

While Sri Lanka's economic performance is on track, based on the IMF-backed reforms programme, the economy remains vulnerable to adverse shocks given the still sizable public debt and low external buffers, the IMF said in statement on Friday.

"Looking ahead, to secure these hard-won gains and support inclusive, sustained growth, the reform momentum needs to continue and policy frameworks and institutions further strengthened," it said at the end of mission visit to Colombo.

An IMF staff team led by Manuela Goretti visited Colombo from February 27 – March 9 to hold discussions for the 2018 Article IV consultation and advance the technical work on the fourth review of Sri Lankan authorities' economic reform programme under the three-year Extended Fund Facility (EFF).

The IMF mission said it had constructive discussions with the Sri Lankan authorities on the consultation and made progress towards a staff-level agreement on the fourth review of the EFF-supported program. Programme discussions will continue in April in Washington D.C. during the Spring Meetings of the IMF and the World Bank, the statement said.

The visit comes in the backdrop of pressure on the Government to break its tight spending patterns and give in to subsidies and welfare measures after major reversals at the local government elections. Racial clashes in Kandy this week compelling the imposition of a nationwide state of emergency has cramped tourism growth and dampened enthusiasm on foreign investment, a key factor in reducing the balance of payment.

The IMF said following a series of weather-related shocks in 2017, the economy is gradually normalizing with real GDP growth projected to rise to 4.4 per cent in 2018. Inflation is projected to revert to around 5 per cent by end-2018, as food prices stabilize.

The statement said that despite weather-related shocks and some delays in implementation, programme performance remains broadly on track. The new Inland Revenue Act (IRA), effective from April 1, 2018, and the Central Bank (CB)'s Roadmap towards inflation targeting represent landmark reforms and their successful implementation is critical going forward. "The CB has been effective in curbing credit growth and stabilizing inflation despite recent pressures, while stepping up its pace of reserve accumulation," the IMF said.

The multilateral agency urged the authorities should push ahead with their Vision 2025 strategy to support Sri Lanka's rapid and inclusive growth through ambitious structural, macro-economic, and social reforms.

It said the new IRA represents a major achievement towards a simpler and more equitable tax system, and its smooth implementation will be critical. There is also scope to further strengthen efficiency of public investment and social safety nets.

"The authorities should remain vigilant against a buildup of systemic risks in the financial sector. If needed, further macro-prudential tools can be considered to curb

excessive credit growth in certain sectors. The banking sector is on track to meet the Basel III requirements and should prepare contingency plans to insure against an adverse shock. Non-bank financial institutions should be subject to the same level of oversight as banks, with problem institutions promptly resolved,” it said.

The IMF said efforts to combat corruption should be stepped up, including through greater transparency in fiscal and SOE management among other matters.

The mission met with Prime Minister Ranil Wickremesinghe, State Minister of Finance Eran Wickramaratne, State Minister of National Policies and Economic Affairs Dr. Harsha De Silva, Governor of the Central Bank of Sri Lanka Dr. Indrajith Coomaraswamy, other public officials, and representatives of the business community, civil society and international partners.