

## Independent Growth Study Group on Sustaining Transformative Growth in Sri Lanka

### Research Report

Sustaining transformative growth in Sri Lanka 2025-2030: Report of an Independent Growth Study Group under the auspices of ODI Global and the Centre for Poverty Analysis (CEPA)

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Report

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July 2025



ODI Global

cepa  
centre for poverty analysis

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(CEPA)

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ODI Global



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## About this publication

This report has been drafted by Sirimal Abeyratne, Chandranath Amerasekera, Ravin Basnayake, Indrajit Coomaraswamy, Yvette Fernando, Dirk Willem te Velde, Esala Weerakoon, Shea Wickremasinghe and Ganeshan Wignaraja. Under the auspices of two think tanks – ODI Global in London and the Centre for Poverty Analysis (CEPA) in Colombo, these individuals formed an Independent Growth Study Group with Ganeshan Wignaraja as the convenor.

The Independent Study Group consists of professionals with deep experience in the public sector, the private sector, think tanks and international financial institutions. The following members have served in their personal capacities, and the findings should not be attributed to the organisations they represent or were affiliated with.

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The work of this group builds on the ODI Global book of essays, **Sri Lanka: from debt default to transformative growth, whose second edition** (updated to events in April 2025) is available at: [www.odi.org/publications/sri-lanka-from-debt-default-to-transformative-growth-second-edition](http://www.odi.org/publications/sri-lanka-from-debt-default-to-transformative-growth-second-edition). The group met five times during the course of January to June 2025 to prepare this report.

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# Acronyms

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<b>ASEAN</b>	Association of Southeast Asian Nations
<b>CEPA</b>	Centre for Poverty Analysis
<b>CSF</b>	Centre for a Smart Future
<b>EU</b>	European Union
<b>FDI</b>	foreign direct investment
<b>FIT</b>	flexible inflation targeting
<b>FTA</b>	free trade agreement
<b>GDP</b>	gross domestic product
<b>ICT</b>	information and communication technology
<b>ID</b>	identification
<b>IMF</b>	International Monetary Fund
<b>IT</b>	information technology
<b>MSMEs</b>	micro, small and medium enterprises
<b>NPP</b>	National People's Power
<b>PPP</b>	purchasing power parity
<b>SOE</b>	state-owned enterprise
<b>UK</b>	United Kingdom
<b>UNDP</b>	United Nations Development Programme
<b>US</b>	United States
<b>WTO</b>	World Trade Organization

# Executive summary

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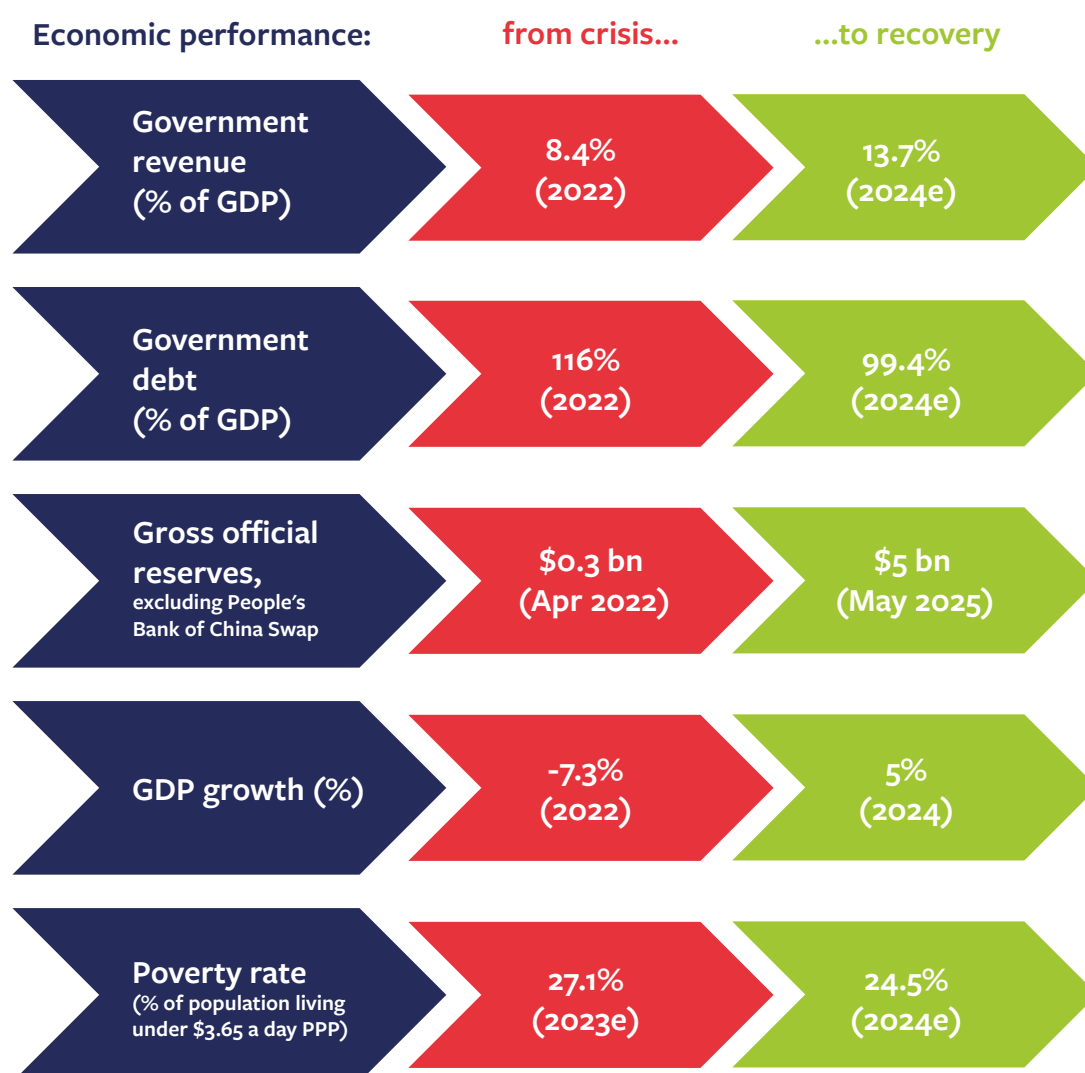
Sri Lanka is at a critical juncture. The economy has stabilised remarkably well since weathering its worst economic crisis since Independence, but there are substantial risks of a relapse. The country now needs to continue with macroeconomic stabilisation and implement a range of growth policies, with a new focus on state capacity.

