



SRI LANKA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 10, 2022

Prepared By

Asia and Pacific Department (in collaboration with other
departments)

CONTENTS

FUND RELATIONS	2
RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS	6
STATISTICAL ISSUES	7

FUND RELATIONS

(As of December 31, 2021)

Membership Status: Joined: August 29, 1950; Article VIII

General Resources Account:	SDR Million	Percent Quota
Quota	578.80	100.00
Fund holdings of currency	1,433.23	247.62
Reserve Tranche Position	47.86	8.27

SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	950.21	100.00
Holdings	88.28	9.29

Outstanding Purchases and Loans:	SDR Million	Percent Quota
Extended Arrangements	902.27	155.89

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	06/03/2016	06/02/2020	1,070.78	952.23
Stand-By	07/24/2009	07/23/2012	1,653.60	1,653.60
ECF ¹	04/18/2003	04/17/2006	269.00	38.39

Overdue Obligations and Projected Payments to Fund² (SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
Principal	104.39	129.08	158.70	158.70	148.71
Charges/interest	10.08	8.98	7.50	5.78	4.08
Total	114.47	138.06	166.21	164.49	152.79

¹ Formerly PRGF.

² When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Safeguards Assessment:

The 2016 update safeguards assessment found that the Central Bank of Sri Lanka (CBSL) continued to strengthen its safeguards framework in a number of areas, including in its audit and financial reporting functions. Transparency in financial reporting has been maintained and the external audit mechanism is sound. Progress has been made in modernizing the internal audit function. However, the assessment found that the CBSL Monetary Law Act (MLA) fell short of leading international practices, especially in the areas of the bank's autonomy and aspects of its governance arrangements. While the CBSL implemented all safeguards recommendations, no amendments to the MLA were made.

Exchange Rate Arrangement:

The *de jure* exchange rate arrangement is free floating since its introduction by the Central Bank of Sri Lanka (CBSL) on January 23, 2001. The *de facto* exchange rate arrangement was reclassified from floating to crawl-like effective April 29, 2021. The Sri Lankan rupee depreciated by 10.4 percent in 2020-2021 and was Rs 201.1 per U.S. dollar as of January 20, 2022. While the CBSL allowed the exchange rate to fluctuate from the onset of the COVID-19 global pandemic in March 2020, the rupee has been *de facto* pegged to the U.S. dollar since April 2021. The CBSL maintains restrictions on payments and transfers for current international transactions for the preservation of national or international security that have been notified to the Fund pursuant to Executive Board Decision 144 (52/51).

Sri Lanka also maintains a multiple currency practice subject to Fund jurisdiction under Article VIII, Section 3. It arises from a temporary incentive scheme for inward worker remittances under which the authorities offer an additional incentive over the exchange rates used by banks for such remittances, with the deviation between the more favorable (effective) exchange rate used for qualifying inward workers remittances and the exchange rate used for other inward remittances being more than 2 percent.

Article IV Consultation:

It is proposed that that the next Article IV Consultation with Sri Lanka takes place on the standard 12-month cycle.

ROSC Assessments:

- STA: A data ROSC was completed and the report published in 2002.
- FAD: A fiscal transparency ROSC was completed and the report published in 2002. A ROSC update was completed and the report published in July 2005.

FSAP and FSSR Participation:

- MCM: An FSAP took place in 2002; an FSAP update was done in 2008; and an FSAP stability module was conducted in 2012. A Financial System Stability Review was completed in 2019.

Capacity Development:

