

Sri Lanka has reached a preliminary agreement with the International Monetary Fund (IMF) for a loan of about \$2.9 billion, the global lender said on Thursday, as the country seeks a way out its worst economic crisis in decades.

The agreement, which Reuters first reported on Wednesday, is subject to approval by IMF management and its executive board, and is contingent on Sri Lankan authorities following through with previously agreed measures.

“The staff level agreement is only the beginning of a long road for Sri Lanka,” senior IMF official Peter Breuer told reporters in the commercial capital Colombo.

“Authorities have already begun the reform process and it must continue with determination.”

The IMF requires receiving financing assurances from Sri Lanka’s official creditors, besides ensuring efforts are made to reach a collaborative agreement with private creditors.

“Debt relief from Sri Lanka’s creditors and additional financing from multilateral partners will be required to help ensure debt sustainability and close financing gaps,” the IMF said in a statement.



The IMF programme, spread over 48 months, will aim to raise government revenue to support fiscal consolidation, introduce new pricing for fuel and electricity, hike social spending, bolster central bank autonomy and rebuild depleted foreign reserves.

“Starting from one of the lowest revenue levels in the world, the programme will implement major tax reforms. These reforms include making personal income tax more progressive and broadening the tax base for corporate income tax and VAT,” the statement said.

“The programme aims to reach a primary surplus of 2.3 percent of GDP by 2024,” it added.

Udeeshan Jonas, chief strategist at Sri Lankan investment bank CAL Group, said that the IMF’s comments were largely positive.

“They said the revenue measures that we’ve taken have been substantial (and) they’re happy with what we’ve done from a fiscal perspective,” he said.

And although welfare budgets for Sri Lanka’s poorest would be protected, Jonas said he expected significant austerity measures and job cuts at loss-making state-owned enterprises.

“Privatisation is on the cards,” he said, “and I think it will happen probably by next year.”



Image source: Reuters

Creditor Collaboration

President Ranil Wickremesinghe, who also serves as the country’s finance minister, on Tuesday presented an interim budget aimed at clinching the deal with the IMF.

The budget revised Sri Lanka’s deficit projection for 2022 to 9.8% of the gross domestic product from 8.8% earlier, while outlining fiscal reforms, including a hike in value-added

taxes. [read more](#)

Sri Lanka needs to restructure nearly \$30 billion of debt, and Japan has offered to lead talks with the other main creditors, including regional rivals India and China.

“If creditors are not willing to provide assurances, it would deepen Sri Lanka’s crisis and undermine repayment capacity,” Breuer said, adding that it was in the interest of all creditors to collaborate.

Sri Lanka will also need to strike a deal with international banks and asset managers that hold the majority of its \$19 billion worth of sovereign bonds, which are now classified as in default.

The debt-laden country has been seeking up to \$3 billion from the IMF in a bid to escape its worst economic crisis since independence from Britain in 1948.

Sri Lankans have faced acute shortages of fuel and other basic goods for months, leaving it in political turmoil and hit by runaway inflation, which is now at almost 65% year-on-year.

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