

# Today, Sri Lanka has Embarked on the Path of Renaissance

Let's move the country forward together.

April 26, 2023



President Ranil Wickremesinghe.

In a special statement delivered to Parliament President Ranil Wickremesinghe announced that Sri Lanka is on the path of renaissance and is re-emerging as a success story, with the expectation of support from the entire nation to carry it

forward.

The President highlighted the progress made in the Sri Lankan economy, which had previously collapsed due to riots, arson, and state bankruptcy. In just eight months, the country has turned its fortunes around and is now known as the 'Sri Lanka comeback story'.

The President also spoke about the International Monetary Fund agreement, which he presented to Parliament. He acknowledged that the country had failed to implement previous agreements with the International Monetary Fund, despite entering into 16 such agreements.

However, the President emphasized that there is no other active option for Sri Lanka but to sign an agreement with the International Monetary Fund at present.

President Ranil Wickremesinghe reassured the public that the restructuring of local debt would not harm members of the Employees' Provident Fund. Furthermore, he stated that a social safety net has been implemented to protect low-income people and create financial stability in the country.

With these measures in place, the President is optimistic about Sri Lanka's future and urged the nation to work together towards a brighter future.

Following is the full statement made by President Wickremesinghe;

I would like to address the concerns that have been raised in the media and elsewhere about the economic and financial issues that our country has faced. In July 2022, Sri Lanka was hit with riots, arson, and state bankruptcy, causing a complete loss of trust in our country. However, after eight months, we have managed to turn things around and it's now being called the Sri Lanka comeback story. We have entered the path of renaissance and are reborn, and I am counting on the support of the whole country to take it forward.

Let me give you a brief overview of the situation we faced. Our tax cuts in late 2019 cost us 4% of gross domestic product, and things only got worse with the Covid epidemic. In February 2022, the Sri Lankan Rupee depreciated by 40% against the US Dollar within three months, and it continued to depreciate. Economic growth contracted by 7.8% throughout 2022, and inflation in September 2022 exceeded 70%, with food inflation rising as high as 95%.

In this challenging backdrop, I decided to assume the presidency in July 2022 because I believed that our country could recover. If I had not taken responsibility during a time of agitations and protests, our country would have been completely destroyed. I didn't hesitate even when the paintings in my home library were burnt down and destroyed.

At that time, Sri Lanka's total debt was 83.6 billion US dollars, with foreign debt at 41.5 billion US dollars and domestic debt at 42 billion US dollars. By now, our overall debt ratio as a percentage of GDP has become 128%. Due to non-repayment of bilateral and private loans, the amount of outstanding debt from April to December 2022 was estimated at 2.7 billion US dollars.

By the middle of 2022, Sri Lanka was unable to import goods and services from abroad due to the worsening foreign exchange deficit. In May 2022, interest related to foreign loans failed to be paid. This was the first time in the history of Sri Lanka that we had to face such a situation.

As soon as I took over the Government, I began negotiations with the International Monetary Fund, the World Bank, and the Asian Development Bank. As a result, in September, we reached an agreement with the International Monetary Fund regarding extended credit facilities.

The comprehensive credit facility consists of six major reforms, which are as follows:

(a) Revenue Based Fiscal Consolidation – This reform includes institutional changes related to the public finance sector, strengthening the social security network, and introducing business reforms in the public sector.

(b) Restructuring of Public Debt

(c) Implementation of multiple strategies to ensure the restoration of financial stability, including the formation of foreign reserves under a flexible foreign exchange rate regime.

(d) Implementation of relevant policies and reforms to ensure the stability of the financial sector.

(e) Implementation of structural reforms necessary to control corruption – In this regard, the Minister will present the relevant draft.

(f) Taking necessary measures to enhance economic growth

Today, we received the financing assurance from foreign creditors, with the Paris Club and India working together to grant it. India was the first to publish it, and we are grateful for that. China is expected to deal with it separately, so we will discuss with the Paris Club and India on one hand and negotiate with China on the other. After these discussions, we will have talks with private creditors. This agreement will enable us to receive approximately \$3 billion from the International Monetary Fund over the next four years, with the potential to obtain about \$7 billion from other institutions. This money is crucial for us.

**With these measures in place, the President is optimistic about Sri Lanka's future and urged the nation to work together towards a brighter future.**

Additionally, we have regained the trust of foreign banks and financial institutions, with economic stability already being established in the country. Social Security is receiving more funding, and investors are showing a keen interest in Sri Lanka.

We have entered into agreements with the International Monetary Fund 16 times in the past, but we have not fully implemented them. On the 17<sup>th</sup> occasion, when we achieve stability, we must address our long-term weaknesses and move forward with a new program.

