VERITÉ RESEARCH
DEBT UPDATE

17 May 2023

The Verité Research Debt Update provides a regular update for investors, policy makers and analysts, on the latest developments in this space together with commentary and analysis on Sri Lanka's path to resolving its economic crisis since suspending debt repayment in April 2022.

VERITÉ RESEARCH
Strategic Analysis for Asia

Verité Research is an independent think-tank based in Colombo that provides strategic analysis to high level decision-makers in economics, law, politics, and media.

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KEY DEVELOPMENTS

- The IMF Debt Sustainability Analysis (DSA), which was made public only after 20th March 2023 projects a decline in debt to GDP from 128% of GDP in 2022 to 101.3% of GDP in 2028. In the DSA, the contribution to debt reduction is mainly through reducing the real cost of borrowing and through debt restructuring, rather than through the improvements to the net revenue of the government.

- The IMF DSA projects that the effective interest rate will decline by 2.5 percentage points in absolute terms from 2022 to 2023 and stabilise later at less than 7%. This implies that the yield curve is projected to reduce rapidly and reach values at or around its 2019 levels by the end of 2023. The IMF does not provide guidance on the analytical basis for these optimistic expectations.

- To mitigate the risk of this assumption in the IMF analysis being over-optimistic, Sri Lanka will need a much deeper reduction in outstanding debt, than would be benchmarked based on the present DSA. Alternatively, Sri Lanka will need to allow for higher levels of inflation than currently planned.

- The IMF program has 100 commitments at present. The progress on these is publicly trackable on an online platform maintained by Verité Research. By the end of April, Sri Lanka has recorded conscientious progress by completing 25. There are, however, at least 2 commitments that remain overdue. The success of 10 commitments cannot be ascertained by data in the public domain.

2022 Outcomes Are Slightly Better Than IMF Program Expectations

The Debt Sustainability Analysis (DSA) is a critical tool used by the International Monetary Fund (IMF) to assess the ability of countries to service their debts over the medium and long term. This assessment is based on a set of assumptions made by the IMF, which are then compared to actual data to assess their reliability.

The table below compares the projections made for 2022 by the IMF in its debt sustainability analysis with the actuals from the CBSL annual report of 2022.

Indicator	IMF estimate for 2022	Actuals for 2022	Deviation
Real GDP growth (percent)	-8.7	-7.8	+0.9
Inflation (GDP deflator; percent)	46.6	48.8	+2.2
Nominal GDP growth (per cent)	33.9	37.2	+3.3
Effective interest rate (percent)	9.7	9.7	0

Outcomes in 2022 are a little more positive for debt sustainability than set out in the DSA assumptions. Mainly because nominal GDP growth, at 37.2% was higher than the expected 33.9%.

2023 Expectation of Interest Rate Reduction Is Overly Optimistic

The methodology used for the IMF's interest rate projections is not presented in their report, but we can derive that yields on government debt are projected to be in the 10-15% range by the end of 2023. The role of inflation in eroding the real value of debt is projected to result in an effective real interest rate that is negative until the end of 2024.

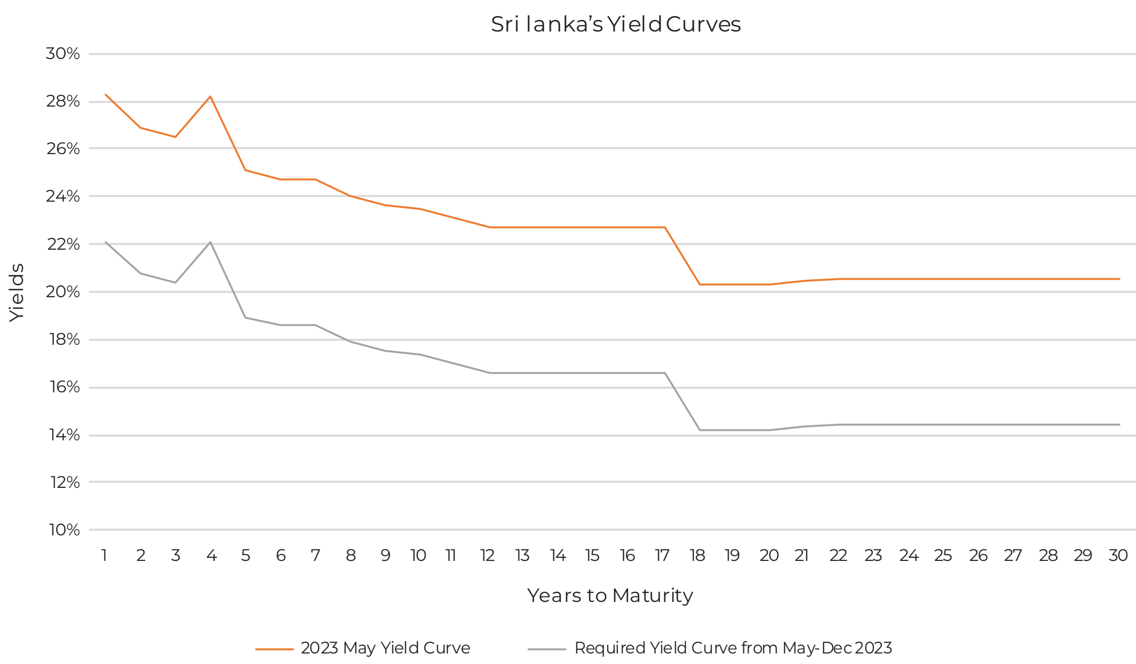
The IMF projects effective interest rates to fall from 9.7% in 2022 to 7.2% in 2023, a 2.5 percentage point decline in the effective interest rate faced by the government. While the IMF does not provide guidance on how these numbers are calculated, we use their numbers to calculate what they mean in terms of shifts in the yield curve.

