

IMF bailout finally arrives in Sri Lanka: -

How does the way look forward?

Sri Lanka was assured by the International Monetary Fund (IMF) that it had qualified for receiving funds under its Extended Fund Facility program in September 2022, but it took another 6 months for Sri Lanka to avail of this facility after getting assurances from China, India, and Japan with the necessary financial guarantees to regain financial stability. This debt reservicing comes after it had obtained funds from Asian Development Bank and World Bank previously.

The deal comprises certain conditions namely:

- (1) Revenue-based deficit reduction with bolstered welfare programs, fiscal institutional changes, and cost-recovery-based energy pricing to guarantee the state can afford all of its necessary expenditures;
- (2) The sustainability of public debt brought about by debt relief to guarantee consistent funding of governmental functions.
- (3) Targeted approach to back price stability, build reserves using flexible exchange rates to reduce inflation, on the poor, and guarantee Sri Lanka's capacity to buy basic products from abroad, and
- (4) systemic measures to address corruption risks and boost growth.

Though President Wickremesinghe assured Lankan citizens that problems will be solved before December 2022, he further pushed the timeline when China did not join hands. Lastly, Wickremesinghe, on March 7th, notified the Parliament that the Chinese Exim Bank provided a "fresh letter" of support to the government. In its letter, the Exim Bank declared that it was willing to continue the two-year suspension of Sri Lanka's debt to it. Citing IMF data, it showed Sri Lanka owed the Exim Bank \$2.83 billion in 2022 (i.e., 9% of all external national government arrears). Around \$82 billion in bilateral and commercial lending made up Sri Lanka's entire borrowings by 2022, and \$2 billion has to be reimbursed before June 2023.

