The IMF Impact:

For the greater good, a policy maker's conundrum

April 2022

Executive Summary:

1. Should external debt be a concern for SL right now?

Yes, however there are many ways to recover. Opting for an IMF facility is the first step.

2. What does 'Going to the IMF' mean?

Seeking financial and non-financial assistance to solve the macroeconomic issues in SL.

3. Has IMF assisted SL in the past?

Yes, Sri Lanka has sought IMF assistance on 16 occasions to recover from struggles.

4. What does the IMF want?

Proper financial management and economic reforms to ensure a recovery.

5. Is Sri Lanka the only country to need IMF support?

No, over 90 countries have received IMF's financial assistance since 2020.

6. How long will it take to get an IMF facility at this point?

As negotiations begin now, typically countries take c.6-7 months to restructure its debt, negotiate with creditors and formulate a recovery plan. It is at this point that IMF usually releases its funding facilities.

The Roadmap to a Recovery:

Down for the count, with around 6 months to fend for ourselves…

Forex

Floating the currency and increasing the interest rates

Macro

Formulating a macro-economic recovery plan

Debt

Negotiations with creditors

Reforms

Implementation of the IMF's initial reforms

Restructure

Adjournment of debt repayments / restructuring

IMF

Initial tranche of IMF support

The IMF’s Demands: Sri Lanka’s position

IMF financing is paid in tranches, depending on policy reform...

This is intended to ensure progress in program implementation and reduce risks to IMF resources. Program reviews provide a framework for the IMF Executive Board to assess whether the program is on track and whether modifications are necessary. Periodic reviews combine an assessment of whether program conditions have been met with a look ahead at whether the program needs to be adjusted in light of new developments.

	Sri Lanka is at the ‘Prior Action’ stage	*Examples*
Prior Actions	*Steps that a country agrees to take before the IMF approves financing or completes a review. They ensure that a program will have the necessary foundation for success.*	**No Price Controls** **Stable budget**
Quantitative Performance Criteria (QPC)	*Specific, measurable conditions for IMF lending that always relate to macroeconomic variables under the control of the authorities. These include monetary/credit aggregates, reserves, fiscal balances, and external borrowing.*	**Govt. Loan Caps** **Minimum Forex Reserves**
Indicative Targets (ITs)	*Quantitative indicators to assess progress of a program’s objectives. Sometimes ITs are set instead of QPCs due to the uncertainty of economic trends. As uncertainty reduces, these may become QPCs, with appropriate modifications.*	**Min. Primary Balance** **Minimum Govt. Revenue**
Structural Benchmarks	*These are reform measures that often are non-quantifiable but are critical for achieving program goals and are intended as markers to assess program implementation.*	**Social Safety Nets** **Fiscal Management**

Source : IMF/ SSB Research

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A complete 180^{0}: Sri Lanka's new policy changes align with the IMF

The drastic policy reforms are a stark contrast to the populist policies of the regime, however having being held to gunpoint, the direction of the reforms may finally help get the country back on track whilst allowing for corporation with this IMF. However, in addition to this, multiple other reforms remain pending.

2019 IMF Review Recommendations	2020 Conflicting Policy	2022 Policy Reforms
Increase the tax base Revise the tax laws Remove exceptions	Reduced corporate income tax, personal income tax, and VAT. Abolished income tax for most of the employee base.	Introduced a one-off 25% tax for large corporates. Proposed the increase of financial VAT. Proposed the increase of GST.
Improving tax administration. Upgrade the fiscal rules.	Plans to upgrade the fiscal rules were suspended.	Policy discussions in place.
Strengthen forex reserves. More exchange rate flexibility.	Forex reserves dropped. Fixed exchange rate at 200 to the USD with high intervention	A floating exchange rate was introduced.

Other conditions include:

- ✓ Adhere to flexible inflation targeting framework.
- ✓ Upgrade the legal underpinnings of the policy framework through upgrading the central bank law.
- ✓ Strengthen financial sector regulation and supervision for banks and NBFIs.
- ✓ Strengthen social safety nets by improving targeting accuracy and expand coverage.
- ✓ Structural reforms to improve competitiveness and foster inclusive growth, liberalize trade.

Source : IMF/ SSB Research

The IMF’s Demands: the perfect excuse for reforms

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Setting Sri Lanka up for long-term economic growth

Whilst stockpiling terms and conditions seemingly pose many hardships to the struggling nation, these key economic and policy changes can be vital for the country to fight its way out of the crisis. Whilst some of these may be grossly unpopular amongst the general public, the IMF is the perfect excuse for governments to usher in much needed reforms. These include reforms in the fields of;

SOE Reforms

Ensure State Enterprise (SOEs) Reforms whilst maintaining a financial relationship with GoSL to improve SOE productivity

Budget Deficit

Aimed to lower the budget deficit whilst reducing GoSL borrowings and allowing room for private sector credit expansions

Government Revenue

Increased GoSL revenue targets set amidst a simpler and broadened tax base whilst allowing room for expenditure on infrastructure and human capital

Monetary Policy

Much focused on Monetary policy reforms with an inflation targeting framework and flexible exchange rate regime

Financial Management

Perform strong public financial management alongside controlled expenditure targets and transparent budgets

Trade and Investments

Higher trade and investments with low protectionism, enhancing exports and extending support for prospective investments

Despite strict prescriptions, SL has never defaulted IMF repayments

The IMF has provided Sri Lanka with multiple facilities over the past 7 decades. Moreover, the tough but pragmatic IMF prescriptions were mainly targeted on fiscal consolidation and removing caps on borrowing costs in order to soften the external worries. As a result, when SL has received IMF support and adopted the proposed reforms, the country has been able to successfully navigate through its economic encounters and get back on track.

Source : IMF/ SSB Research

Why the conditions? Why not just give SL a loan?

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IMF support depends on both the need as well as economic stability

Strict IMF conditions only apply to nations with major economic imbalances, whilst some countries are able to qualify for loans and credit lines with minimal IMF intervention. Sri Lanka has transitioned into an economy requiring significant debt restructuring by 2022.

Cashflow Management	Credit Lines/ Loans	Ukraine, Egypt
Short term Liquidity	Credit Lines/ Loans Economic Advisory	Bangladesh, Maldives, Myanmar
Long term Liquidity or Solvency	Credit Lines/ Loans Economic Advisory Debt Restructuring	Somalia, Ecuador, Kenya, Sri Lanka

Sri Lanka would likely require the debt restructuring option...

Based on the current conditions it is likely that Sri Lanka would opt for the comprehensive aid package to include economic advisory, debt structuring as well as the credit line.

Furthermore, given the nature of the current forex crisis in Sri Lanka, it is highly unlikely that the IMF would offer only a credit facility or a loan without any conditions as it may be utilized for a repayment, which the IMF would not accept. As a result, the restructuring of debt remains inevitable.

Source : MoF/ SSB Research/Department of External Resources

IMF Timeline: A c. 6 month wait till the 1st funding line

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The IMF timelines to coincide with the debt structuring timelines…

In a classic chicken and egg situation, Sri Lanka's creditors would wish to see the IMF program in place prior to any negotiations, whilst the IMF would want to see a debt restructuring plan prior to their first disbursement of funds.