Verité Research developed its own restructuring model in a background paper titled, 'Desirability of Domestic Debt Restructuring' (2022) and the spreadsheet is found together with it.[1] We assume that the interest cost on external debt remains unchanged in 2023 and, using updated values of the debt stock from the end of 2022, we calculate the average reduction in the domestic yield curve that would achieve the reduction in effective interest costs from 9.7% to 7.2%.

Based on the assumptions and restructuring model in this background note, to achieve an effective interest rate of 9.7% in 2023, the average yield curve after May 2023 needs to shift downward by 614 basis points from the level they were at in May 2023, Figure 1 illustrates this parallel shift.

1 https://www.veriteresearch.org/publication/desirability-of-domestic-debt-restructuring/

Figure 1: **Required average shift in the yield curves from May 2023**



2023-2028 debt to GDP reduction path will require deeper restructuring or higher inflation

The Extended Fund Facility (EFF) agreement between the Sri Lankan government and the IMF rests on two pillars. First, on the set of policy actions agreed to by the government, and second, on IMF projections for the economy, which is conditional on the first pillar.

In this section of the Debt Update we take a close look at these projections and some of the key assumptions on which they are based. Specifically, we look at the projection for public debt (total government debt) to reduce from 128% of GDP in 2022 to 101.3% of GDP in 2028.

- The core assumption behind the IMF's debt reduction projection is that yields on government debt will decline within three years to levels seen before the pandemic. The effective interest rate on public debt is assumed to go from 9.7% in 2022 to 6.7% in 2028 (see Annex 1).

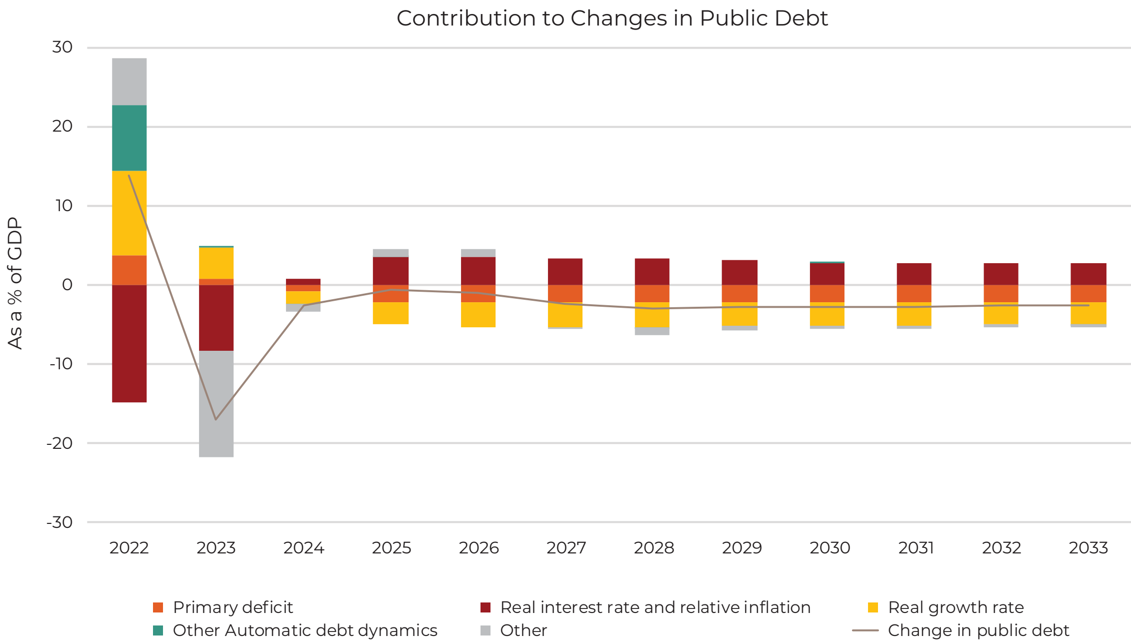
Figure 2 below shows that the change in the projected debt-to-GDP ratio in 2023 is driven to a large extent by the projected yields and inflation rates. The risk then is that inflation does indeed fall but nominal yields do not. One major area of concern for why nominal yields may not fall sufficiently is that public saving is already artificially high; the severe restrictions on imports may have caused a compression in consumption demand, and once these restrictions are relaxed there may even be additional shortfalls in national saving.