- FAD. TA has been provided in a wide range of areas. In 2020, TA was provided on implementing the new Inland Revenue Act (IRA), enhancing corporate tax compliance, and assessing tax expenditures. In 2019, TA was provided to review the tax and customs administrations, enhance tax compliance, improve cash and debt management, and (jointly with LEG) update the fiscal rule. In 2018, TA was provided on implementing PPPs and enhancing VAT compliance.
- ICD. TA missions on macroeconomic forecasting, including developing and implementing a Forecasting and Policy Analysis System (FPAS) and a semistructural Quarterly Projection Model (QPM) have continued under Phase II of the project, which focuses primarily be on integrating the FPAS into the decision-making processes of the CBSL.
- LEG. LEG assisted the authorities in drafting amendments to the Monetary Law Act and provided technical assistance to the Financial Intelligence Unit on enhancing the AML/CFT framework and supervisory tools, drafting of amendments to related legislations and regulations, and deploying a new IT system.
- MCM. Following the completion of FSSR in 2019, an FSSR follow up TA project was launched, which included placement of a resident advisor to CBSL on macroprudential policy issues (from August 2020) as well as periodic short-term TA missions on stress testing (April 2021) and technology risk management for nonbank financial institutions (May 2021 and November 2021). During 2018-21, TA missions have also been provided in the areas of monetary and foreign exchange operations (September 2018, November 2020, and June 2021) and institutional framework for public debt management (August 2019).
- STA. STA has been closely engaged with the authorities in various areas, including national accounts, price statistics, government finance statistics, and monetary accounts (see also the section on statistical issues below). From 2019 to 2021, assistance was provided to the CBSL to develop new residential property price indexes.
- SARTTAC: SARTTAC has provided extensive TA and training in a wide range of areas. In the fiscal sector, in 2021 training was provided to strengthen the new Macro-Fiscal Unit at the Ministry of Finance. In 2019, TA was provided on revenue mobilization and the compilation of Government Finance Statistics (GFS). In the real sector, TA was provided in price statistics as well as benchmarking/rebasing national accounts statistics. In the monetary sector, SARTTAC has provided Sri Lanka with TA to enhance the effectiveness of monetary policy implementation and, in coordination with ICD, continued to support the CBSL in incorporating FPAS into the decision making processes. In-country and regional macro training courses (some were delivered virtually

during the pandemic) also included macro-diagnostics, financial programming, and financial sector supervision.

Resident Representative

Since November 2018, Mr. Tubagus Feridhanusetyawan has been the resident representative based in Colombo.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: <https://www.worldbank.org/en/country/srilanka>

Asian Development Bank: <https://www.adb.org/countries/sri-lanka/main>

STATISTICAL ISSUES

(As of January 24, 2022)

I. Assessment of Data Adequacy for Surveillance
<p>General: Macroeconomic statistics are broadly adequate for surveillance, but weaknesses remain in the timeliness and coverage of certain statistical series. Fiscal statistical coverage has yet to be expanded beyond the budgetary central government, which hinders a more comprehensive fiscal risk analysis. While monetary aggregates are reported and published regularly and timely, detailed monetary statistics are only available after a long lag.</p>
<p>National Accounts: In 2015, the Department of Census and Statistics (DCS) released a comprehensive revision of the national accounts. The revision included a change of base year from 2002 to 2010; an expanded coverage for the service sector; and several improvements in the compilation methods. An STA mission in August 2021 assisted the DCS to prepare an updated set supply and use tables for 2015, which will be used to benchmark a revised set of national accounts (base year 2015). The DCS has scheduled, at the earliest, the release of the new national accounts series for February 2022. The DCS began publishing quarterly national accounts in 2015. However, the data are presented on a basis relative to the same quarter of the previous year. GDP data by expenditure are available on quarterly and annual basis and rely mostly on commodity flow methods.</p>
<p>Price Statistics: The DCS released new national Consumer Price Indexes (NCPI) and a Producer Price Index (PPI) in 2015. The NCPI and Colombo Consumer Price Index (CCPI) are currently based on weights from the 2012/13 Household Income and Expenditure Survey (HIES). The weights for both the CCPI and NCPI should be updated to include the results of the 2019 HEIS, which were released in 2021. In 2021, a revised PPI was published, incorporating new samples of producers and transactions, and an update to the production weights from 2010 to 2016. The updated weights reflected a shift in industrial activity from agriculture to manufacturing. The DCS should aim for more timely updates of the weights based on Annual Survey of Industry data, as the 2019 results were released in late 2021.</p>
<p>Government Finance Statistics: The Sri Lankan authorities report budgetary central government operations data in <i>GFSM 2014</i> format on an annual basis and debt data to the World Bank's Public-Sector Debt Statistics database on a quarterly basis. Further improvements are needed in the fiscal data, including resolving significant statistical discrepancies in 2013-2017 and 2020, filling the data gaps in the time series, reconciling positions in assets and liabilities, and releasing monthly or quarterly data in a timely manner. The immediate focus is the compilation of the data for the central government while the authorities work towards expanding the institutional coverage. An important challenge that must be addressed before there is an expansion of statistical coverage beyond the central government is a thorough examination of 188 of the 248 existing entities that are owned/controlled by the budgetary central government, so that they can be sectorized properly. Authorities are also working on improving other statistical requirements, including the new Integrated Treasury Management Information system (ITMIS) that has been customized to reflect a</p>

Chart of Accounts (COA) highly aligned with *GFSM 2014*; and the elaboration of a roadmap for a transaction from a cash to accrual accounting basis of reporting.

