PRESS RELEASE

EMBASSY OF SRI LANKA, WASHINGTON DC

IMF NOTES SRI LANKA'S ECONOMIC EXPANSION, CONTINUED GROWTH

WASHINGTON, D.C. (Aug. 24, 2010) – The International Monetary Fund has projected, "strong growth this year" for Sri Lanka's economy, noting that the island nation's "fiscal performance so far remains consistent with achieving the government's full-year deficit target of 8 percent of GDP."

The IMF, which has extended a $2.6 billion standby loan facility to Sri Lanka, regularly reviews the nation's economic performance. In the review just ended, the IMF notes that, "Overall economic conditions are improving as expected in the last visit, and the economy is likely to show strong growth this year."

The IMF found that a recent rate cut by the Central Bank of Sri Lanka was "appropriate," as bank lending is rebounding." The review found "little sign of emerging demand-driven inflation, and average inflation for the year as a whole is expected to remain in the single digits."

Sri Lanka's continued strong economic performance is notable because it suffered through nearly three-decades of conflict against the terrorist group Liberation Tigers of Tamil Eelam, which it defeated in May 2009. While Sri Lanka's economy managed to show strong resilience during the conflict years, the fighting kept wary foreign investors and tourists away.

Today, however, foreign investment and tourism have both shown notable increases, the IMF found.

"External balances are strong," the review stated," remittance inflows continue at a high rate, tourism prospects continue to improve rapidly, and gross reserves remain at comfortable levels.

"The end of the 30-year war has led to a surge in investor enthusiasm, bolstered by the decline in the risk of a short-term balance of payments crisis—and future growth prospects have improved markedly."

The IMF stated that Sri Lanka is also meeting the conditions of its loan program: "Performance under the program has been good. End-June performance criteria on domestic budget borrowing, reserve money, and net reserves have been met. With budget revenues increasing and expenditure restraint continuing, fiscal performance so far remains consistent with achieving the government's full-year deficit target of 8 percent of GDP. Financial sector reforms continue to go forward in line with the program."

Like most economies, Sri Lanka faces future challenges as the global recovery continues. The IMF noted that, "significant near- and medium-term macroeconomic challenges will need to be addressed, however, if Sri Lanka is to take full advantage of the current favorable environment."

The report notes, however, that those challenges are being met.

"First," the IMF states, "a fundamental tax reform is needed—and planned—to simplify the existing system, broaden the tax base (including by restricting concessions), spread the tax burden more equitably, and support economic growth, all while boosting the revenue-to-GDP ratio."

The Fund also suggested that private-sector investment, "will need to play a critical role," in Sri Lanka's continued growth and stability.

Sri Lanka has already launched ambitious programs to expand foreign direct investment, including a Private-Public Partnership Initiative by the Embassy of Sri Lanka in the United States and the Office of the U.S. Trade Representative.

Embassy of Sri Lanka
Washington DC
USA

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