The IMF DSA projects that in 2025 and 2026 that there will be little change in the debt-to-GDP ratio with significant changes before and after this period. This suggests that the medium and long-term projected dynamics of debt depend crucially on the required reduction of debt in 2023 and 2024. In the shortterm, there is a 19.7% decline in public debt to GDP, but the contribution of identified flows (i.e., primary deficit, inflation, interest rates) is only 1.4%. The remaining 18.3% is due to a "residual" (other). Although not explicitly mentioned this is likely to arise from expectations of restructuring existing debt.

- Putting this together, the main drivers of public debt reduction are lower real borrowing costs and restructuring, rather than significant improvements in government net revenue. The concern is that the reduction in real borrowing costs is being over estimated and that this can lead to targeting less debt reduction through debt restructuring than what would be required for achieving the path of sustainability that is set out.

- If Sri Lanka fails to achieve an adequately deeper level of debt restructuring, another pathway would be with higher levels of unexpected inflation. This would risk a knock-on impact on interest rates and resulting negative dynamics for debt sustainability.

Figure 2: **IMF's Baseline Scenario on change to Public Debt**



Verité Research 'IMF Tracker' reveals Sri Lanka has fulfilled 25 percent of its trackable commitments

Verité Research recently launched the 'The IMF Tracker'. It is currently tracking exactly 100 identified commitments recorded along with Sri Lanka's Letter of Intent to the IMF on the programme approved on 20 March 2023. The platform has been designed to assist the government and the people of Sri Lanka, as well as the IMF, to better understand and track Sri Lanka's progress and timeliness in meeting these commitments.

The platform assesses the progress of the commitments based from publicly available information on various government sources (eg: Central Bank and Ministry of Finance websites)

The IMF Tracker is now available to the public on manthri.lk – an online platform run by Verité Research tracking the actions and performance of Sri Lanka's parliament. It can be found at this link: https://manthri.lk/en/imf_tracker and can be viewed in multiple languages.

What has Sri Lanka committed to?

Sri Lanka's commitments to the IMF Programme extend beyond the explicit commitments listed in Tables 1 and 2 of the Letter of Intent (see Annex 2 and 3), as evidenced by the Memorandum of Economic and Financial Policies (MEFP). The MEFP outlines 10 additional commitments that were included in the programme, as detailed in the table below.

Theme	Commitment	Timing	Deadline
Governance	An online transparency platform publishing on a semi-annual basis (i) all significant public procurement contracts, (ii) a list of all firms receiving tax exemptions through the Board of Investment, and (iii) a list of individuals and firms receiving tax exemptions on luxury vehicle imports.	Not Met	Mar-23
SOE Reforms	Ensure that the remaining 19 major State-Owned Enterprises (SOEs) will publish audited financial statements for 2021 and that audited financial statements for 2022 will also be published	Pending	Jun-23
Import Restrictions	Prepare a plan to phase out import restrictions during the period of the programme	Pending	Jun-23
Fiscal Reforms	Report monthly cash flows from revenues, expenditures, and financing by the third business day of the subsequent month by the Department of State Accounts	Pending	Sep-23
SOE Reforms	After the envisaged restructuring, any residual government-guaranteed foreign exchange (FX) loans from Sri Lankan Airlines' balance sheet would be transferred to the government's balance sheet.	Pending	Sep-23
Debt sustainability	Complete necessary legislative requirements to establish a public debt management agency (PDMA) in line with international best practices	Pending	Dec-23
Social Safety Net Reforms	Starting from January 2024, no ineligible beneficiaries will receive Samurdhi cash transfers.	Pending	Jan-24

