Review	Proj.		Proj.	
Current account	**1,733**	**-48**	**604**	**-77**	**-386**	**-439**	**107**	**-199**	**-299**	**-17**
Balance on goods	-6,069	-8,483	-8,050	-8,957	-9,283	-9,383	-9,109	-9,431	-9,754	-9,675
Credit (exports)	12,772	12,880	13,231	13,490	13,382	14,194	14,181	15,049	15,880	16,841
Debit (imports)	-18,841	-21,363	-21,281	-22,447	-22,664	-23,578	-23,291	-24,479	-25,634	-26,516
Non-oil imports	-14,487	-16,483	-16,895	-17,672	-18,142	-18,631	-18,758	-19,735	-20,655	-21,772
Oil imports	-4,354	-4,880	-4,386	-4,775	-4,523	-4,947	-4,533	-4,744	-4,979	-4,744
Balance on services	3,435	3,949	3,485	4,163	3,415	4,280	3,773	3,872	3,967	4,040
Credit (exports)	6,910	7,489	7,035	7,883	7,145	8,198	7,702	8,014	8,339	8,684
Debit (imports)	-3,475	-3,539	-3,549	-3,720	-3,730	-3,918	-3,928	-4,142	-4,373	-4,644
Primary income, net	-2,072	-2,461	-2,461	-2,351	-2,351	-2,527	-2,527	-2,667	-2,673	-2,679
Secondary income, net	6,439	6,947	7,631	7,069	7,833	7,191	7,970	8,026	8,161	8,297
Of which: workers' remittances (net)	6,429	6,937	7,621	7,059	7,823	7,181	7,960	8,016	8,151	8,287
Capital account (+ surplus / - deficit)	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**
Balance from current account and capital account	**1,745**	**-36**	**616**	**-65**	**-374**	**-427**	**119**	**-187**	**-287**	**-5**
Financial account (+ net lending / - net borrowing) 1/	**247**	**-371**	**851**	**-1,602**	**-1,875**	**-3,976**	**-4,212**	**-2,687**	**-1,461**	**-1,526**
Direct investments	-733	-800	-633	-900	-900	-1,100	-1,100	-1,300	-1,400	-1,500
Portfolio investments	579	276	276	-20	-470	-1,520	-1,970	-726	890	973
Equity and investment Fund shares	15	0	0	0	0	0	0	0	0	0
Debt instruments	564	276	276	-20	-470	-1,520	-1,970	-726	890	973
Of which: deposit taking corporations	0	0	0	0	0	0	0	0	0	0
Of which: general government	564	276	276	-20	-470	-1,520	-1,970	-726	890	973
T-bills, T-bonds, and SLDBs	444	-13	-13	-20	-470	-20	-470	-20	-20	0
Sovereign bonds	120	289	289	0	0	-1,500	-1,500	-706	910	973
Other investments 2/	401	153	1,208	-682	-505	-1,356	-1,142	-661	-951	-999
Of which:										
Currency and deposits	1,032	900	900	630	630	0	0	0	0	0
Central bank	900	900	900	630	630	0	0	0	0	0
Deposit taking corporations	132	0	0	0	0	0	0	0	0	0
Loans 2/	-371	-858	197	-1,230	-1,053	-1,258	-1,044	-676	-966	-1,013
Deposit taking corporations	89	0	300	0	0	0	0	0	0	0
General government	-818	-858	-153	-1,080	-1,053	-1,108	-1,044	-856	-1,126	-1,173
Other sectors	358	0	50	-150	0	-150	0	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/	**1,498**	**336**	**-234**	**1,537**	**1,501**	**3,549**	**4,331**	**2,500**	**1,174**	**1,521**
Financing (- = inflow)	**1,835**	**1,344**	**642**	**2,216**	**2,537**	**3,889**	**4,678**	**2,499**	**1,173**	**1,518**
Change in reserve assets	1,624	1,133	428	2,017	2,334	3,701	4,487	2,281	828	1,068
Use of Fund credit, net	211	211	214	199	203	187	191	219	346	450
Purchases/Disbursements	0	0	0	0	0	0	0	0	0	0
Repurchases/repayments	211	211	214	199	203	187	191	219	346	450
Gross international reserves	1,730	1,133	428	2,017	2,334	3,701	4,487	2,281	828	1,068
Financing gap (- = inflow) 4/	**-337**	**-1,009**	**-877**	**-679**	**-1,036**	**-340**	**-347**	**0**	**0**	**0**
IMF	-337	-1,009	-877	-679	-1,036	-340	-347	0	0	0
Other IFIs	0	0	0	0	0	0	0	0	0	0
World Bank	0	0	0	0	0	0	0	0	0	0
ADB	0	0	0	0	0	0	0	0	0	0
JICA	0	0	0	0	0	0	0	0	0	0
Debt moratorium: external arrears accumulation ("-" increase)										
Unidentified financing	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Current account (in percent of GDP)	1.8	0.0	0.6	-0.1	-0.4	-0.4	0.1	-0.2	-0.2	0.0
Gross official reserves	6,122	7,255	6,550	9,273	8,884	12,974	13,371	15,651	16,479	17,547
In months of prospective imports of goods and services	3.0	3.3	3.0	4.0	3.9	5.4	5.6	5.9	6.3	6.5
In percent of ARA composite metric	50.5	60.3	53.1	75.5	70.4	100.0	100.0	107.4	116.4	121.4
Gross official reserves accounting for PBOC Swap conditions 3/	4,716	7,255	5,144	9,273	8,884	12,974	13,371	15,651	16,479	17,547
In months of prospective imports of goods and services	2.3	3.3	2.3	4.0	3.9	5.4	5.6	5.9	6.3	6.5
In percent of ARA composite metric	38.9	60.3	41.7	75.5	70.4	100.0	100.0	107.4	116.4	121.4
Net international reserves	1,493	2,729	2,159	4,896	4,290	8,444	8,620	11,120	12,295	13,816
In percent of ARA composite metric	12.3	22.7	17.5	39.9	34.0	65.1	64.5	80.3	86.8	95.6