Sri Lanka has multiple prior dealings with the IMF and has already requested support

Kenya 2020	*A shorter timeline by virtue of having prior dealings with the IMF. The initial request was in Nov'20, received in Apr'21*	**5 Months**
Ecuador 2020	*Prior IMF support in 2019 and 2020. Initial request in March'20, 1st disbursement received in Sep'20*	**6 Months**
Pakistan 2018	*No IMF programs in place, as a result implementation was longer, Request made in Oct'18, received funds in July'19*	**9 Months**
Suriname 2020	*No IMF programs in place, as a result implementation was longer, Request made in Nov'20, received funds in Dec'21*	**13 Months**

…with countries having recent IMF programs receiving funds faster

Countries that have had prior or recent ongoing programs with the IMF in the recent past have been able to secure funding lines much faster, and Sri Lanka sits in this category as well.

Source : IMF/ SSB Research

A Timeline Advantage: Pre-emptive vs. Post-default

Preemptive restructuring negotiations takes an avg. of c. 6 months…

Preemptive restructuring is when a restructuring is done prior to a default, this process typically results in faster negotiations as a certain degree of trust and confidence is retained in the debtor. Furthermore, the drive to achieve a consensus before the imminent default is a mutual driver for both parties to amicably settle the negotiation.

Case	Instruments	Status	Months
Pakistan	Bank Loans	Defaulted	11
Russia	Bank Loans	Defaulted	23
Dom. Rep.	Bank Loans	Defaulted	18
Ecuador	Bond buy-back	Defaulted	12
Iraq	Bonds & com. Loans	Defaulted	20
Dominica	Bonds & Loans	Defaulted	15
Ecuador	External Bonds	Defaulted	25
Argentina	External Bonds	Defaulted	42
Seychelles	External Bonds	Defaulted	19
Cote D'Ivoire	External Bonds	Defaulted	21
Moldova	Gazprom Debt	Defaulted	34
Serbia & Monten.	General Loans	Defaulted	44

Case	Instruments	Status	Months
Grenada	Bonds & Loans	Pre-emptive	13
Belize	Bonds & Loans	Pre-emptive	6
Pakistan	External Bonds	Pre-emptive	4
Ukraine	External Bonds	Pre-emptive	4
Moldova	External Bonds	Pre-emptive	4
Uruguay	External Bonds	Pre-emptive	2
Dom. Rep.	External Bonds	Pre-emptive	13

Pre-emptive negotiations: **c. 4-6 months**

Post-default negotiations: **c. 24 months**

By approaching the IMF upfront, SL is positioned for a pre-emptive restructure

…whilst post- default negotiations can take up to c. 24 months

However, as the name suggests, post default negotiations take place following a default by a state. In such instances the trust and confidence of the debtor is significantly depleted and therefore negotiations become significantly more difficult with its lenders.

Source : IMF/ SSB Research

Sri Lanka and the IMF: Replaying old tunes

USD81 Bn economy's non-defaulting prudent track record…

1988 – Reserves Bail out

Whilst SL's foreign reserves fell to USD 277Mn which was sufficient for financing only 1.2 months of the imports of the country for the next 12 months, SL received a bail out package of USD 214Mn in 1988.

Thus, the facility created confidence in Sri Lanka among the foreign investors, and from 1990 onward, the country was able to record surpluses in the balance of payments adding to its foreign reserves.

IMF Bailout

2008 – Post war economic revival

In 2008, foreign reserves fell to USD 2.6Bn which was sufficient only for ~2 months of the estimated imports.

Hence, the IMF has assisted Sri Lanka soon after the end of the 26-year war in 2009 and gave a facility worth USD 2.5Bn.

Thus, it boosted the country's foreign reserves to USD 5.4Bn by end 2009 and USD 7.2Bn in 2010.

IMF Bailout

2016 – External Debt crisis

The IMF offered USD 1.5Bn EFF in 2016 to escape from an emerging external debt crisis.

Therefore, this boosted the country's foreign currency reserves to USD 7.9Bn by end 2017.

IMF assistance thus aided GoSL in handling further hardships and tackling foreign investor confidence via the sourcing of multilateral credit lines.

IMF Bailout

…due to its ability to source funding lines at key junctures

The country's ability to work with the IMF during multiple setbacks has been the defining point towards a recovery at every stage. As such, the country has always been able to work its way out of potentially challenging situations. This phenomena has also been seen in multiple emerging markets and developing economies who face debt and forex reserve crises from time to time.

Source : IMF/ SSB Research

IMF's record in SL: 16 facilities, 5 in the last 20 years

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Since 1960, Sri Lanka has been the recipient of 16 IMF facilities…

With a long rich history of corporation, the IMF has empowered Sri Lanka with multiple Standby Arrangements (SBA), Extended Fund Facilities and structural adjustments. The largest loan was the SBA initiated post war in July 2009 of USD 2.5Bn whilst the most recent arrangement initiated in Jun'16 for USD 1.5Bn Extended Fund Facility (EFF). In total 5 of the 16 loan facilities have also been over the past 2 decades, in testament to the strong relationships.

	Lending Facility	Date of Arrangement	Expiration Date	Amount Agreed (US Mn)	Share of Funds
1	Standby Arrangement	15-Jun-65	14-Jun-66	30	75%
2	Standby Arrangement	15-Jun-66	14-Jun-67	25	100%
3	Standby Arrangement	6-Mar-68	5-May-69	20	100%
4	Standby Arrangement	12-Aug-69	11-Aug-70	20	100%
5	Standby Arrangement	18-Mar-71	17-Mar-72	25	100%
6	Standby Arrangement	30-Apr-74	29-Apr-75	30	29%
7	Standby Arrangement	2-Dec-77	1-Dec-78	112	100%
8	Extented Fund Facility	1-Jan-79	31-Dec-81	336	100%
9	Standby Arrangement	14-Sep-83	31-Jul-84	105	50%
10	Structural Adjustment Facility Commitment	9-Mar-88	8-Mar-91	214	100%
11	Extended Credit Facility	13-Sep-91	31-Jul-95	455	83%
12	Standby Arrangement	20-Apr-01	19-Sep-02	254	100%
13	Extented Fund Facility	18-Apr-03	17-Apr-06	198	14%
14	Extended Credit Facility	18-Apr-03	17-Apr-06	368	14%
15	Standby Arrangement	24-Jul-08	23-Jul-12	2,566	100%
16	Extented Fund Facility	3-Jun-16	2-Jun-19	1,507	86%

…with its most recent disbursement ending in June 2019

In 2020, the IMF prematurely ended EFF to Sri Lanka after disbursing ~USD 1.3Bn of an agreed USD 1.5Bn facility. Repayment of the funds borrowed under the above arrangement will take place in instalments from 2020 and is expected to be completed by 2028. It should be noted that of the 16 past lending arrangements, the full amount initially agreed was not disbursed on 7 occasions as Sri Lanka did not fully comply with the IMF's conditions.

Source : CBSL/IMF/ SSB Research

Currency: Fixed – Floating

The long-term currency trend when countries shift to a floating rate

Section Summary:

1. What happens to currencies that are floated?

When a currency is floated, demand and supply are the main factors that determine the rate.

2. Will the LKR keep devaluing or where does it stop?

In peer countries, a sudden shift results in an overshoot, followed by a settling of the FX rate.

3. Did countries have short term forex volatility?

Yes, in the short run speculation and cautionary approaches result in forex rate volatility.