Theme	Commitment	Timing	Deadline
Governance	Comprehensive asset recovery provisions in compliance with the United Nations Convention against Corruption (UNCAC) standard are expected to be developed in consultation with IMF staff and incorporated into a separate draft legislation pertaining to Proceeds of Crime	Pending	Mar-24
SOE Reforms	Introduce legislative reforms making the Minister of Power and Energy responsible for implementing cost-recovery-based fuel and electricity price adjustments.	Pending	Jun-24
Debt sustainability	Complete the establishment of the public debt management agency (PDMA)	Pending	Dec-24

It is important to note that the IMF tracker, which monitors the progress of the programme, encompasses not only the explicit commitments listed in the tables but also the additional commitments mentioned in the text of the MEFP. Therefore, it is crucial for policymakers and researchers to consider the full scope of Sri Lanka's commitments in the programme, as outlined in both the tables and the MEFP, in order to accurately evaluate the country's progress and adherence to the programme's goals.

How is Sri Lanka progressing on its commitments?

As of the end of April 2023, Sri Lanka had fulfilled 25% of its trackable commitments under the IMF program. Two critical commitments, however, remain unfulfilled (see figure 3). There appear to be three major issues affecting the progress of this commitment:

- Firstly, there is a significant lack of information available. Specifically, as of the end of March, the progress status of 10% of the identified commitments was marked as "unknown" on the tracker due to insufficient information being available for assessment.

- Sri Lanka has fallen short on two commitments that were expected to be fulfilled by April 2023. The first of these is related to the increase in betting and gaming levies. The amendment to increase the levies was made public on April 4, 2023. However, the amendment has yet to be debated in parliament, indicating a delay in the process. The second failed commitment pertains to gaining parliamentary approval on the Central Bank bill. Like the betting and gaming amendment bill, this bill was also made public on March 7, 2023, but is yet to be debated and approved by parliament.

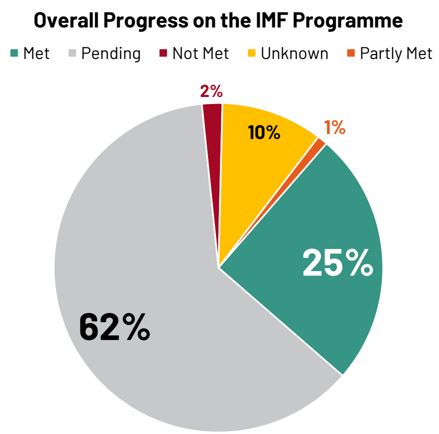
- Sri Lanka has partly met one of its governance commitments on establishing an online transparency platform, which was due by March 31st. The platform is intended to provide semi-annual publication of information on significant (i) public procurement contracts, (ii) a list of firms receiving tax exemptions through the Board of Investment, and (iii) a list of individuals and firms receiving tax exemptions on luxury vehicle imports. Information relating to (ii) and (iii) has been published on the Ministry of Finance website in April, but the online transparency platform has not been created. A platform has been designed to publish information relating to (i) but without significant information provided on the platform.

As shown in figures 4 and 5, Sri Lanka has completed all its nine prior actions (commitments to be met before the board level agreement). While on indicative targets, Sri Lanka has met 1 commitment on inflation while 20% of the indicative targets remain unknown due to the lack of information. On quantitative performance criteria, 23% remain unknown while the remaining 77% remain pending (as there is time available to complete the commitments)

The majority of commitments in the current program are in the form of structural benchmarks, with 49 commitments in total (39 explicitly stated and 10 mentioned in the MEFP). Out of these, 13 have been completed, 30 remain to be completed, 2 commitments (related to cost reflective fuel and electricity pricing) are categorized as continuous, requiring ongoing monitoring and adjustment and 2 commitments have not been while one commitment on governance has been partly met.

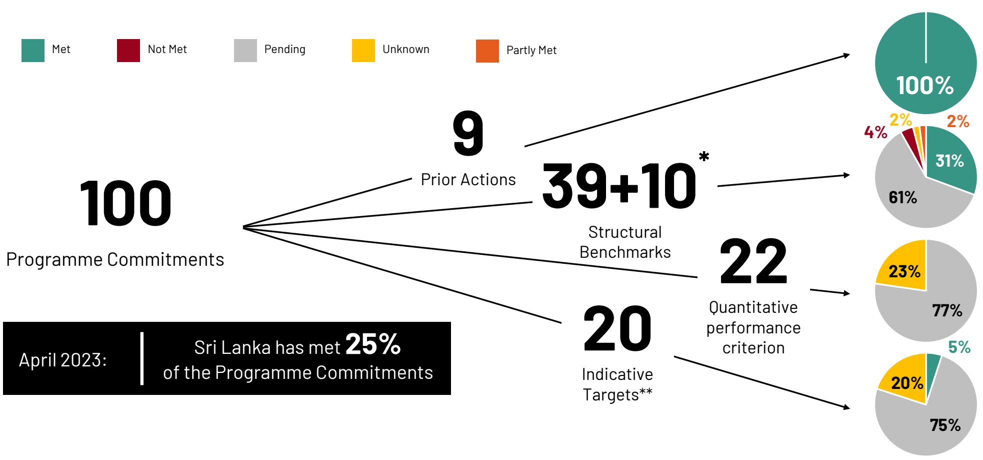
A significant focus of the current program's commitment is on increasing tax revenue, as evidenced by figure 5. The structural benchmarks can be broadly classified into 10 thematic areas, with 4 areas (21 commitments) related to taxation, and Sri Lanka has already completed 13 structural benchmarks that are taxation related.