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/ PBOC swap ($1.4bn based on valuation in 2024) becomes available once the GIR without it is above 3 months of the previous year's imports of goods and services

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
	Act.	Fourth Review	Proj.	Fourth Review	Proj.	Fourth Review	Proj.		Proj.	
Current account	**1.8**	**0.0**	**0.6**	**-0.1**	**-0.4**	**-0.4**	**0.1**	**-0.2**	**-0.2**	**0.0**
Balance on goods	-6.1	-8.6	-7.6	-9.3	-8.7	-9.3	-8.4	-8.2	-8.1	-7.6
Credit (exports)	12.9	13.0	12.5	14.0	12.6	14.1	13.1	13.1	13.1	13.2
Debit (imports)	-19.0	-21.5	-20.2	-23.4	-21.3	-23.4	-21.5	-21.4	-21.2	-20.8
Non-oil imports	-14.6	-16.6	-16.0	-18.4	-17.1	-18.5	-17.3	-17.2	-17.1	-17.1
Oil imports	-4.4	-4.9	-4.2	-5.0	-4.3	-4.9	-4.2	-4.1	-4.1	-3.7
Balance on services	3.5	4.0	3.3	4.3	3.2	4.2	3.5	3.4	3.3	3.2
Credit (exports)	7.0	7.6	6.7	8.2	6.7	8.1	7.1	7.0	6.9	6.8
Debit (imports)	-3.5	-3.6	-3.4	-3.9	-3.5	-3.9	-3.6	-3.6	-3.6	-3.6
Primary income, net	-2.1	-2.5	-2.3	-2.4	-2.2	-2.5	-2.3	-2.3	-2.2	-2.1
Secondary income, net	6.5	7.0	7.2	7.4	7.4	7.1	7.3	7.0	6.8	6.5
Of which: workers' remittances (net)	6.5	7.0	7.2	7.3	7.4	7.1	7.3	7.0	6.7	6.5
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**	**0.0**	**0.6**	**-0.1**	**-0.4**	**-0.4**	**0.1**	**-0.2**	**-0.2**	**0.0**
Financial account (+ net lending / - net borrowing) 1/	**0.2**	**-0.4**	**0.8**	**-1.7**	**-1.8**	**-3.9**	**-3.9**	**-2.3**	**-1.2**	**-1.2**
Direct investments	-0.7	-0.8	-0.6	-0.9	-0.8	-1.1	-1.0	-1.1	-1.2	-1.2
Portfolio investments	0.6	0.3	0.3	0.0	-0.4	-1.5	-1.8	-0.6	0.7	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	-0.4	-1.5	-1.8	-0.6	0.7	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	-0.4	-1.5	-1.8	-0.6	0.7	0.8
T-bills, T-bonds, and SLDBs	0.4	0.0	0.0	0.0	-0.4	0.0	-0.4	0.0	0.0	0.0
Sovereign bonds	0.1	0.3	0.3	0.0	0.0	-1.5	-1.4	-0.6	0.8	0.8
Other investments 2/	0.4	0.2	1.1	-0.7	-0.5	-1.3	-1.1	-0.6	-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	0.9	0.9	0.7	0.6	0.0	0.0	0.0	0.0	0.0
Central bank	0.9	0.9	0.9	0.7	0.6	0.0	0.0	0.0	0.0	0.0
Deposit taking corporations	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans 2/	-0.4	-0.9	0.2	-1.3	-1.0	-1.2	-1.0	-0.6	-0.8	-0.8
Deposit taking corporations	0.1	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	-0.8	-0.9	-0.1	-1.1	-1.0	-1.1	-1.0	-0.7	-0.9	-0.9
Disbursements	-1.5	-2.1	-1.3	-2.5	-2.2	-2.3	-2.0	-1.7	-1.8	-1.7
Amortizations	0.7	1.3	1.2	1.4	1.2	1.2	1.1	1.0	0.8	0.8
Other sectors	0.4	0.0	0.0	-0.2	0.0	-0.1	0.0	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/	**1.5**	**0.3**	**-0.2**	**1.6**	**1.4**	**3.5**	**4.0**	**2.2**	**1.0**	**1.2**
Financing (- = inflow)	**1.9**	**1.4**	**0.6**	**2.3**	**2.4**	**3.9**	**4.3**	**2.2**	**1.0**	**1.2**
Change in reserve assets	1.6	1.1	0.4	2.1	2.2	3.7	4.1	2.0	0.7	0.8
Use of Fund credit, net	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.4
Financing gap (- = inflow) 4/	**-0.3**	**-1.0**	**-0.8**	**-0.7**	**-1.0**	**-0.3**	**-0.3**	**0.0**	**0.0**	**0.0**
IMF	**-0.3**	**-1.0**	**-0.8**	**-0.7**	**-1.0**	**-0.3**	**-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	0.0	0.6	-0.1	-0.4	-0.4	0.1	-0.2	-0.2	0.0
Gross official reserves	6,122	7,255	6,550	9,273	8,884	12,974	13,371	15,651	16,479	17,547
In months of prospective imports of goods and services	3.0	3.3	3.0	4.0	3.9	5.4	5.6	5.9	6.3	6.5
In percent of ARA composite metric	50.5	60.3	53.1	75.5	70.4	100.0	100.0	107.4	116.4	121.4
Gross official reserves accounting for PBOC Swap conditions 3/	4,716	7,255	5,144	9,273	8,884	12,974	13,371	15,651	16,479	17,547
In months of prospective imports of goods and services	2.3	3.3	2.3	4.0	3.9	5.4	5.6	5.9	6.3	6.5
In percent of ARA composite metric	38.9	60.3	41.7	75.5	70.4	100.0	100.0	107.4	116.4	121.4
Net international reserves	1,493	2,729	2,159	4,896	4,290	8,444	8,620	11,120	12,295	13,816
In percent of ARA composite metric	12.3	22.7	17.5	39.9	34.0	65.1	64.5	80.3	86.8	95.6