4. Is a forex recovery likely to happen in Sri Lanka?

Yes, in the event the GoSL and the IMF mutually agree and act on a practical recovery plan.

5. How have other currencies done 05 years after IMF?

All countries that had to make a sudden transition from a fixed to a floating rate have witnessed a strong devaluation in the short run followed by a strengthening of the currency in the medium term.

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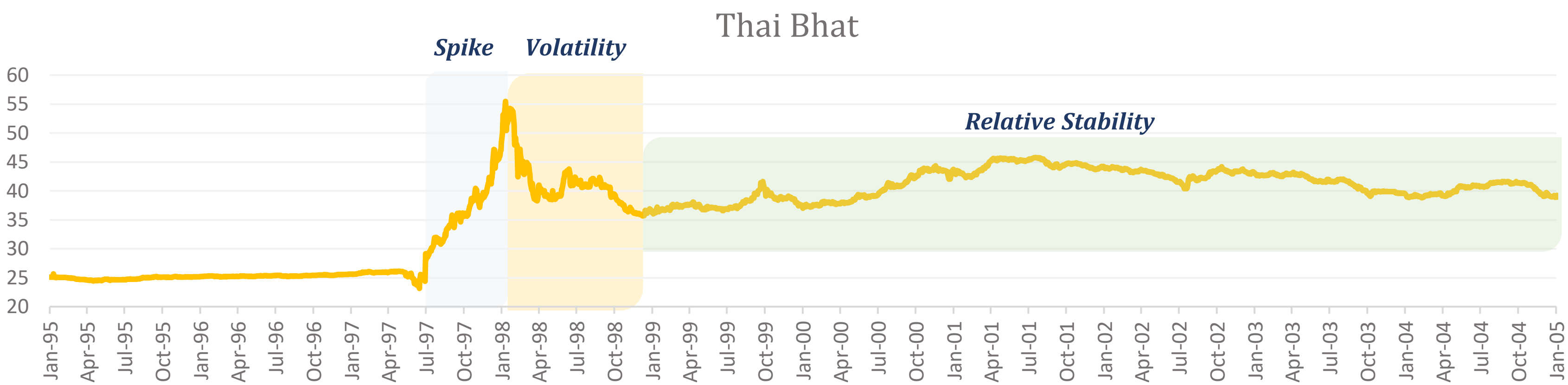
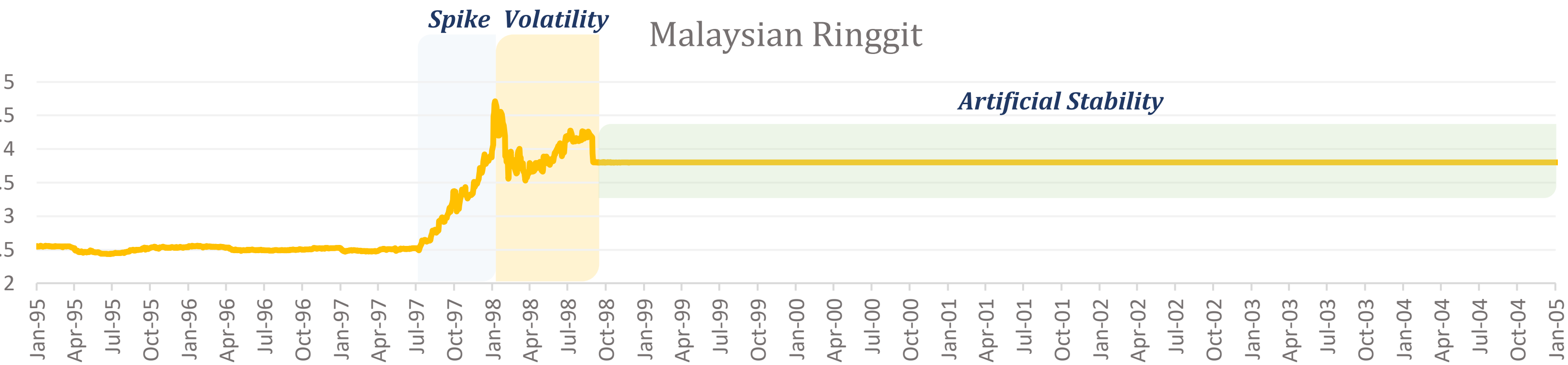
The Sudden Spike

In the face of a forex crisis, when countries historically floated their exchange rate after years of artificial controlling, the exchange rates saw a significant spike which helped strengthen exports whilst discouraging imports.

The Gradual Recovery

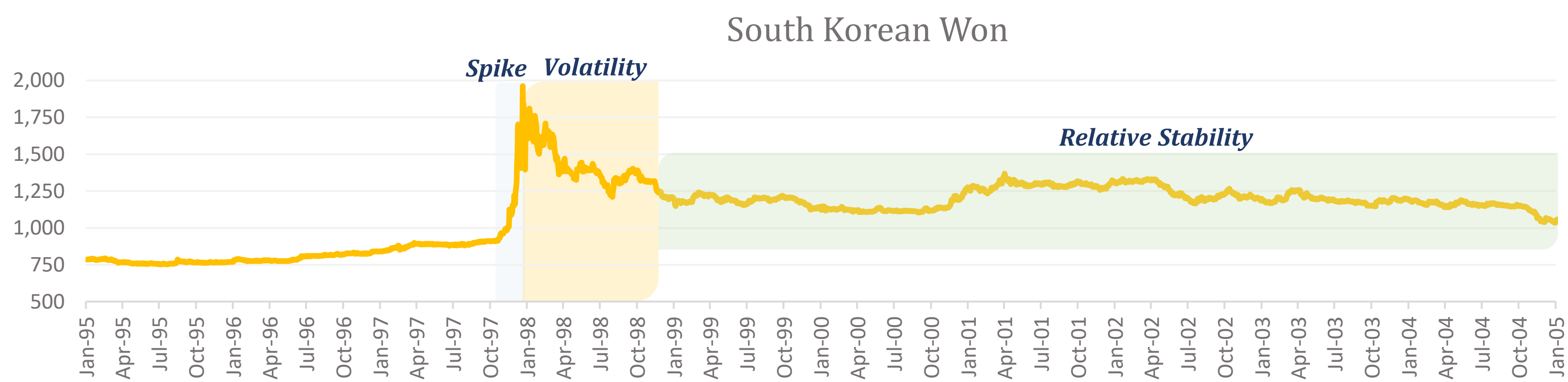
From the initial spike, forex rates then proceed to a period of volatility before returning to a sense of comparative normalcy before the market forces start to gradually drive the currency either up or down based on the country's economic conditions.





Source : IMF/Relevant Finance Ministries/ SSB Research

A Floating Exchange: A spike, volatility and relative stability



A 3-6 month peak…

Most Crisis hit countries saw the forex devaluation reaching its peak within 3-6 months during which a significant devaluation. The volatility is intensified as speculators wait in hopes of further devaluation to realize gains, resulting in an artificial hike.

…Volatility and a recovery

The Asian financial crisis was a sequence of currency devaluations and other events that began in late 1997 and spread through many Asian markets. The currency markets first failed in Thailand as a result of the government's decision to no longer.

Source : IMF/Relevant Finance Ministries/ SSB Research

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Equities: A long term growth

Despite short-run volatilities, an economic correction drives growth

Section Summary:

1. What happens to stock markets in IMF interventions?

In the short run the market adjusts for taxation and govt. revenue development impacts.