Figure 3: **Overall Progress on the IMF Programme (April 2023)**



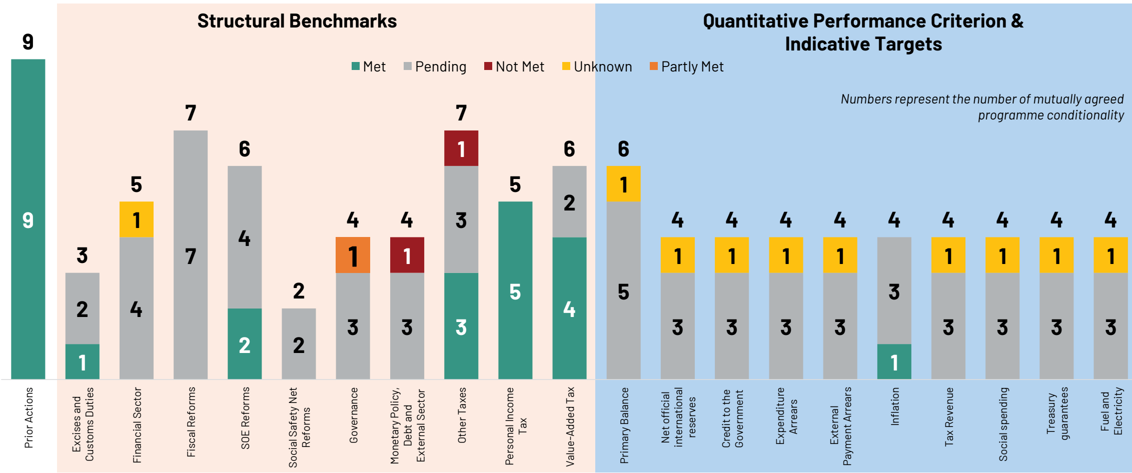
Source: IMF and Sri Lanka "Request For An Extended Arrangement Under The Extended Fund Facility—press Release; Staff Report; And Statement By The Executive Director For Sri Lanka"

Figure 4: **Breakdown of progress by type of commitment**



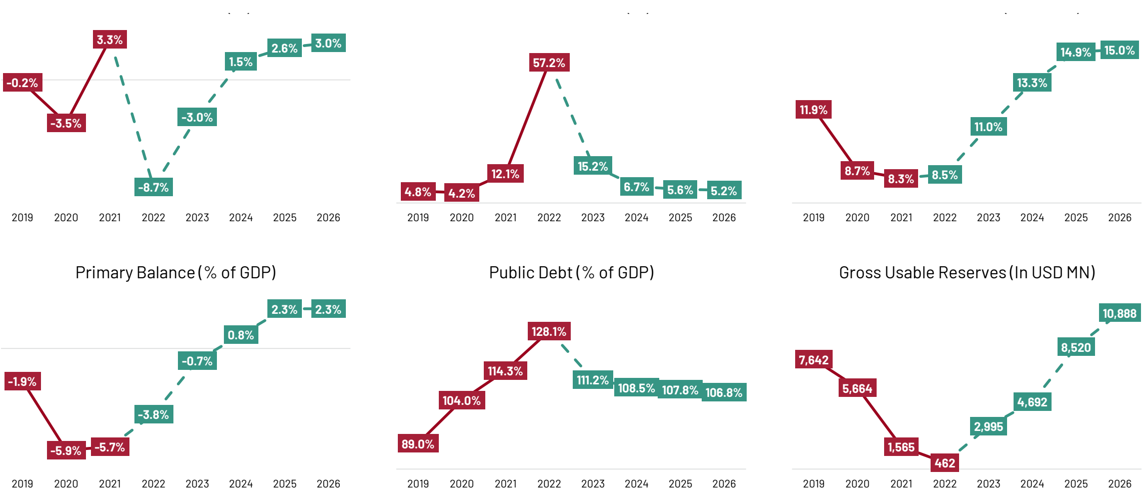
Note: *Refers to commitments not explicitly stated in Table 2 of the Letter of Intent | **Includes the Monetary Policy Consultation Clause on Inflation
Source: IMF and Sri Lanka "Request For An Extended Arrangement Under The Extended Fund Facility—press Release; Staff Report; And Statement By The Executive Director For Sri Lanka"