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/ PBOC swap ($1.4bn based on valuation in 2024) becomes available once the GIR without it is above 3 months of the previous year's imports of goods and services

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: Gross External Financing, 2024-30
(In millions of U.S. dollars, unless otherwise indicated)

	2024	2025	2026	2027	2028	2029	2030
	Act.			Proj.			
Current account	1,733	604	-386	107	-199	-299	-17
Balance on goods	-6,069	-8,050	-9,283	-9,109	-9,431	-9,754	-9,675
Credit (exports)	12,772	13,231	13,382	14,181	15,049	15,880	16,841
Debit (imports)	-18,841	-21,281	-22,664	-23,291	-24,479	-25,634	-26,516
Balance on services	3,435	3,485	3,415	3,773	3,872	3,967	4,040
Credit (exports)	6,910	7,035	7,145	7,702	8,014	8,339	8,684
Debit (imports)	-3,475	-3,549	-3,730	-3,928	-4,142	-4,373	-4,644
Primary and secondary income, net	4,367	5,169	5,482	5,443	5,359	5,488	5,618
Amortization	-2279	-3557	-2930	-2162	-2942	-3083	-3256
General government	-810	-1,543	-1,298	-1,171	-1,923	-1,936	-2,004
Sovereign bonds	-120	-289	0	0	-794	-910	-973
Syndicated loans	0	0	0	0	0	0	0
Bilateral and multilateral	-690	-1,254	-1,298	-1,171	-1,129	-1,026	-1,031
Central bank	-1111	-1114	-833	-191	-219	-347	-452
IMF repurchases/repayments	-211	-214	-203	-191	-219	-347	-452
Other central bank liabilities, net	-900	-900	-630	0	0	0	0
Private sector loans	-358	-900	-800	-800	-800	-800	-800
Debt service on treated CG and guaranteed debt on pre-restructuring terms	-4,038	-4,366	-2,942	-2,974	-2,513	-2,493	-2,314
Principal	-3,073	-3,529	-2,280	-2,468	-2,131	-2,232	-2,190
Interest	-965	-837	-662	-506	-382	-261	-124
Debt service on treated CG and guaranteed debt debt post-restructuring	654	1,134	943	928	1,693	1,878	1,870
Principal	153	377	377	377	968	1,157	1,186
Interest	501	757	566	551	725	721	684
Gross external financing needs	-3,930	-6,185	-5,315	-4,101	-3,961	-3,996	-3,717
Sources of financing	3,930	6,185	5,315	4,101	3,961	3,996	3,717
Borrowing	1,175	1,994	3,517	5631	5138	3809	4394
General government	406	910	1,723	3621	3221	1772	1804
T-bills, Tbonds, and SLDBs, net	-444	13	470	470	20	20	0
Sovereign bonds	0	0	0	1500	1500	0	0
Syndicated loans	0	0	0	0	0	0	0
Bilateral and multilateral	850	897	1,253	1651	1701	1752	1804
Official capital transfers	0	0	0	0	0	0	0
Other capital inflows, net	769	1,084	1,794	2,010	1,918	2,038	2,590
Deposit-taking corporations, excl. central bank, net	-233	-323	-15	-15	-15	-15	-15
FDI inflows, net	733	633	900	1,100	1,300	1,400	1,500
Private sector loans	0	800	800	1,000	880	880	880
Other capital inflows, net	269	-26	108	-76	-248	-228	224
Change in reserve assets	-1,624	-428	-2,334	-4,487	-2,281	-828	-1,521
External financing gap	4,380	4,619	4,132	2,957	1,104	1,015	843
Exceptional Financing	4,380	4,619	4,132	2,957	1,104	1,015	843
IMF EFF	337	877	1,036	347	0	0	0
IFI budget support	658	510	1,098	564	284	400	400
Debt moratorium: external arrears accumulation	644	0	0	0	0	0	0
Debt relief	2,740	3,232	1,999	2,046	820	615	443

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

Table 6. Sri Lanka: Financial Soundness Indicators—All Banks, 2022-25Q2

	2022				2023				2024				2025	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
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	20.3	19.4	19.4
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	16.7	16.0	16.1
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	9.3	9.1	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	12.7	12.5	11.9
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	12.7	12.0
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	54.1	54.5
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	13.3	17.4	18.7	18.5
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	1.6	1.7	1.7
Net Interest income to gross income	59.0	66.7	72.5	72.8	81.9	80.2	77.0	77.5	82.0	80.4	81.4	92.8	77.9	79.1
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	54.3	53.9	53.9
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	76.9	67.5	68.0
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	4.4	4.6	4.5
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	38.1	38.0
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	81.1	80.6	80.7
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	6.2	6.2

Source: CBSL.