2. What is the mid to long-term view?

In peer countries, markets have shown to have a recovery following the disbursement of the 1st tranche of IMF funding

3. Did countries have short term impacts?

Yes, despite the IMF support certain facets of the economy did have an impact in the short run.

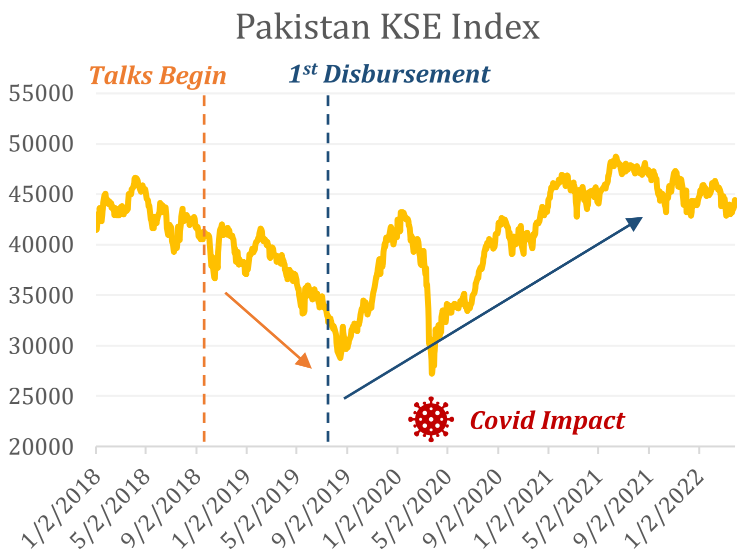
4. What sectors did well during conditions like this?

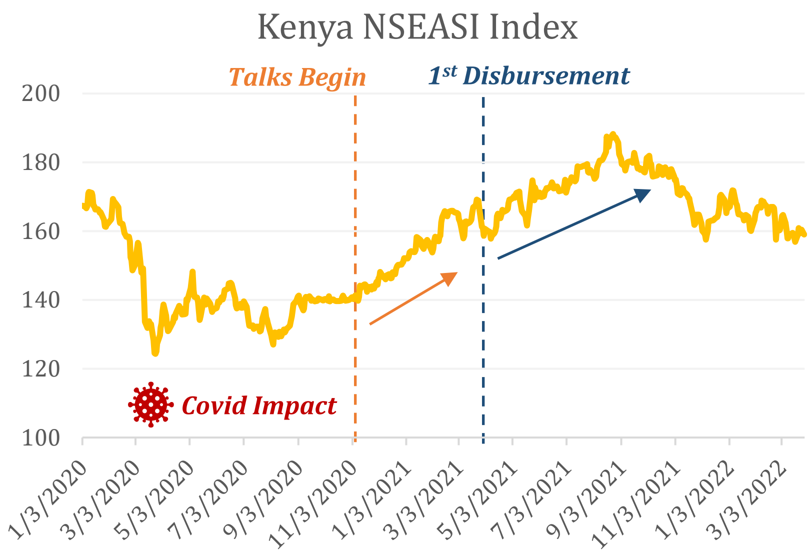
Exports are a clear winner owing to the currency depreciation which improves margins.

Equity Market: A dip followed by a strong recovery

IMF talks tend to have a mixed response in frontier market peers…

Whilst some nations view IMF support as a positive sign for an economic recovery, some countries may also see the adverse impacts in the form of corporate taxation and other fiscal disciplinary measures. As a result, looking at a couple of frontier market lower middle-income countries like Pakistan and Kenya we see opposing responses once news of IMF discussions reach the public domain.





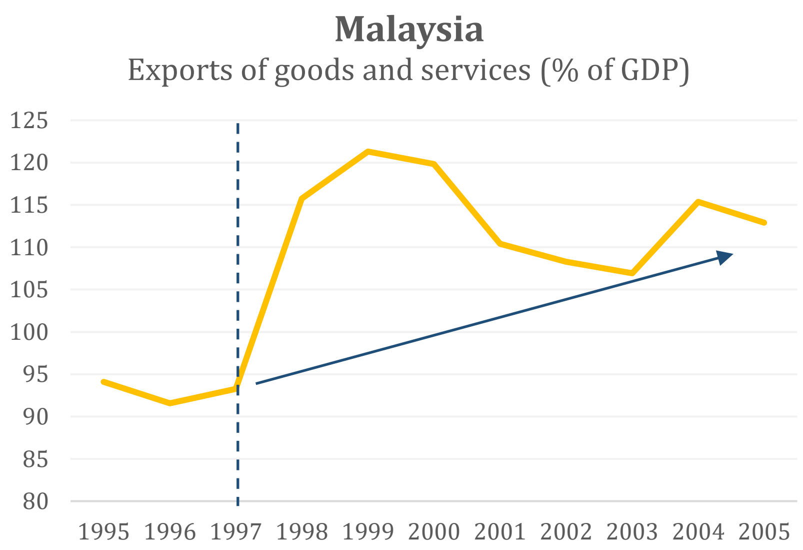
…However, either way a post-disbursement growth is witnessed

Despite the mixed signals due to the conflicting opinions, after the funds are disbursed, both countries have witnessed a strong growth of its main equity market indexes, with Pakistan growing by over 50% and with Kenya continuing its growth spree to record a c. 30% growth from the beginning of the IMF discussions. We expect Sri Lanka to more closely follow the Pakistan trend of a decline owing to the need for strong taxation policies, followed by a recovery once macro-economic stability and BOP stability is restored.

Equity Market: Exporters may be the key winners

Local currency devaluation increases competitiveness & margins

When the USD and other major foreign currencies significantly increase with respect to a local currency unit, the country's exporters earn a significant premium for the same product when the price is pegged to the USD or any major foreign currency. As a result, either an expansion of profit margins at the current USD price or drop in USD values and an expansion of market share can be enjoyed by the exporter



An initial boom, followed by a more gradual growth going forward

Peer countries that shifted from a fixed to floating rate for IMF assistance have witnessed a sharp growth of its exports in the immediate years to follow. This is owing to the added profitability incentive from the USD (or other major currency) appreciation. This has helped otherwise mediocre export industries witness phenomenal YoY growth whilst growing significantly compared to the country's GDP.

A Case Study: The IMF in Asia

The Asian financial crisis and IMF's role in the recovery

Section Summary:

1. What have peers done in similar instances?

Asian emerging market economies have opted for IMF support to help get back on track.

2. Has opting for IMF support been beneficial?

Yes, during the Asian financial crisis in the late 90's the IMF played a key role in the recovery.

3. Did countries have short term impacts?

Yes, despite the IMF support certain facets of the economy did have an impact in the short run.

4. Did they face similar issues like in SL?

Yes, these countries had a forex crisis with currency devaluations and declining reserves.

5.How have these countries done 20 years after IMF aid?

The Philippines sits the lowest on the rankings as a lower middle-income country, Malaysia and Thailand sit in the upper middle-income bracket whilst the Republic of Korea and Singapore have advanced to be high-income economies.