Figure 5: **Thematic areas of programme commitments**



Source: IMF and Sri Lanka "Request For An Extended Arrangement Under The Extended Fund Facility—press Release; Staff Report; And Statement By The Executive Director For Sri Lanka"

Figure 6: **IMF's Medium-Term path for Sri Lanka**



Source: IMF and Sri Lanka "Request For An Extended Arrangement Under The Extended Fund Facility—press Release; Staff Report; And Statement By The Executive Director For Sri Lanka"

Annex 1: Assumptions made by the IMF for its debt sustainability analysis.

IMF Macroeconomic assumptions:

- The real GDP growth rate is expected to rebound towards its medium-term potential of 3.1 percent after a projected 3 percent contraction in 2023.
- By the end of 2023, CCPI inflation is projected to decrease from 57 percent (YoY) to 15 percent, and it is expected to return to its target range of 4-6 percent by early 2025.
- The primary balance is projected to improve from -3.8 percent of GDP in 2022 to 2.3 percent of GDP by 2025.
- Between 2022 and 2027 the real effective exchange rate (REER) is expected to depreciate by approximately 30 percent to achieve external adjustment and will gradually stabilize around its new norm over the medium-term.

IMF Financing assumptions:

- Until 2026, external financing will be restricted to official sources, with official program financing expected to comprise approximately $3 billion from the IMF over 4 years, and $3.75 billion from other multilateral institutions between 2023 and 2027.
- It is projected that project loan disbursements will increase to $1.5 billion in 2024 from $1.4 billion in 2023, and then grow at an annual rate of 3 percent (in U.S. dollar terms) thereafter.
- international bond issuance to commence in 2027 with $1.5 billion (1.8 percent of GDP) and growing with GDP thereafter.
- It is assumed that domestic T-bond interest rates will gradually decrease from approximately 21 percent (period average) in 2022 to stabilize at around 10 percent by 2026. Similarly, T-bill rates are projected to decline from around 20 percent (period average) in 2022 to 7.5 percent in 2026.
- A recapitalization of the banking sector of around 6 percent of 2022 GDP

Other IMF Assumptions:

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Real GDP growth (percent)	-8.7	-3.0	1.5	2.6	3.0	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Inflation (GDP deflator; percent)	46.6	30.0	10.7	5.6	5.2	5.1	5.0	5.0	5.0	5.0	5.0	5.0
Nominal GDP growth (percent)	33.9	26.0	12.3	8.3	8.4	8.3	8.3	8.3	8.3	8.3	8.3	8.3
Effective interest rate (percent)	9.7	7.2	7.2	7.3	7.2	6.9	6.7	6.7	6.7	6.7	6.8	6.9

Annex 2: Quantitative Performance Criteria (QPC) and Indicative Targets (IT) for Sri Lanka

Table 1. Sri Lanka: Proposed Quantitative Performance Criteria (PC) and Indicative Targets (IT)

(Cumulative from the beginning of the year, unless otherwise noted)

	2022	2023			
	end-Dec.	end-Mar.	end-Jun.	end-Sep.	end-Dec.
	Actual	IT	PC/IT	IT	PC/IT
Proposed quantitative performance criteria					
Central government primary balance (floor, in billion rupees)	-895	-56	-113	-160	-209
Program net official international reserves (Program NIR, floor, end of period stock, in million US$) 1/ 2/	-3,540	-3,188	-2,830	-2,068	-1,592
Net credit to the government of the CBSL (ceiling, end of period stock, in billion rupees) 3/	2,834	2,890	2,890	2,840	2,740
Stock of expenditure arrears of the central government (ceiling, in billion rupees)	60	30	0	0	0
Proposed continuous performance criteria (cumulative from beginning of the program)					
New external payment arrears by the nonfinancial public sector and the CBSL (ceiling, in million US$)	0	0	0	0	0
Proposed monetary policy consultation clause					
Year-on-year inflation in Colombo Consumers Price Index (in percent) 4/					
Outer band (upper limit)	...	55.0	34.0	20.0	18.0
Inner band (upper limit)	...	53.5	32.5	18.5	16.5
Actual / Center point	61.3	52.0	31.0	17.0	15.0
Inner band (lower limit)	...	50.5	29.5	15.5	13.5
Outer band (lower limit)	...	49.0	28.0	14.0	12.0
Proposed indicative targets					
Central government tax revenue (floor, in billion rupees)	1,751	650	1,300	2,100	2,940
Social spending by the central government (floor, in billion rupees)	142	35	70	120	187
Cost of non-commercial obligations (NCOs) for fuel and electricity (net of government transfers) (ceiling, in billion rupees) 5/	...	0	0	0	0
Treasury guarantees (ceiling, in billion rupees)	1,159	1,700	1,700	1,700	1,700

1/ The CBSL's conventional definition of net official international reserves (NIR) includes outstanding liabilities in foreign exchange swaps with domestic commercial banks. The Program NIR excludes the outstanding liabilities in foreign exchange swaps with domestic commercial banks from the CBSL's conventional NIR definition. See TMU for details.