Table 7. Sri Lanka: Capacity to Repay 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	245.0	256.4	267.7	283.5	366.6	428.1	441.0	470.5	415.4	298.2	268.0	156.0
In millions of U.S. dollars	330.5	349.5	365.6	387.2	500.7	584.7	602.3	642.5	567.3	407.3	366.1	213.1
In percent of exports of goods and services	1.6	1.7	1.7	1.7	2.1	2.3	2.3	2.3	2.0	1.4	1.2	0.6
In percent of government fiscal revenue	2.0	2.2	2.2	2.2	2.7	3.0	2.9	3.0	2.5	1.7	1.4	0.8
In percent of quota	42.3	44.3	46.3	49.0	63.3	74.0	76.2	81.3	71.8	51.5	46.3	27.0
In percent of gross official reserves	5.0	3.9	2.7	2.5	3.0	3.4	3.4	3.6	3.1	2.1	1.9	1.1
Total interest/charges	86.8	99.6	119.3	114.8	106.0	95.1	80.5	67.8	55.0	43.6	34.6	28.5
GRA Basic Charges	54.1	66.5	79.7	77.7	72.1	64.9	54.7	42.2	29.4	18.1	9.0	2.9
GRA Surcharges	0.0	5.0	12.8	11.5	8.3	4.6	0.2	0.0	0.0	0.0	0.0	0.0
Level-based Surcharges	*0.0*	*5.0*	*12.8*	*11.5*	*8.3*	*3.9*	*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*	*0.7*	*0.1*	*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	28.9	25.6	25.6	25.6	25.6	25.6	25.6	25.6	25.6	25.6	25.6	25.6
Fund credit outstanding 2/												
In millions of SDR	1,771.9	2,385.2	2,499.3	2,339.1	2,086.1	1,756.8	1,397.0	994.8	635.0	381.0	148.2	21.2
In millions of U.S. dollars	2,410	3,254	3,418	3,199	2,852.5	2,402.3	1,910.3	1,360.3	868.3	521.0	202.6	28.9
In percent of exports of goods and services	11.9	15.9	15.6	13.9	11.8	9.5	7.3	4.9	3.0	1.7	0.6	0.1
In percent of government fiscal revenue	14.4	20.2	20.8	18.4	15.5	12.4	9.3	6.3	3.8	2.1	0.8	0.1
In percent of quota	306.1	412.1	431.8	404.1	360.4	303.5	241.4	171.9	109.7	65.8	25.6	3.7
In percent of GDP	2.3	3.1	3.1	2.8	2.4	1.9	1.4	1.0	0.6	0.3	0.1	0.0
In percent of gross official reserves	36.8	36.6	25.6	20.4	17.3	14.1	10.9	7.6	4.7	2.7	1.0	0.1
Memorandum items:												
Exports of goods and services (in millions of U.S. dollars)	20,265	20,527	21,883	23,063	24,101	25,185	26,319	27,503	28,741	30,034	31,386	32,798
Central government fiscal revenue (billion of Rupees)	5,047	5,215	5,661	6,142	6,664	7,230	7,844	8,510	9,233	10,018	10,869	11,792
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/	787	790	791	791	791	791	791	791	791	791	791	791
Gross official reserves (in millions of U.S. dollars) 2/	6,550	8,884	13,371	15,651	16,479	16,979	17,479	17,979	18,479	18,979	19,479	19,979

Source: IMF staff estimates.

1/ Projections as of December 4, 2025.

2/ As of the end of the year.

Annex I. Disaster Relief Measures for 2025 and 2026

Relief measure	Size (in LKR)
Cleaning and reallocation	25,000 per housing unit (one-time)
Essential kitchen items	50,000 per housing unit (one-time)
Loss of livelihoods	25,000 (≤2 members); 50,000 (>2 members); monthly; 3 months
Monthly rental allowance	25,000 per month (max. 6 months)
Damaged paddy, grains, maize, field crops	150,000 per hectare (one-time)
Damaged vegetable cultivations	200,000 per hectare (one-time)