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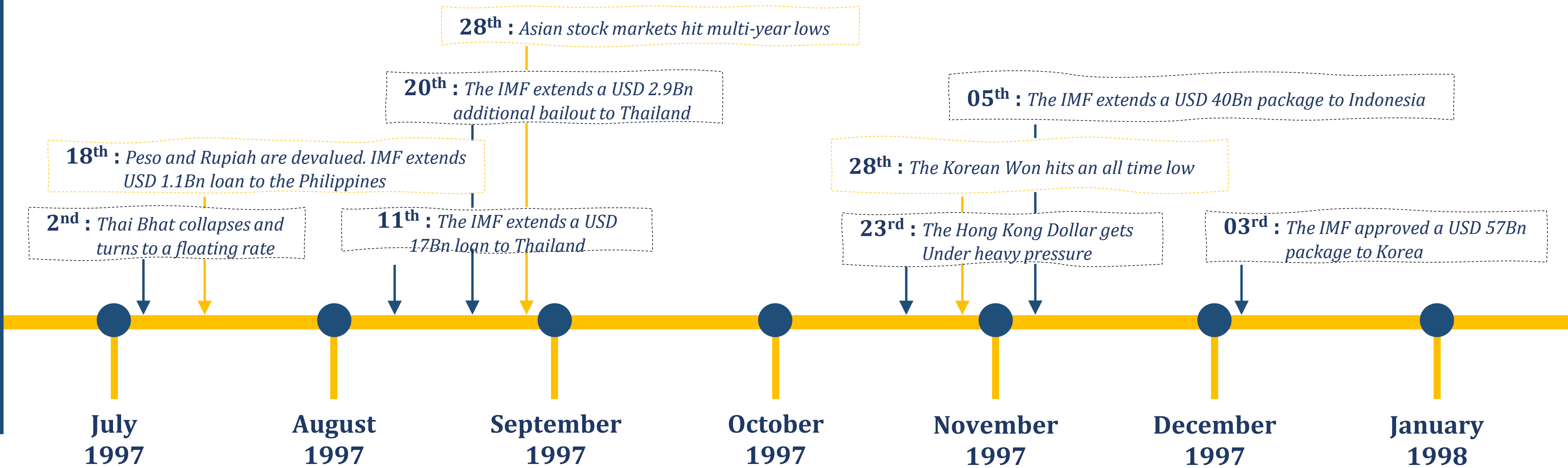
The Asian Credit Crisis of the 1990's

The Asian financial crisis was a sequence of currency devaluations and other events that began in late 1997 and spread through many Asian markets. The currency markets first failed in Thailand as a result of the government's decision to no longer peg the local currency to the USD due to its low reserves position. Currency declines spread rapidly throughout East Asia, in turn causing stock market declines, reduced import revenues and government upheaval. A large portion of East Asian currencies fell by as much as 38%. International stocks also declined as much as 60%.



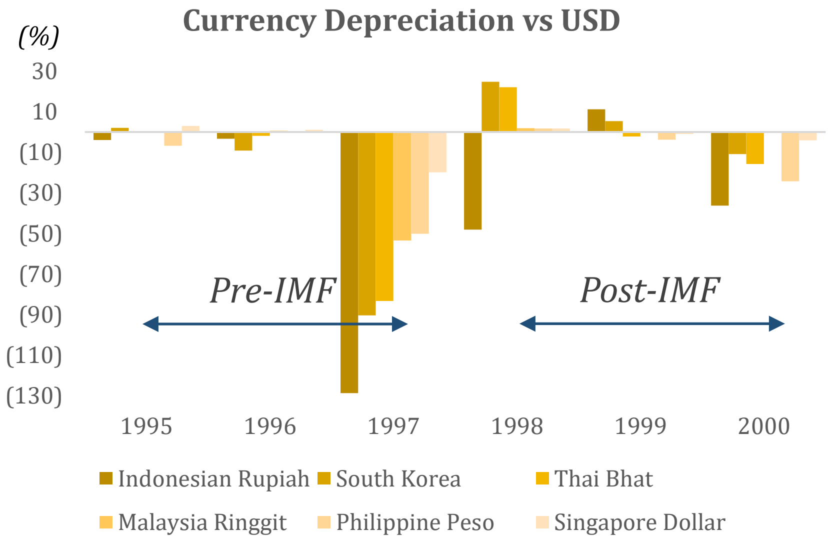
Held at gunpoint, led to safety by the IMF

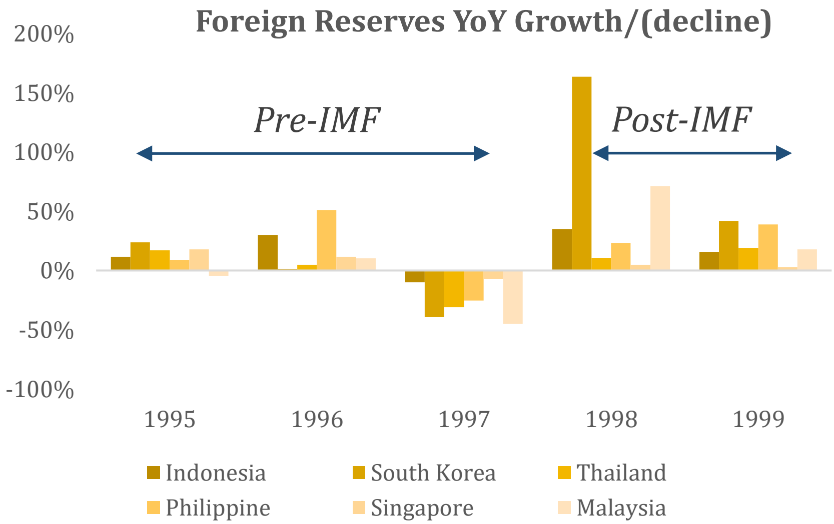
From 1996 to 1997, the (YoY) nominal GDP per capita dropped by 43.2% in Indonesia, 21.2% in Thailand, 19% in Malaysia, 18.5% in South Korea, and 12.5% in the Philippines. Hong Kong, Mainland China, Singapore, and Japan were also affected, but less significantly. However, despite this crunch, the IMF stepped in on each occasion to help countries get back on track and each nation was able to bounce back as a result and continue its growth trajectory.

Source : IMF/Relevant Finance Ministries/ SSB Research

Forex reserves and currency devaluations, the common red flag

In the four years prior to the crash in 1997, the USD appreciated sharply, and countries pegged their currencies to the USD resulting in a steady decline on forex reserves. However, at a certain point as reserves tanked, countries were forced to float their currencies as seen in Sri Lanka over the past years. This led to a host of protectionist policies targeting a range of import items, specifically items regarded as luxury goods or non-essential goods. However, these were short lived as the IMF support allowed economies to get back into gear.





