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Sri Lanka's Economic Reforms in 2024: Three Bills Presented in Parliament

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Summary

In May 2024, the Sri Lankan government presented three economic reforms-related bills to the Parliament – the Economic Transformation Bill, the Public Debt Management Bill and the Public Financial Management Bill. These bills are aimed to stabilise the economy and prevent another debt default crisis.

Introduction

On 13 June 2024, the International Monetary Fund (IMF) approved a third tranche of the 14-month US$2.9 billion (S$3.9 billion) IMF Extended Fund Facility. This moves provides Sri Lanka with immediate access to US$336 million (S$456.1 million) to support its economic reforms. The approval is expected to send a signal of confidence to Sri Lanka's foreign and local investors and trading partners.

The IMF's positive rating of the Sri Lankan government's economic stabilisation drive comes alongside a slow rate of predicted economic growth. The IMF's forecast is for a two-per cent economic growth in 2024 and 2.7 per cent in 2025. However, the country still faces elevated poverty levels, income inequality and labour market concerns, with an estimated 25.9 per cent of Sri Lankans living below the poverty line in 2023.

With elections slated for 2024 and 2025, the government is driving an economic stabilisation narrative. In May 2024, it presented three economic reforms-related bills to the Parliament with the aim of stabilising the economy and preventing another economic crisis.

Public Finance-related Reforms

The Public Financial Management Bill and the Public Debt Management Bills are two outstanding items of Sri Lanka's IMF programme, which includes having laws to regulate macroeconomic policies.

The Public Financial Management Bill aims to improve fiscal discipline by repealing the Fiscal Management Responsibility Act and establishing a 13-per cent primary spending limit of the gross domestic product (GDP) and a two-per cent budget reserve. The Public Debt Management Bill regulates the need for authorisation to borrow, servicing of public debt and issuing guarantees, and the establishment of the Public Debt Management Office.

The President proposed the Economic Transformation Bill as a step towards ensuring economic stability through establishing a national policy on economic transformation, regardless of a change in government. It is also proposed to address the conditions which led to the 2022 economic crisis, such as economic mismanagement, unsustainable debt practices and carrying out development projects without adequate cost-benefit analysis.

In contrast to the former two bills, Sri Lanka's State Minister of Finance Shehan Semasinghe clarified that the Economic Transformation Bill is not a legal reform that the IMF had guided the government in implementing based on the IMF programme.

Economic Transformation Bill

The Economic Transformation Bill identifies several national economic targets, such as the country's GDP needing to grow at a rate of five per cent until 2027, after which, an economic growth rate of eight per cent is mandated for at least 15 years. Other targets include unemployment in the country being reduced to five per cent by 2025; establishing a highly competitive, export-driven economy by 2040; keeping the central government's annual gross financing needs to GDP ratio below 13 per cent by 2032, reducing the central government's annual debt service in foreign currency to GDP ratio below 4.5 per cent by 2027 and achieving female labour force participation of not less than 40 per cent and 50 per cent by 2030 and 2040 respectively.

The bill also aims to establish six institutions, namely, the Economic Commission, Invest Sri Lanka, Investment Zones Sri Lanka, the Office for International Trade, the National Productivity Commission and the Sri Lanka Institute of Economics and International Trade. Of these, the Economic Commission is tasked with evaluating and managing investment zones, enhancing the ease of doing business and identifying strategic investments which bring significant foreign exchange, export growth and large-scale employment. The new bill will also repeal and replace the Board of Investment (BOI) of Sri Lanka with the Economic Commission of Sri Lanka.

Opposition and Concerns

The main opposition party, the Samagi Jana Balawegaya's associated trade union, the Samagi Sewaka Sangamaya, has challenged the constitutionality of the bill in the Supreme Court. The petition was filed on the grounds that the bill paves the way for the elimination of powers vested with the BOI and instead provides the minister powers that make the functions of the BOI void. It was argued that this has a detrimental effect on the ability to attract potential foreign and local investors.

Another key opposition party, the National People's Power (NPP), filed a fundamental rights petition against the bill in the Supreme Court. It stated that the bill will limit future governments and hand over important economic decision-making power to bodies that are not democratically elected. It also critiqued the absence of penalties for not achieving the outlined targets. The NPP further argued that the bill will negatively impact the private sector, businessmen and industrialists as the benefits and rights that private sector employees have under the BOI Act will be completely removed while enabling more liberalisation than allowed in the BOI Act.

Meanwhile, civil society organisations have raised concerns over the short period of consultation and lack of inclusivity in the drafting and review of the bill. Moreover, it was also raised that in instances where the President is also the Minister of Finance, significant economic powers are concentrated in the hands of a single individual within the proposed commission.

Debt Restructuring

Meanwhile, the government announced on 25 June 2024 that the cabinet of ministers has approved the signing of the restructured debt agreements with the Paris Club members and other bilateral creditors. Previously, the government stated that it aimed to complete foreign debt restructuring by June 2024 and cut outstanding payments by about US$17 billion (S$23.1 billion). This strategy includes negotiating with private investors holding sovereign bonds to reduce debt through principal cuts, lower interest rates, and/or extended repayment periods. A successful restructuring of its foreign debts is seen as necessary for the government to continue its development activities, crucial for social buy-in and legitimacy for upcoming elections.

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