Assistance for registered livestock farm owners	200,000 per farm owner (one-time)
Support for small and micro enterprises	200,000 per unit (one-time)
Damaged fishing boats	Up to 400,000 per boat (one-time)
Children books and clothing	15,000 per school child (one-time)
Damaged business buildings	Up to 5,000,000 per unit (one-time)
Construction of completely damaged houses	5,000,000 per unit (one-time)
House repair	Up to 2,500,000 per unit (one-time)
Death or disability	1,000,000 per person (one-time)

Source: Ministry of Finance.

Appendix I. Letter of Intent

December 10, 2025
Colombo

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

Dear Ms. Georgieva:

Sri Lanka is currently confronted with a severe natural disaster resulting from Cyclone Ditwah. As of December 9, the death toll has risen to over 600 with hundreds of people still missing and nearly two million people (over 9 percent of the population) affected. These adverse weather conditions have triggered widespread landslides, flooding, and extensive damage to critical infrastructure across the country. The ramifications have been felt throughout the nation. Several districts are experiencing particularly severe conditions, leading to the tragic loss of lives, displacement of communities, destruction of livelihoods, and significant disruptions to connectivity due to damaged infrastructure such as roads, bridges, railway networks, hospitals, power lines, water supply systems, and other essential public facilities. In addition, vast areas of agricultural land and numerous private properties have been devastated.

In response to the disaster, the government swiftly announced urgent disaster relief amounting to LKR 72 billion (0.2 percent of GDP). Preliminary estimates indicate that recovery and reconstruction needs could reach LKR500 billion. These estimates will be updated as we work with development partners to complete a comprehensive impact assessment and identify priority capital expenditures.

We recognize the importance of staying prudent to preserve our fiscal and debt sustainability. Accordingly, we will meet the recovery and reconstruction needs primarily through spending reprioritization and reallocation and use of contingency allocations within the budget, before considering a Supplementary Budget in 2026. All emergency spending—and any 2026 Supplementary Budget, if required—will be deployed in full compliance with PFM Act and aligned with transparency and accountability standards.

In line with our commitment under the Extended Fund Facility (EFF)-supported reform program, the Central Bank will continue refraining from monetary financing of the deficit. We welcome an update to the Safeguards Assessment as early as possible. We will not impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions, or multiple currency practices, or enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement.

