



IMF Bailout to Sri Lanka

For Prelims: International Monetary Fund (IMF), GDP growth rate, Trans-shipment hub, Tamil Community.

For Mains: Sri Lanka crisis and its effects on India.

Why in News?

Recently, The [International Monetary Fund \(IMF\)](#) approved a preliminary agreement with Sri Lanka on a four-year, **USD 2.9 billion bailout package** which is aimed at restoring economic stability and debt sustainability for the crisis-ridden south Asian nation.

What is the Bailout Package Offered to Sri Lanka?

▪ Need:

- The [Economic Crisis](#) of Sri Lanka with **USD 51 billion** debt which was caused due to various reasons:
 - **The Easter bomb blasts of April 2019** in churches in Colombo
 - The government policy of **lower tax rates and wide-ranging subsidies for farmers** during their campaign.
 - The [Covid-19 pandemic in 2020](#) which impacted exports of tea, rubber, spices, garments and the tourism sector.

▪ About:

- The IMF package is to be **paid in tranches over the next four years, which is less than what India provided to Sri Lanka over four months.**
- The package must be approved by the IMF's board of directors.
 - The approval is contingent on Sri Lanka's international creditors - commercial lenders such as banks and asset managers, multilateral agencies, as well as bilateral creditors including China, Japan, and India agreeing to restructure its debt.

▪ Benefits:

- **Improve credit rating:**
 - It can boost the receiving country's credit ratings, and the **confidence of international creditors and investors** who may then chip in to provide bridge financing to close the gaps between the tranches.

▪ Aim:

- Its program will aim to boost government revenue, encourage fiscal consolidation, introduce new pricing for fuel and electricity, hike social spending, bolster central bank autonomy, and rebuild depleted foreign reserves.
- The programme aims to reach a primary **surplus of 2.3% of GDP by 2024.**

What Measures are Taken by Sri Lanka's Economy to Improve its Economy?

▪ Increase in Revenue:

- The country's budget **aimed at increasing revenue to 15% of GDP by 2025 from 8.2% at the end of 2021** by reducing public debt.

- An increase in VAT from 12 to 15%, and compulsory tax registration for everyone aged 18 years and older in order to widen personal income tax collections are among the measures.
- Some 50 state-owned enterprises are up for privatisation.
- **Reduce the age of retirement:**
 - The age of retirement in government and semi-government organisations has been **brought down to 60 from 65 and 62 respectively.**
- **Banking sector:**
 - Staff and **depositors are to be offered a 20% shareholding in state banks to address recapitalization requirements** arising out of non-repayment of loans due to the economic meltdown.

What is the International Monetary Fund (IMF)?

- **About:**
 - The **International Monetary Fund (IMF)** is an international organization that promotes global economic growth and financial stability, encourages international trade, and reduces poverty.
- **Conditionalities set by IMF:**
 - **About:**
 - When a country borrows from the IMF, its government agrees to adjust its economic policies to overcome the problems that led it to seek financial aid.
 - These policy adjustments are conditions for IMF loans and serve to ensure that the country will be able to repay the IMF.
 - This system of conditionality is designed to promote national ownership of strong and effective policies.
 - Conditionality helps countries **solve balance-of-payments problems** without resorting to measures that are harmful to national or international prosperity.
 - Policy commitments agreed with country authorities can take different forms. They include:
 - **Prior actions:**
 - These are the steps a country agrees to **take before the IMF approves financing or completes a review.**
 - They ensure that a program will have the **necessary foundation for success.**
 - **Quantitative performance criteria (QPCs):**
 - Specific, measurable conditions for IMF lending always relate to **macroeconomic variables under the control of the authorities.**
 - Such variables include **monetary and credit aggregates, international reserves, fiscal balances, and external borrowing.**
 - **Indicative targets (ITs):**
 - In addition to QPCs, **ITs may be set for quantitative indicators to assess progress in meeting a program's objectives.**
 - **Structural benchmarks (SBs):**
 - These are **reform measures that often are non-quantifiable but are critical for achieving program goals** and are intended as markers to assess program implementation.

UPSC Civil Services Examination Previous Year Question

Prelims:

Q. Recently, which one of the following currencies has been proposed to be added to the basket of IMF's SDR? (2016)

- (a) Rouble
- (b) Rand
- (c) Indian Rupee
- (d) Renminbi

Ans: D

- **Special Drawing Rights (SDR) is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves.**
- The value of the SDR is based on a basket of five currencies – US Dollar, Euro, Chinese Renminbi, Japanese Yen, and British pound sterling.
- **The Chinese Renminbi was added to the basket of currencies on October 1, 2016. Therefore, option (d) is the correct answer.**

Mains:

Q. The World Bank and the IMF, collectively known as the Bretton Woods Institutions, are the two inter-governmental pillars supporting the structure of the world's economic and financial order. Superficially, the World Bank and the IMF exhibit many common characteristics, yet their role, functions and mandate are distinctly different. Elucidate. **(2013)**

Source: IE

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