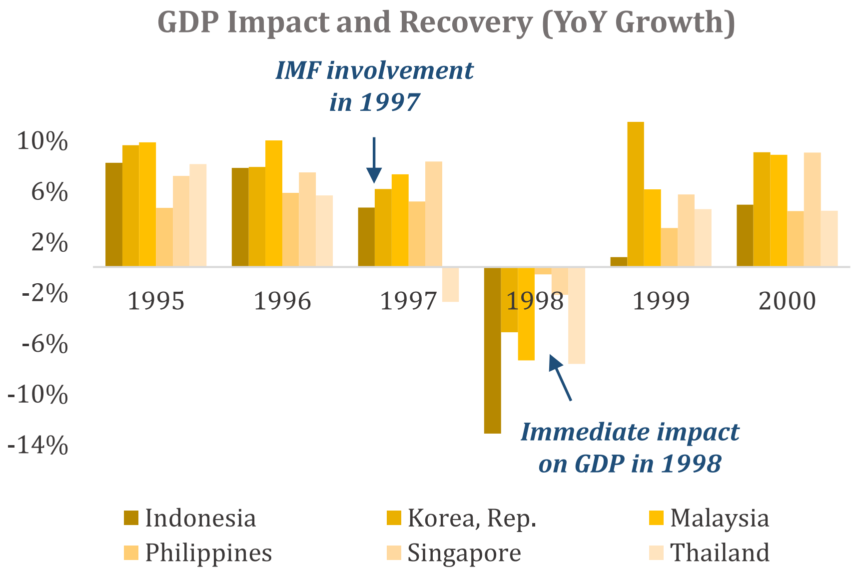
The danger of a speculation driven crash, averted

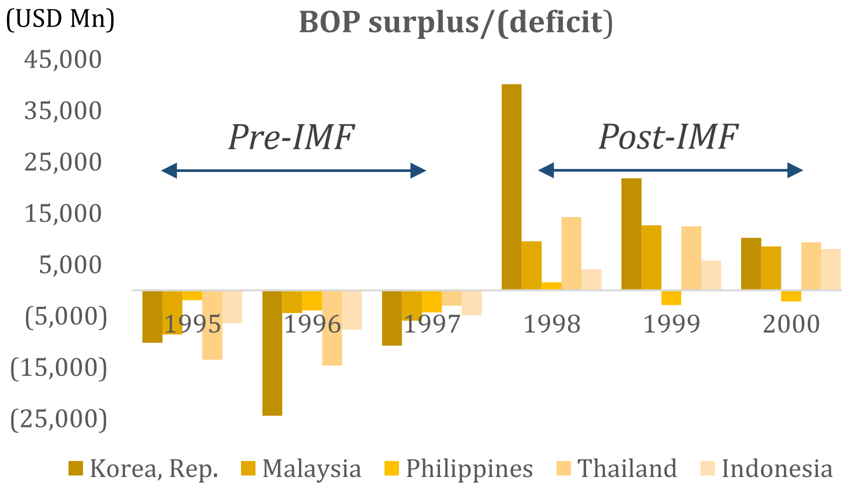
Given the declining reserves position and the inevitability of countries having to opt for floating exchanges large scale investors heavily speculated currencies resulting in a catastrophic impact once a floating rate was introduced. This brought upon an unprecedented devaluation from 1996 to 1997 which was followed by a correction in the coming years. However, in Sri Lanka's context such speculative trading has been explicitly banned, and the process of sending funds and converting currency has been heavily restricted by the GoSL. This could prevent such an exaggerated devaluation.

Source :World Bank/ Bloomberg/Relevant Finance Ministries/ SSB Research

Impact on economic variables and investor sentiment

The currency crisis driven protectionist policies to reduce the outflow of currency via imports started a cycle of economic decline. Not only did they experience negative growth rates; inflation rose, while export volumes and tax revenue fell as the economies slowed down. Due to these factors, investor sentiment in many markets tanked with high outflows and low inflows compared to the previous periods.





Paving the path towards growth and stability

Due to these factors, the GDP was heavily impacted in 1998 with most countries witnessing a decline of over 5% YoY. However, interventions by the IMF helped steady the country and guide the economy back on track. This also resulted in the renewal of investment flows and increased foreign participation as market valuations became more attractive as the local currency normalized from its artificial highs.

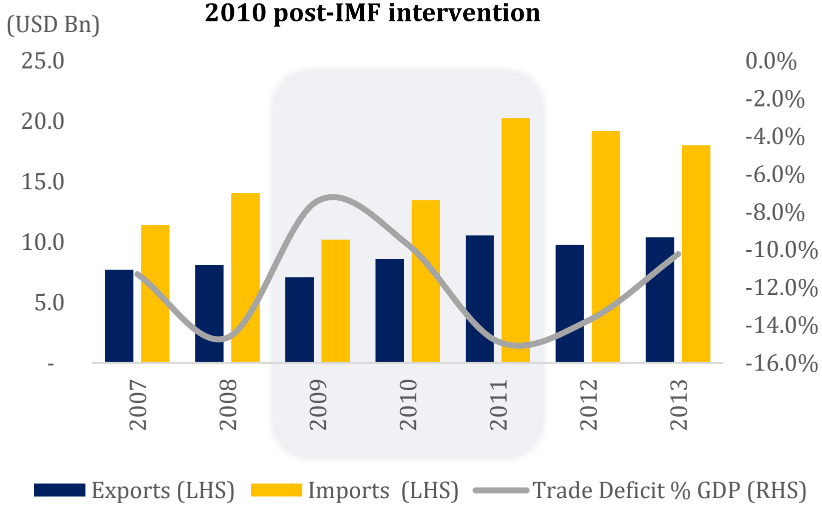
Source :World Bank/ Bloomberg/Relevant Finance Ministries/ SSB Research

The IMF in numbers: Sri Lanka

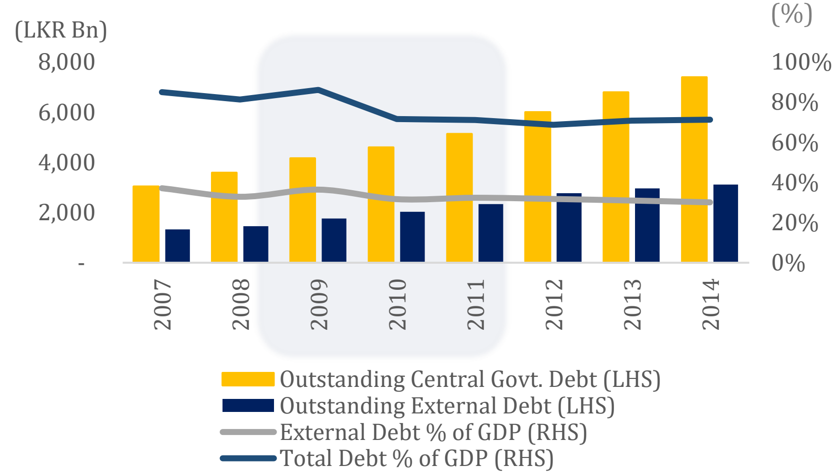
Coming in clutch and bridging twin deficits in 2009 and 2018

The IMF Benefits: Twin deficits curtailed post assistance

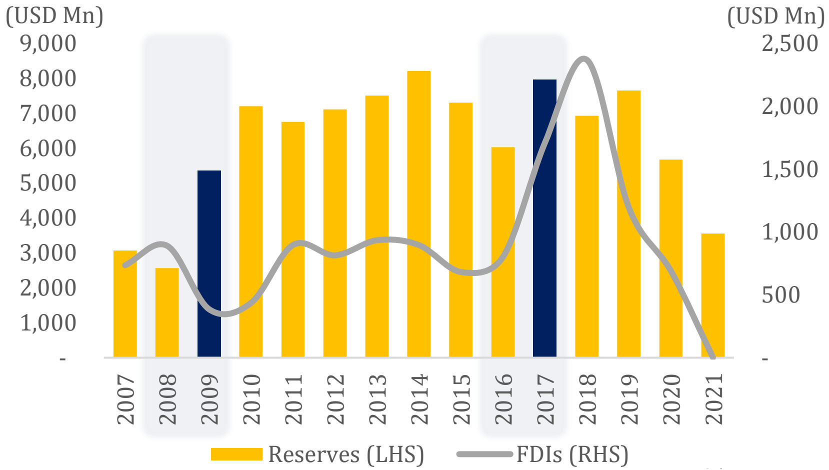
Trade deficit to GDP narrowed from 2010 post-IMF intervention