Against this background, the Government of Sri Lanka is requesting financial assistance from the IMF under the Rapid Financing Instrument (RFI) for 26 percent of quota or SDR150.5 million (about US$205 million). This IMF assistance will help meet the urgent fiscal and balance of payments needs to preserve macroeconomic stability and safeguard hard-won gains we have achieved under the EFF-supported reform program.

We remain committed to the EFF-supported reform program and continue to engage with IMF staff to complete the Fifth Review at the earliest possible time. Our program objectives remain: (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. We are committed to maintaining macroeconomic stability and will avoid any measures or policies that would exacerbate balance of payments difficulties. We will consult with the Fund ahead of any revisions regarding the policies outlined in this Letter of Intent (LOI), in accordance with the Fund's policies on such consultations.

We authorize the IMF to publish this LOI and the Staff Report on the request for a purchase under the RFI.

Sincerely yours,

/s/

Anura Kumara Dissanayake
Minister of Finance, Planning,
and Economic Development

/s/

Nandalal Weerasinghe
Governor
Central Bank of Sri Lanka

Statement by Urjit Patel, Executive Director for Sri Lanka
and PKG Harischandra, Alternate Executive Director
December 19, 2025

On behalf of the Sri Lankan authorities, we express our sincere appreciation to the Fund's Management and the country mission team, led by Mr. Evan Papageorgiou, for their swift and constructive engagement during this critical period following Cyclone Ditwah's nationwide devastation. The dedication and responsiveness of Fund staff have enabled Sri Lanka to submit a timely request for emergency financial assistance under the Rapid Financing Instrument (RFI). The authorities broadly concur with the assessment presented in the accompanying Staff Report and remain deeply grateful for the Fund's continued engagement, as well as the Executive Board's unwavering support to Sri Lanka.

Our authorities also extend heartfelt gratitude to all international and bilateral partners for their solidarity and prompt assistance in the wake of Cyclone Ditwah. This support has been instrumental in stabilizing the humanitarian situation, initiating early recovery efforts, and laying the foundation for long-term resilience and reconstruction.

(1). Devastation Caused by *Cyclone Ditwah*

In late November 2025, Sri Lanka was struck by *Cyclone Ditwah*, which also caused destruction in several neighboring countries across South and Southeast Asia. This powerful and unexpected tropical storm intensified rapidly and remained over the island for nearly 72 hours. It unleashed torrential rainfall, with some areas receiving more than 400 millimeters in a single day, equivalent to about 15–20% of the annual rainfall. This deluge overwhelmed river basins and drainage systems, triggering more than 1,200 landslides and causing widespread flooding. The human toll was severe, with over 800 fatalities (including those missing), approximately 2 million people directly affected (around 10% of the population) and more than 100,000 people displaced. Nearly 1.1 million hectares of land were inundated, representing about 20% of the country's total land area. Housing damage was extensive, with over 6,000 homes completely destroyed and another 95,000 partially damaged, according to the latest reports.

The agricultural sector sustained extensive damage, including the destruction of over 100,000 hectares of paddy fields (about 20% of paddy cultivation) and significant losses in vegetable, and maize and other crops. Infrastructure damage was severe, with key transport routes, bridges, and rail lines rendered impassable. Livelihoods have been deeply affected, particularly in agriculture, poultry, fisheries, and the SME sector. Extensive crop destruction, loss of livestock, and damage to fishing infrastructure have disrupted income sources for rural communities, while small and medium enterprises face operational challenges due to damaged facilities and broken supply chains. These setbacks underscore the urgent need for targeted relief and recovery measures to restore productive capacity, safeguard employment, and support vulnerable households.

In response, the authorities announced urgent disaster relief amounting to LKR 72 billion (approximately 0.2 percent of GDP), financed through a reallocation of 2025 budgetary expenditures. Meeting these substantial needs will require the introduction of a supplementary budget for 2026. To mitigate fiscal pressures, the authorities plan to leverage the fiscal overperformance recorded in 2025, thereby minimizing any adverse impact on the medium-term fiscal framework and preserving public debt sustainability.

(2). Macroeconomic Impact of the Cyclone

A. Growth and Inflation

The full extent of the economic impact remains uncertain and will require significant time to assess. The authorities, in close coordination with international organizations, are undertaking a comprehensive evaluation of the socio-economic damage. While cyclone-related disruptions and infrastructure losses have likely weighed on near-term economic activity, the reconstruction efforts expected to commence shortly should help mitigate these effects. Provided that adequate financing is secured, the rebuilding process is projected to accelerate capital expenditure and support the recovery of growth. The authorities also recognize the need to allocate additional resources over the medium term to strengthen crisis preparedness and mitigation capacity. They remain firmly committed to maintaining macroeconomic stability and to addressing any emerging risks to growth, inflation, debt sustainability, and the external position in line with program objectives and the broader reform agenda.