One of the points to address is debt restructuring talks with our bilateral countries and private creditors. We want to restructure these loans, as failure to do so will result in a loss of liquidity. In order for the Government to move forward, the restructuring must be done in rupees or dollars. The Government wants to obtain funds for this service. Therefore, we must first negotiate with foreign creditors. We hope to initiate these discussions soon, with domestic debt restructuring also being considered.

A final decision has not yet been made, but it is important to discuss this issue. Negotiations cannot be held with terms and conditions already in place. It is easier for us to join negotiations without conditions.

Every aspect must be given special attention to ensure that no one is harmed in the

process. Some banks may express their inability to cope with the program, but it is important for them to accept it in order to move the economy forward.

There are concerns that the stock market may collapse, and some may not be able to offer different conditions. However, decisions will be made in Parliament, and appropriate measures will be taken to ensure that no harm is done to anyone, such as the members of the Employees Provident Fund.

We have initiated necessary programs to support the poor, and the World Bank has provided funding for this. We are currently implementing a program to give aid to those who truly deserve it and remove those who do not. Our aim is to create financial stability and protect the low-income people.

To achieve these objectives, we are holding joint discussions with the Paris Club and India on one platform, while separate negotiations with China are also underway. We have nothing to hide, and several steps need to be taken in this regard.

We have taken 09 prior actions (PAs) which we agreed to so we are qualified. Under that these are;

#### Fiscal Consolidation

- Cabinet approval of revenue measures to support fiscal consolidation during 2023 in line with program parameters.
- Parliament approval of a revised 2022 Budget that is in line with program parameters.
- Submission to Parliament of the 2023 Appropriation Bill that is in line with program parameters.

#### Fiscal Structural Reforms

- Cabinet approval to automate monthly retail fuel price adjustment as prescribed by the 2018 fuel pricing formula to achieve cost recovery.
- Cabinet Approval to automate semi-annual cost-recovery based electricity price adjustment.

#### Multiple pillars

□ Cabinet approval of the new Central Bank Act with amendments from the bill submitted to Parliament in November 2019 in consultation with IMF-Staff. That has been done and we have to pass the bill here.

#### Financial Stability

□ Cabinet approval of Banking (Special Provisions) Act to strengthen key elements of the CBSL's Crisis management powers.

□ Hiring by the CBSL of an independent firm to conduct banking sector diagnostic exercise based on Terms of Reference and time line established in consultation with IMF staff.

#### Price Stability

□ Increase policy interest rates by 100 basis points to ensure forward - looking real policy rates on firmly upward path

The next item is I want to inform the House of the Proposed Quantitative Performance Criteria (PC) and Indicative Targets (IT).

Central Government primary balance 2022 - 895 Bn by end December we want to make it -209 Bn.

The net official international reserves US\$ -3 Bn 540,000. By end December we want it to be - 1 billion 592,000.

Net credit to the government of the CBSL Rs. 2 Trillion 834 billion. By end December it should be 2 Trillion 740 Billion.

The Stock of expenditure arrears of the Central government 2022 60 Billion it will be 30 billion.

Central government tax revenue flow 2022 it was 1 Trillion 751,000 end March it was 650 billion but I must say we have fallen short in some areas such as Customs because the imports have been reduced, but on other had we have increased direct Taxation.

The tax revenue finally the target for the end of the year is 2.9 billion.

Social spending by the central government 142 billion by 2022, 187 Bn by end of 2023.

The Treasury guarantees ceilings was 1.159 Trillion last year and it will go up to 1 Trillion 700 Bn. I would

like to tell you the Structural Benchmarks required for macroeconomic adjustment.

□ Parliamentary approval of the new Central Bank Act which will be tabled in parliament next month -

□ Completion of the asset quality review component of bank diagnostic exercise for the two largest state-owned banks and the three largest private sector banks

□ Parliamentary approval of the welfare benefit payment scheme and the application of the new eligibility criteria to identify low-income families for receiving welfare benefit payments - End of May

□ Cabinet approval of a comprehensive strategy to restructure the balance sheets of the CEB, CPC, SriLankan Airlines, and the Road Development Authority - End-JUNE

□ Cabinet approval of a full revision of the Banking Act - End-JUNE

□ Enact new anti-competition legislation to harmonize it with the United Nations Convention against Corruption, pending comprehensive asset recovery provisions. it is a new anti-corruption legislation - End-JUNE

□ Cabinet approval of revenue measures to support fiscal consolidation during 2024 - End-JULY

□ Development by the CBSL of a roadmap for addressing banking system capital and Foreign exchange liquidity shortfalls and intervening in banks assessed to be non-viable - End-JULY

Completion of the rollout of the ITMIS, expanding its coverage to all 220 heads - End-SEP