Monetary and Financial Statistics: The CBSL compiles and publishes monetary and financial statistics, with concepts, definitions, and classification that are broadly in line with the *Monetary and Financial Statistics Manual (MFSM) 2000*. Beginning in June 2011, data are based on a standardized report form (SRF) for the central bank and other depository corporations. Central bank balance sheet data are frequently delayed due to technical issues stemming from the creation of new accounts. Moving forward, monetary data should be expanded to include the financial accounts of other financial corporations (pension funds, insurance corporations, and collective investment funds, as well as non-deposit taking leasing and finance companies) that account for about 30 percent of total financial sector assets.

CBSL has not reported data to the Financial Access Survey (FAS) since 2016. Until 2016, CBSL reported data for some FAS indicators, including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial sector surveillance: The CBSL regularly reports quarterly FSIs to the IMF for publication. Currently, the CBSL reports 11 core and 8 encouraged FSIs.

External sector statistics (ESS): Since 2014, the CBSL is reporting to STA its International Investment Position (IIP) and balance of payments statistics (BOP) on a quarterly basis following the sixth edition of the *Balance of Payments Manual (BPM6)*. The timeliness of ESS, particularly IIP, could be improved. A technical assistance mission on ESS conducted in May 2015 observed commendable progress in improving the quality of the data, including a better coverage of the balance of payments, IIP, CDIS and external debt.

II. Data Standards and Quality

Sri Lanka subscribed to the IMF's Special Data Dissemination Standard (SDDS) on November 3, 2015. Sri Lanka's latest SDDS [Annual Observance Report](#) and [metadata](#) are available on the Dissemination Standards Bulletin Board.

A data module Report on the Observance of Standards and Codes ([ROSC](#)) for Sri Lanka was published in May 2002.

Table 1. Sri Lanka: Common Indicators Required for Surveillance¹

(As of January 2022)

	Date of latest observation	Date received	Frequency of Data ⁸	Frequency of Reporting ⁸	Frequency of publication ⁸
Exchange rates	Today	Today	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ²	11/2021	01/06/2022	M	M	M
Reserve/Base Money	11/2021	01/06/2022	M	M	M
Broad Money	11/2021	01/06/2022	M	M	M
Central Bank Balance Sheet	11/2021	01/06/2022	M	M	M
Consolidated Balance Sheet of the Banking System	11/2021	01/06/2022	M	M	M
Interest Rates ³	11/2021	01/06/2022	M	M	M
Consumer Price Index (New Colombo CPI)	1/2022	1/2022	M	M	M
Revenue, expenditure, balance, and composition of financing – general government ^{4,5}	N/A	N/A	N/A	N/A	N/A
Revenue, expenditure, balance, and composition of financing – central government ^{4,5}	11/2021	1/2022	M	M	Q
Stocks of central government and central government-guaranteed debt ⁶	2021Q3	11/2021	Q	Q	Q
External Current Account Balance	2021Q3	12/2021	Q	Q	Q
Exports and Imports of goods and services	2021Q3	12/2021	Q	Q	Q
GDP/GNP	2021Q3	12/2021	Q	Q	Q
Gross external debt	2021Q3	12/2021	Q	Q	Q
International Investment Position ⁷	2021Q3	1/2022	Q	Q	Q
¹ TCIRS latest updates based on National Summary Data Page and the authorities' submissions to the IMF country team. ² Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional value of financial derivatives to pay and receive foreign currency, including those linked to a foreign currency but settled by other means. ³ Both market-based and officially-determined, including discount rates, money market rates, and rates on treasury bills, notes, and bonds. ⁴ Foreign, domestic bank, and domestic nonbank financing. ⁵ The general government consists of the central government (Budgetary government, including Special Spending Units, all Ministries, Departments, and District Secretariats), Provincial Councils and Local Governments. ⁶ Including currency and maturity composition. ⁷ Includes external gross financial asset and liability positions vis-à-vis nonresidents. ⁸ Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annual (A); Irregular (I); Not Available (NA).					