Prior to the cyclone, Sri Lanka's economy was on track for a robust recovery, expected to return to its pre-crisis level four years ahead of earlier projections. Real GDP rebounded by 5.0% in 2024 after two years of contraction and grew by 4.8% in the first half of 2025. The latest GDP data released this week indicated that Q3-2025 grew by 5.4 % y/y. The recovery in 2025 was broad-based, driven by strong performance in agriculture and services, a rebound in construction, and sustained momentum in exports, tourism, and remittances, while leading indicators pointed to a positive outlook.

Headline inflation had been rising gradually from historically low levels, reaching 2.1% (y/y) in November, and the Central Bank anticipated a gradual firming toward the medium-term target of 5% by 2026. Prior to the cyclone, the inflation outlook was broadly balanced, with upside risks stemming from robust credit growth, potential exchange rate pressures, and weather-related supply shocks, and downside risks from persistently subdued price dynamics and slower adjustments in administered energy and transport costs. Post-cyclone, inflation is likely to experience a transitory uptick driven by food supply disruptions; however, this is expected to dissipate as supply chains normalize. Uncertainty around the near-term trajectory of macroeconomic indicators remains elevated, given that the full economic impact of the cyclone is still being assessed. Monetary policy is expected to remain appropriately accommodative to support recovery, while maintaining vigilance to ensure inflation converges to target.

B. Fiscal and External Sector Pressures

Sri Lanka has continued to make notable progress on revenue-based fiscal consolidation, with 2025 tax performance and the primary surplus expected to exceed projections under the Fund-supported arrangement. Prior to the cyclone, government revenue was projected to reach over 15.6% of GDP in 2025, the highest since 2007, up significantly from 8.2% of GDP in 2022. The primary surplus was estimated at above 3.4% of GDP, marking a record high and reinforcing investor confidence while strengthening international partnerships. Revenue overperformance, combined with expenditure restraint, has enhanced fiscal discipline and contributed to a declining debt burden.

The recent cyclone has introduced additional spending pressures for emergency relief and infrastructure rehabilitation. Compensation to affected households, farmers, and SMEs, along with restoration of public assets, is already underway. Reconstruction-related expenditures are expected to widen the fiscal deficit modestly, with the primary surplus falling short of initial 2026 targets, a necessary and prudent adjustment under the circumstances. Our authorities are committed to balancing reconstruction needs with fiscal and debt sustainability objectives. Immediate relief is being financed through reallocations within the 2025 Budget, while any additional appropriations for 2026 will adhere to established legal and procedural safeguards. Looking ahead, the authorities recognize the need to accelerate efforts to strengthen disaster-response capacity by establishing dedicated funding mechanisms and risk-transfer instruments, supported by adequate financial and technical resources. All emergency-related spending, including through the *Rebuilding Sri Lanka* Fund and donor-financed initiatives, will be well-targeted, time-bound, and fully aligned with the Public Financial Management Act, ensuring transparency and accountability. To maximize efficiency, public investment management reforms will be accelerated, with rigorous project prioritization to create fiscal space. These measures will help maintain alignment with the Debt Sustainability Analysis framework and preserve the credibility of the ongoing reform program.

Cyclone Ditwah coincided with the peak tourism season, adding pressure to the external sector. Infrastructure damage and travel disruptions are expected to dampen projected tourism receipts, while export performance is likely to soften due to supply-chain interruptions. At the same time, increased import demand for food, fuel, and reconstruction materials is expected to widen the external financing gap and place additional near-term pressure on the balance of payments. Prior to the cyclone, Sri Lanka's external sector had remained broadly resilient in 2025 despite adverse global conditions. Robust export performance helped offset rising import demand, particularly for motor vehicles and investment goods, as economic activity normalized, although the trade deficit widened. Tourism and remittance inflows continued to provide important support to the current account. On the financial account, stronger foreign direct investment inflows contributed positively, while portfolio flows were mixed. Gross official reserves reached USD 6.0 billion by end-November, equivalent to about 3 months of import cover, supported primarily by net foreign exchange purchases by the Central Bank and disbursements from multilateral institutions. Maintaining reserve adequacy will be increasingly important in light of any post-cyclone external pressures.