2/ Program NIR will be adjusted upward/downward by the cumulative amounts of (i) foreign program financing by the central government, (ii) net borrowings from SLDBs and FCBUs by the central government, (iii) external commercial loans (including Eurobonds and syndicated loans) by the central government, (iv) the amount of project loans and grants, and (v) proceeds from commercialization of public assets to non-residents, that are higher/lower than assumed under the program; and by the cumulative amounts of (vi) amortization and interest payment of total external debt of the central government, and (vii) interest payments on SLDBs and FCBUs by the central government in US dollar terms, that are

3/ Excludes holdings of treasury securities for monetary policy purposes and Rupee-denoimated government deposits. See TMU for details on the calculation for the test date.

4/ See the TMU for how to measure year-on-year inflation.

5/ NCOs refer to the obligation of CPC and CEB to supply fuel and electricity at administered prices. See TMU for how to measure the cost of NCOs.

Annex 3: Prior Actions and Structural Benchmarks for Sri Lanka

Table 2. Sri Lanka: Proposed Prior Actions and Structural Benchmarks Under the EFF—Supported Arrangement

Prior Actions	**Timing**
Cabinet approval of revenue measures to support fiscal consolidation during 2023, in line with program parameters	Met
Parliament approval of a revised 2022 budget that is in line with program parameters	Met
Submission to Parliament of the 2023 Appropriation Bill that is in line with program parameters	Met
Cabinet approval to automate monthly retail fuel price adjustment as prescribed by the 2018 fuel pricing formula to achieve cost recovery	Met
Cabinet approval to automate semi-annual cost-recovery based electricity price adjustment	Met
Cabinet approval of the new Central Bank Act with amendments from the bill submitted to Parliament in November 2019 in consultation with IMF staff	Met
Cabinet approval of Banking (Special Provisions) Act to strengthen key elements of the CBSL's crisis management powers	Met
Hiring by the CBSL of an independent firm to conduct banking sector diagnostic exercise based on Terms of Reference and timeline established in consultation with IMF staff	Met
Increase policy interest rates by 100 basis points to ensure forward-looking real policy rates on a firmly upward path	Met
Structural Benchmarks	
Fiscal, SOE, and Social Safety Net Reforms	
Set retail fuel prices to their cost-recovery levels with monthly formula-based adjustments, and compensate the CPC for providing any fuel subsidies with on-budget transfers	Continuous
Adjust the end-user electricity tariff schedule to its cost-recovery level (overall across different types of final consumers) with semi-annual formula-based adjustments on a forward-looking basis in January and July each year (effective from January 1 and July 1, respectively); the CEB submits tariff revision requests to the Public Utility Commission of Sri Lanka by end-October (for January tariff revisions) and by end-April (for July tariff revisions); and compensate the electricity sector for providing any residual subsidies with on-budget transfers	Continuous
Parliamentary approval of the welfare benefit payment scheme and the application of the new eligibility criteria to identify low-income families for receiving welfare benefit payments	End-May 2023
Cabinet approval of a comprehensive strategy (laying out clear timelines and modalities) to restructure the balance sheets of the CEB, CPC, SriLankan Airlines, and the Road Development Authority, in consultation with IMF staff	End-June 2023