Publication of the report of an IMF-led governance diagnostic technical assistance mission to assess Sri Lanka's anti-corruption framework - End-SEP

Submission to Parliament for the first reading of the 2024 Appropriation Bill - End-OCT

Determination by the MOF of the size, timing, instruments, and terms and conditions for potential government recapitalization of viable banks which are unable to close capital shortfalls from private sources - End-OCT. 2023

Parliamentary approval of the 2024 Appropriation Act and the spending allocations in line with program parameters - End-DEC. 2023

Submission to Parliament of a new PFM law that will authorize the budget formulation process, roles and responsibilities of relevant agencies, and information and accountability requirements - End-DEC 2023

Improve the Bulk Supply Transaction Account (BSTA) to accurately measure the electricity subsidy, and start using it to determine the cost recovery based electricity tariff and government transfer requirement - End-DEC 2024

Parliament approval of a full revision of the Banking Act - End-DEC 2023

Set retail fuel prices to their cost-recovery levels with monthly formula based adjustments, and compensate the CPC for providing any fuel subsidies with on budget transfers - Continuous

Adjust the end-user electricity tariff schedule to its cost-recovery with semi-annual formula-based adjustments on a forward-looking basis in January and July each year - Continuous

**Our aim is to create financial stability and protect the low-income people. To achieve these objectives, we are holding joint discussions with the Paris Club and India on one platform, while separate negotiations with China are also underway. We have nothing to hide, and several steps need to be taken in this regard.**

The last one is Achieving Debt Sustainability

□ Debt stock: Public debt should decline below 95 per cent of GDP by 2032

□ Post-programme gross financing needs: average annual gross financing needs of the central government during 2027- 32 should remain below 13 per cent of GDP compared to 34.6% in 2022

□ Post-programme foreign exchange debt service: annual foreign exchange debt service of the central government should remain below 4.5 per cent of GDP in each year over 2027-32 compared to 9.4% in 2022

□ Programme financing gaps: debt service reduction during 2023-27 should be sufficient to close external financing gaps.

Under staff baseline scenario, US\$17 billion in debt service reduction is required, including the arrears accumulated in 2022

So we are trying to get a 17 billion debt reduction on that side. Do you want it or not. Are we going in for debt restricting? We can't manage without debt restructuring. That is what I want to make it clear to all the members.

However stability alone is not enough for us. In actuality, the nominal GDP for 2019 was just \$89 billion during this period. The gross domestic product will be the same in 2028 as it was in 2019. If we stay with the growth rate of 3%, we can lose the national income of nine years. If we maintain the current growth rate of 3%, we may lose nine years of national revenue. Furthermore, it has been predicted that the Sri Lankan GDP will decrease by around 3% in 2023.

Economic positivity will likely be confirmed in the fourth quarter of 2023. If the economy grew at least 3% or 7% each year starting in 2019, our GDP would be worth 110 billion dollars. But if we go to 5%, it will be 130 billion dollars. In fact we believe we will be able to reach 3% or 4% in the first two to three years.

Following that, we must aim for a growth rate of at least 6% to 7% over this time period. That should be agreed upon by everyone in this House. However, this may be done at 7% or 8%. We have opportunities for that. That is why we are restructuring the entire legal system. Some regulations have to be removed. Some people wonder why corporations are being sold. They can be better run by the private sector. We leave them to the private sector.

In addition, various restrictions have been imposed for 25 to 30 years, depending on the preferences of each ministry. Let us now look at the economy and decide which

limits will be retained and which will be lifted. A highly competitive social fair market system is required. We require a green economy. The economy must be digitalized. There are several activities available for this. Agriculture is being modernized, and new industries are being introduced. That is something I will address separately.

We have no other option but the IMF agreement. There have not been alternative suggestions. If there is no other alternative, let's approve this. I also urge the opposition to work together. Let's get both parties together and pass this.

Representatives of the International Monetary Fund visit our country every six months. Therefore if there are any shortcomings, we may address them and find a solution. Trade unions have highlighted concerns about taxation. All of these people will discuss and come up with a solution, and then we will all join together and develop a single national policy framework.

What is the country's national policy framework till 2048? There are policies and initiatives in place for the first five years. Let's discuss them. There is a national assembly. In particular, there are other committees. Let's make the entire Parliament a Government to implement this program. Let's get together for this. There may be differing viewpoints. However, everyone must back this initiative.

Now we have to build the country for 2048. If we do not accomplish this, we would be betraying the country's youth. Their future has been destroyed. Think about the youth of the country. Don't just think about grabbing power only. If this program is not done, none of us will be able to survive in another two or three years. So I urge everyone to come together to approve this. After that we will come together and prepare the set of policies required until 2048. I also, urge you to provide support to implement the program during the next five years.

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