C. Financial Sector

Sri Lanka's financial sector entered this disaster period on a relatively strong footing, having demonstrated notable resilience and continued recovery in 2025, supported by solid capital and liquidity buffers, improving asset quality despite still-elevated NPLs, and a rebound in profitability. Banks recorded their fastest pace of asset expansion in recent years, accompanied by strengthened liquidity positions and capital adequacy ratios well above regulatory thresholds, while the finance company sector remained broadly sound and equity markets benefited from renewed investor confidence. Against this backdrop, however, the cyclone has likely amplified existing vulnerabilities, particularly in sectors with significant credit exposure, including construction, wholesale and retail trade, tourism, and agriculture. Many SMEs and households, still servicing restructured loans from previous shocks, now face additional income losses and higher recovery costs, heightening risks to asset quality. Physical collateral damage from widespread flooding and landslides may have further eroded asset values and constrained borrowers' repayment capacity, thereby increasing pressure on banks' balance sheets. In response, the Central Bank has instructed licensed banks to extend targeted relief to affected borrowers as needed. Measures include temporary repayment concessions and restructuring options, such as suspending repayments for three to six months without additional interest charges, and offering new credit facilities with grace periods and capped interest rates. The authorities remain prepared to provide liquidity support, when necessary, to maintain orderly market conditions, and they remain firmly committed to safeguarding financial stability while advancing ongoing sectoral reforms to enhance medium-term resilience.

D. Poverty and Social Impact

The cyclone has disproportionately affected vulnerable communities, particularly in the central highlands, north-western and eastern provinces of the country. These regions were already economically fragile, and the disaster risks pushing more families into poverty. Sri Lanka's poverty rate had doubled to approximately 25% following the 2022 economic crisis, and the destruction of homes, livelihoods, and subsistence farms now threatens food security for low-income households. The government has declared a national emergency, mobilized military and civil defense resources, and is working with international and bilateral partners to provide essential relief services.

(3). Need for Rapid Financing Assistance

Cyclone Ditwah struck Sri Lanka at a critically sensitive juncture, just as the country was beginning to recover from the 2022 economic crisis. With macroeconomic indicators stabilizing and fiscal and external buffers gradually rebuilding under the Fund-supported reform program, the cyclone has introduced significant new fiscal and external pressures. To address immediate financing needs, the government has requested emergency assistance of SDR 150.5 million (approximately USD 205 million, or 0.2% of GDP) under RFI. This amount represents 26% of Sri Lanka's quota and remains well within the access limits for natural disaster-related support.

The RFI resources for budget support will serve as a critical bridge, helping Sri Lanka avert an immediate liquidity crunch while providing space to advance reconstruction efforts and sustain key reforms. In parallel, and in consultation with Fund staff, the authorities have decided to postpone the Fifth Review of the Extended Fund Facility (EFF) arrangement to early 2026, allowing time to assess the extent of the damage and reassess macroeconomic projections and recovery needs.

(4). Authorities' Commitment to Reform

While the cyclone has posed near-term challenges to reform momentum, our authorities wish to assure the Executive Board, Fund's Management, and other stakeholders of their unwavering commitment to the Fund-supported reform program and its core objectives: restoring fiscal and debt sustainability, safeguarding price and financial sector stability, rebuilding external buffers, strengthening governance, and advancing growth-oriented structural reforms. To meet urgent recovery and reconstruction needs, the government will prioritize spending reallocations and contingency reserves within the existing budget framework, consider a supplementary budget, as necessary, and ensure full compliance with the Public Financial Management Act. All emergency spending will adhere to strict transparency and accountability standards.

The Central Bank will continue to refrain from monetary financing of the deficit, and the authorities will maintain external stability by following best market practices. Engagement with Fund staff is ongoing to complete the EFF Fifth Review at the earliest opportunity, and the authorities remain fully committed to consulting the Fund ahead of any policy revisions.

(5). Concluding Remarks

Cyclone Ditwah has created a multidimensional crisis for Sri Lanka, encompassing humanitarian, economic, and institutional challenges. The authorities' decision, taken in close consultation with Fund staff, to seek emergency financing under the RFI and to postpone the Fifth Review of the EFF reflects a pragmatic and well-coordinated response. The RFI will provide critical support to address immediate fiscal needs, while the EFF arrangement continues to serve as the anchor for medium-term reforms.

With the support of the Fund, other international financial institutions, multilateral organizations, and partner nations, combined with sustained policy commitment, the authorities remain determined to stabilize the economy, protect vulnerable communities, and restore the recovery momentum. At this critical juncture, strong and coordinated assistance from the international community will be essential to ensure that the country emerges from this crisis with greater resilience and renewed progress toward sustainable and inclusive growth.