



Written by [Angeline Tan](#) on December 18, 2022

Sri Lanka Won't Get IMF Bailout by Year End

SINGAPORE — The executive board of the International Monetary Fund (IMF) is not expected to formally authorize Sri Lanka's planned US\$2.9 billion bailout before year end.

Sri Lanka inked an IMF staff-level agreement in June to, with the deal submitted for authorization and depending on the Sri Lanka authorities abiding by with hitherto agreed measures.

In September, Sri Lanka said that it expected the IMF board to approve the deal by the end of 2022. However, recent months have seen limited progress, leading to the country's finance minister admitting in November that the wait might extend into January.

Before the IMF will disburse the funds, Sri Lanka has to obtain prior financing assurances from creditors, ensure a sustainable way to deal with its heavy debt burden, and raise public revenue. The IMF emphasized joint talks with three of Sri Lanka's main bilateral creditors — China, Japan and India.

The IMF's online board calendar, which has included meetings through December 22 to discuss progress and new loans for a number of emerging economies, failed to add Sri Lanka in the list.

In response to a question, Sri Lanka's Finance Ministry said it is "100 percent focused" on securing IMF approval.

"We are taking every necessary policy step to secure financing assurances from our bilateral creditors as quickly as possible," said the ministry in an emailed statement.

Also, IMF officials for Sri Lanka acknowledged in e-mailed comments to *Reuters* that it is "difficult to predict the timeline for board approval, as the process of debt discussions takes time."

In October, Sri Lanka said it aimed to nearly double its tax revenue to around 15 percent of gross domestic product by 2026 from the current 8.5 percent. This is a key step toward obtaining the IMF bailout.

The embattled Sri Lankan economy can turn around by the end of 2023 if budget policies, which are not limited to the International Monetary Fund's (IMF) recommendations, are abided by, President Ranil Wickremesinghe said in the country's budget speech.

Furthermore, the IMF recommendations are regarded as measures to uphold the economy, Wickremesinghe, who also serves as the country's finance minister, told Parliament as he delivered the first annual budget since he assumed power in July.

The country's budget will probably incorporate specific measures to decrease the government's deficit and convince the IMF to offer a bailout package.



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Wickremesinghe said the government plans to decrease debt to less than 100 percent of gross domestic product (GDP) over the medium term and attain economic growth of seven percent. The country has set export and foreign direct investment goals of US\$3 billion each over the medium term.

Previously, the country's government under Gotabaya Rajapaksa was slammed for its mismanagement of the economy. In a nod to green globalists, the Sri Lankan government had mandated organic farming and criminalized synthetic fertilizers.

Contrary to globalist claims that organic farming methods can produce the same yields as conventional farming, domestic rice production nosedived by 20 percent in just the first six months.

The ban was ultimately rolled back after widespread protests, but very little of the chemical fertilizer ever made it to the agricultural industry of the nation.

Consequently, Sri Lankans are now faced with food shortages, fuel and medication shortages, skyrocketing inflation, a faltering currency, and low foreign exchange reserves.

Although the previous government of president Gotabaya Rajapaksa and prime minister Mahinda Rajapaksa are out of power, Sri Lanka remains susceptible to political unrest as worries of a global recession have compounded the existing economic problems in the country.

Earlier in November, Foreign Minister Ali Sabry said in an interview with *The Straits Times* that "the single biggest challenge" before dollar-strapped Sri Lanka today was to win the assurances about debt relief from its bilateral lenders, which will help it secure a US\$2.9 billion bailout from the IMF.

To get the bailout from the IMF, bankrupt Sri Lanka must "pass a checkpoint of demonstrating that its debt will be more sustainable in the future," economist Anushka Wijesinha told *The Straits Times*.

Measures to persuade the IMF entail obtaining provisional assurances from bilateral lenders such as China, Japan, India, and global private-sector lenders about restructuring the terms of repayment. Unless Sri Lanka secures such assurances from its creditors, the IMF would not process its bailout application.

As of June 30, Sri Lanka had a foreign debt of US\$35 billion that includes bilateral, multilateral, and commercial loans. Most of it is owed to global private creditors through international sovereign bonds (debt instruments issued by the Sri Lankan government), which analysts say successive governments staked their import-dependent economy on for at least 15 years. It has to repay US\$10.9 billion in bilateral loans, US\$9.3 billion in multilateral borrowing, and US\$14.8 billion for commercial loans, based on government data released on November 3.

China is the top bilateral lender, accounting for 43 percent of the country's total bilateral debt. Japan and India follow at 24 and 14 percent, respectively.

The highest levels of the Sri Lankan government are following up on the progress of debt restructuring "almost every other working day," said Sabry, who served briefly as finance minister this year.

Sri Lanka hopes its bilateral lenders can restructure its debt by decreasing the principal amount or temporarily suspending interest payouts. Sabry said Colombo had made some progress with Japan, which is being guided by the Paris Club of wealthy nations including France and Australia that have experienced similar situations before.

Wijesinha pointed out that "the major sticking point" was that China typically preferred to extend the maturity date of loans over "offering haircuts on debt."



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Nonetheless, to maintain good ties with various countries, Sri Lanka would like to restructure all loans so that all creditors receive equitable treatment.

Protests died down in the island nation after the new Wickremesinghe government imprisoned prominent activists as well as reduced fuel shortages with purchasing help from India and a new voucher system to prevent long queues.

Nevertheless, there has been limited progress in the lives of ordinary people.

“Life is as tough as it was some months ago,” said taxi driver Devaka Fernando, 32, who hasn’t seen tourists, his main source of income, since July.

Foreign minister Sabry urged “visitors who know our tourism potential” and investors who can leverage “our great location and human resources” to spend their dollars on Sri Lanka.

In the end, Sri Lanka’s problem is not the paucity of economic ideas but their poor implementation, said Wijesinha, co-founder of the think-tank Centre for a Smart Future. “Unfortunately, the cabinet, ministries and key institutions are headed by the same people whose decisions ruined the economy,” said Wijesinha.



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