Table 2. Sri Lanka: Proposed Prior Actions and Structural Benchmarks Under the EFF—Supported Arrangement (concluded)	
Cabinet approval of revenue measures to support fiscal consolidation during 2024, in line with program parameters	End-July 2023
Completion of the rollout of the ITMIS, expanding its coverage to all 220 heads (national budget execution agencies)	End-September 2023
Submission to Parliament for the first reading of the 2024 Appropriation Bill that is in line with program parameters	End-October 2023
Parliamentary approval of the 2024 Appropriation Act and the spending allocations in line with program parameters	End-December 2023
Submission to Parliament of a new PFM law, in consultation with IMF staff, that will authorize the budget formulation process, roles and responsibilities of relevant agencies, and information and accountability requirements	End-December 2023
Improve the Bulk Supply Transaction Account (BSTA) to accurately measure the electricity subsidy, and start using it to determine the cost-recovery based electricity tariff and government transfer requirement	End-December 2023
Monetary and Exchange Rate Policies	
Parliamentary approval of the new Central Bank Act prepared in consultation with IMF staff	End-April 2023
Financial Sector	
Completion of the asset quality review component of bank diagnostic exercise for the two largest state-owned banks and the three largest private sector banks	End-April 2023
Cabinet approval of a full revision of the Banking Act in consultation with IMF staff	End-June 2023
Development by the CBSL of a roadmap for addressing banking system capital and FX liquidity shortfalls and intervening in banks assessed to be non-viable	End-July 2023
Determination by the MOF of the size, timing, instruments, and terms and conditions for potential government recapitalization of viable banks which are unable to close capital shortfalls from private sources	End-October 2023
Parliament approval of a full revision of the Banking Act in consultation with IMF staff	End-December 2023
Governance	
Enact new anti-corruption legislation to harmonize it with the United Nations Convention Against Corruption, pending comprehensive asset recovery provisions, in consultation with IMF staff	End-June 2023
Publication of the report of an IMF-led governance diagnostic technical assistance mission to assess Sri Lanka's anti-corruption framework	End-September 2023

Appendix 1. Tax Reforms to be Implemented for 2022-25 /1	
	To take effect on or before:
Personal Income Tax	
Labor Income	
Introduce a progressive reform of the structure of the personal income tax (PIT) system. Set the tax-free allowance to Rs 1,200,000 per year, and raise the marginal PIT rate by 6 percentage points for every Rs 500,000 per year up to a top rate of 36 percent.	Implemented (January 1, 2023)
Make withholding tax on employment income (APIT/PAYE) mandatory for all taxpayers exceeding the tax-free allowance of Rs 1,200,000 per year.	Implemented (January 1, 2023)
Impose withholding tax on service payments exceeding Rs 100,000 per month made to individuals such as professionals at the rate of 5 percent.	Implemented (January 1, 2023)
Capital Income	
Reintroduce non-final withholding taxes on all payments other than dividends. Refrain from introducing a separate allowance for interest income.	Implemented (January 1, 2023)
Introduce a final withholding tax for dividends.	Implemented (January 1, 2023)
Corporate Income Tax	
Remove all sector-specific exemptions and reduced corporate income tax (CIT) rates provided under the Inland Revenue Act, and increase the statutory CIT rate to 30 percent. 2/	Implemented (October 1, 2022)
Start estimating and publishing the direct costs imposed by tax incentives granted under the Strategic Development Projects and Board of Investment Acts.	January 1, 2024
Value-Added Tax	
Raise the standard VAT rate to 15 percent.	Implemented (September 1, 2022)
Reduce the VAT registration threshold to Rs 80 million and apply the same threshold to the wholesale and retail sectors.	Implemented (October 1, 2022)
Remove the zero-rating of tourism-related services.	Implemented (June 1, 2022)
Remove the VAT exemption on condominium residential apartments.	Implemented (January 1, 2023)
Revamp the VAT system by abolishing the vast majority of exemptions.	January 1, 2024
Take measures to significantly speed up valid VAT refunds and abolish the SVAT system.	January 1, 2024

Appendix 1. Tax Reforms to be Implemented for 2022-25 /1 (concluded)	
Excises and Customs Duties	
Increase excise taxes on alcohol and tobacco products by 20 percent. The second increase is subject to a review.	The first increase was implemented on January 1 for tobacco and on January 3 for alcohol; the second increase to be implemented before end-June 2023
Introduce automatic indexation of excises to inflation.	January 1, 2024
Property, Wealth, and Wealth Transfer Taxes	
Introduce a nationwide real property tax including a review of related fiscal transfers, requesting technical assistance as needed.	January 1, 2025
Introduce a gift and inheritance tax with a tax-free allowance and minimal exemptions.	January 1, 2025
Other Taxes	
Introduce a "Social Security Contribution" on liable turnover over Rs 120 million per year at the rate of 2.5 percent.	Implemented (October 1, 2022)
Introduce a fuel tax yielding 0.3 percent of GDP.	Implemented (January 1, 2023)
Increase the tax rates pertaining to the Betting and Gaming Levy in line with the May 30 tax proposal.	April 1, 2023

1/ See the IMF's 2022 TA report "Sri Lanka: Revenue-Raising Tax Policy Reform Options" for detailed discussions of the tax reforms.

2/ A reduced CIT rate of 14 percent applies only to the EPF, provident funds, pension funds, and termination funds.

For additional research information refer: https://publicfinance.lk/en

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