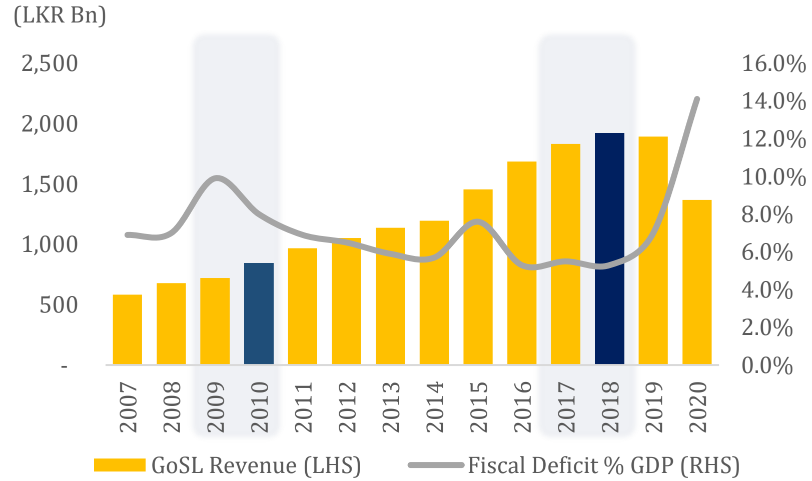
Debt to GDP fell whilst the country attained more external funds from 2009/10 onwards amidst investor confidence



Gross official reserves surpassed USD 5.5Bn in 2009 and USD 7Bn in 2017 post IMF support



2018 Marked the highest GoSL Revenue in a decade following IMF directed tax reforms



Source : CBSL/ SSB Research

The IMF in numbers: Global

Supporting 90 other nations over the past two years

IMF and developing nations: A common phenomenon

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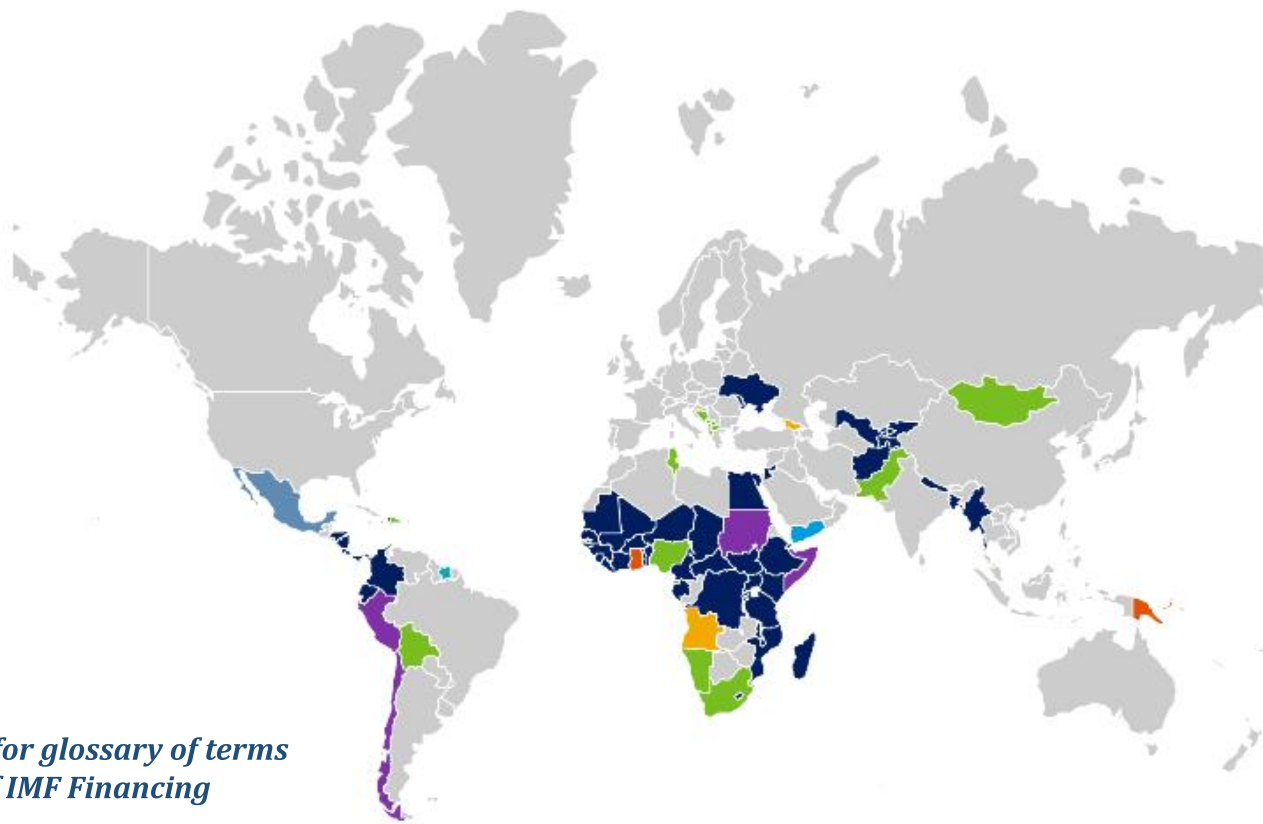
Countries Receiving Assistance and Debt Service Relief



**Refer next page for glossary of terms and types of IMF Financing*

● Multiple ● Rapid Financing Instrument (RFI) ● ● Augmentation of existing arrangement ● Rapid Credit Facility (RCF)

● New Arrangements ● Flexible Credit Line Arrangement (FCL) ● Extended Credit Facility (ECF) ● Extended Fund Facility (EFF)

● Catastrophe Containment and Relief Trust (CCRT)

Source : IMF/ SSB Research

Multiple options on the table in terms of the IMF

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A glossary of terms and types of IMF Financing

Purpose	Facility	Financing	Duration	Conditionality
Present, prospective, or potential BoP need	SBA	GRA	Up to 3 years, but usually 12-18 months	Ex-post
	SCF	PRGT	1 to 2 years	
Protracted BoP need/ medium-term assistance	EFF	GRA	Up to 4 years	Ex-post, with focus on structural reforms
	ECF	PRGT	3 to 4 years, extendable to 5 years	
Actual and urgent BoP need	RFI	GRA	Outright purchase	No Fund-supported program/ex-post conditionality, but prior actions possible
	RCF	PRGT	Outright disbursement	
Present, prospective, or potential BoP need (very strong fundamentals and policies)	FCL	GRA	1 or 2-year	Ex-ante (qualification criteria) and annual reviews for the two-year arrangements
Present, prospective, or potential BoP need (sound fundamentals and policies)	PLL	GRA	6 month (liquidity window) or 1 or 2-year	Ex-ante (qualification criteria) and ex-post
Non-financial/ signaling instruments	PSI	n/a	1 to 4 years, extendable to 5 years	Ex-post
	PCI	n/a	6 months to 4 years	

Stand-By Arrangement (**SBA**)

Standby Credit **Facility** (**SCF**)

Extended Fund **Facility** (**EFF**)

Extended Credit **Facility** (**ECF**)

Rapid Financing Instrument (**RFI**)

Rapid Credit **Facility** (**RCF**)

Flexible Credit Line (**FCL**)

Precautionary and Liquidity Line (**PLL**)

Policy Support Instrument (**PSI**)

Policy Coordination Instrument (**PCI**)

Source : MoF/ SSB Research/Department of External Resources

Sri Lanka's Debt Forecast:

In dire need of restructuring and proper fiscal management

Figure 1. Sri Lanka: Public Sector Debt Sustainability Analysis – Baseline Scenario

(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual		Prel.	Projections						As of January 14, 2022		
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026			
Nominal gross public debt	79.7	93.6	110.0	118.9	119.9	121.1	122.3	123.7	125.3	Sovereign Spreads		
o/w: guarantees & CBSL external liabilities	4.6	6.8	8.8	11.8	11.3	10.9	10.5	10.2	9.9	EMBIG (bp) 3/		2566
Public gross financing needs	21.1	20.6	26.2	30.1	32.8	36.2	36.9	38.6	40.1	5Y CDS (bp)		n.a.
Real GDP growth (in percent)	5.6	2.3	-3.6	3.6	2.6	2.7	2.8	2.8	2.8	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	5.3	2.7	3.4	5.7	10.5	7.0	6.3	5.8	5.3	Moody's	Caa2	n.a.
Nominal GDP growth (in percent)	11.2	5.1	-0.3	9.5	13.4	9.9	9.4	8.7	8.2	S&Ps	CCC	n.a.
Effective interest rate (in percent) [4/]	7.6	7.5	7.5	7.0	7.2	7.2	7.2	7.2	7.2	Fitch	CC	n.a.

Contribution to Changes in Public Debt

	Actual		Prel.	Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing
Change in gross public sector debt	1.8	2.6	16.4	8.9	1.0	1.2	1.1	1.4	1.6	15.3	primary
Identified debt-creating flows	0.2	3.8	14.9	2.4	-3.8	-0.5	-0.3	0.2	0.6	-1.4	balance [9/]
Primary deficit	0.9	2.0	6.2	4.9	2.78	2.5	2.2	2.0	1.8	16.1	-1.2
Primary (noninterest) revenue and grants	13.0	12.6	9.2	8.9	10.7	10.8	11.0	11.1	11.3	63.9	
Primary (noninterest) expenditure	13.9	14.6	15.4	13.9	13.5	13.2	13.2	13.1	13.1	79.9	
Automatic debt dynamics [5/]	-0.5	1.8	8.6	-2.5	-6.5	-2.9	-2.4	-1.7	-1.1	-17.2	
Interest rate/growth differential [6/]	-2.4	2.1	7.3	-2.5	-6.5	-2.9	-2.4	-1.7	-1.1	-17.2	
Of which: real interest rate	1.4	4.1	4.0	1.1	-3.8	0.1	0.8	1.4	2.1	1.6	
Of which: real GDP growth	-3.8	-2.0	3.3	-3.6	-2.7	-3.0	-3.1	-3.2	-3.2	-18.8	
Exchange rate depreciation [7/]	1.9	-0.3	1.3	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.2	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	-0.2	
Privatization proceeds (negative)	-0.2	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	-0.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	1.6	-1.2	1.6	6.5	4.8	1.7	1.4	1.2	1.0	16.6	

Source : IMF/ SSB Research

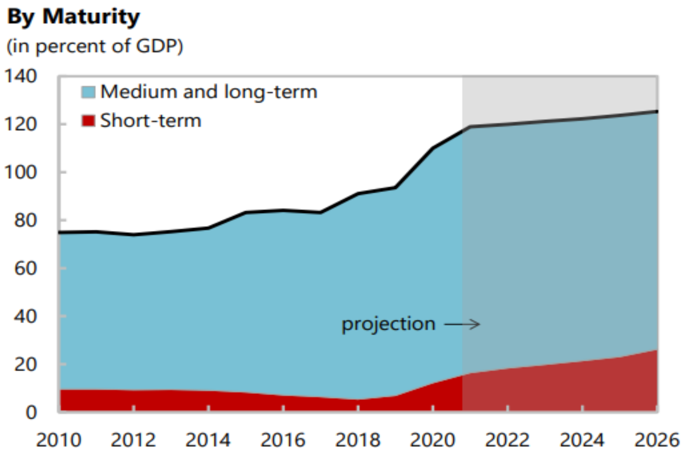
IMF Estimates: Sri Lankan Economic indicators

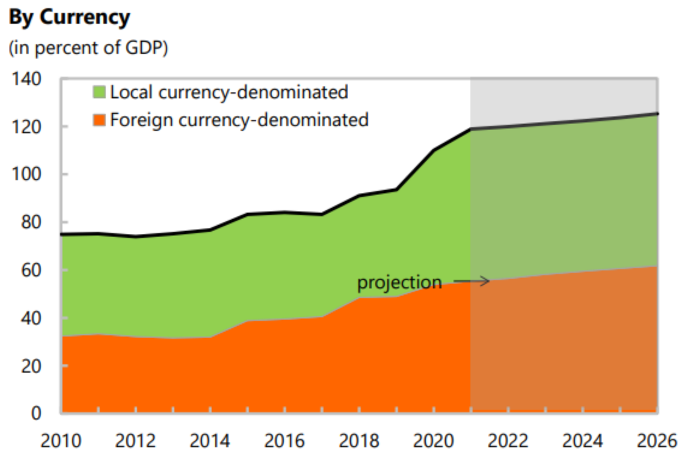
Table 1. Sri Lanka: Selected Economic Indicators, 2018–22

	2018	2019	2020	2021	2022
				Proj.	
Output					
Real GDP growth (percent)	3.3	2.3	-3.6	3.6	2.6
Prices 1/					
Inflation (average, percent)	4.3	4.3	4.6	6.0	10.5
Inflation (end of period, percent)	2.8	4.8	4.2	12.1	8.3
Central government finances					
Revenue and grants (percent GDP)	13.5	12.6	9.2	8.9	10.7
Expenditure (percent GDP)	18.8	20.6	21.9	20.3	20.3
Primary balance (percent GDP)	0.6	-2.0	-6.2	-4.9	-2.8
Overall balance (percent GDP)	-5.3	-8.0	-12.8	-11.4	-9.6
Central government debt (percent GDP)	84.2	86.8	101.2	107.1	108.6
Public debt (percent GDP) 2/	91.0	93.6	110.0	118.9	119.9
Money and credit					
Broad money (percent change)	13.0	7.0	23.4	15.4	13.9
Credit to the private sector (percent change)	15.9	4.2	6.5	13.8	13.0
Balance of payments					
Current account (percent GDP)	-3.2	-2.2	-1.3	-3.8	-3.8
FDI (percent GDP)	1.8	0.8	0.5	0.9	1.2
Reserves (US$ millions)	6,919	7,642	5,664	3,138	2,204
Reserves (months imports)	3.4	5.0	3.1	1.5	1.0
External debt (percent GDP) 3/	60.2	65.1	66.4	65.6	64.2

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).
3/ Valued at face value.

Composition of Public Debt





Source : IMF/ SSB Research

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