The current government deserves credit for continuing with the 2023 International Monetary Fund programme and completing the process of negotiations on restructuring the debt. This provides the foundation for much needed policy consistency.

Thanks to three years of effort and sacrifice, today, Sri Lanka's economy is stabilising, moving on from the dark days of debt default and economic crisis in 2022.

The economy grew at 5% in 2024 and 4.8% in 2025Q1 (after six quarters of negative growth ending in 2023Q2), with some return to confidence. Inflation has abated significantly from its peak of 70% in September 2022.

However, estimated income poverty (share of the population living on less than \$3.65 a day) remains stubbornly high, affecting as much as a quarter of the population in 2024, and twice as high as in 2021. The reversal in poverty reduction gains during the crisis has taken Sri Lanka back to its high poverty levels of the early 2000s.

**Figure ES1:** Economic performance: from crisis to recovery

It is imperative to implement structural reforms to avoid another painful debt restructuring and a rise in poverty. Mounting risks of a global trade war and a gloomy global economy could have significant impacts on the debt-stressed Sri Lankan economy. At best, growth may be 3%; without reforms, it could slide below that. The country's already high levels of income poverty are likely to rise.

But there are huge opportunities for strategically located Sri Lanka in complex geopolitical times to transform its economy, building on existing production capabilities and creating new ones. For instance, tourism is booming and can expand further. The digital economy is largely untapped. Niche manufacturing

and value addition through joining supply chains with dynamic regional powers is yet another. Finally, opportunities exist in agriculture, which can support greater food security.

The priority in 2025 is for a growth plan based on macroeconomic stability, structural reforms and supporting priority sectors. Such a plan needs to be continued for at least five years to 2030 and implemented effectively.

This independent growth study, convened under the auspices of ODI Global (UK) and the Centre for Poverty Analysis (Sri Lanka), aims to provide a call to action for all stakeholders – citizens, government, businesses and civil society – as they grapple with the difficult policy choices ahead and grasp this important opportunity.

There are six main policy areas (see Table ES1):

1. continue macroeconomic stability and enhance credibility
2. promote global supply chains, exports and foreign direct investment (FDI)
3. improve factor markets
4. design and implement sector- and market-specific policies
5. improve policies to reduce poverty
6. build political consensus and capacity around growth policies

**Table ES1** Proposals for accelerating growth and reducing poverty in Sri Lanka, 2025–2030

Proposal	Remarks
<b>Continue macroeconomic stability and enhance credibility</b>	
1. Complete the Extended Fund Facility programme, including continuing to implement the Central Bank Act (and maintain CBSL independence), the Public Finance Management Act and the Public Debt Management Act.	Central Bank independence and macroeconomic stability is vital for foreign reserve management and national economic security; implementation of the Public Financial Management Act will ensure fiscal prudence.
2. Increase tax collection through digitisation of tax collection (RAMIS) and a single window in the Customs and Excise Department.	<p>Improve public communication and simplify payment and refund procedures.</p> <p>Continue efforts to broad-base tax collection and take vigorous action on recovery of dues from large taxpayers and evaders.</p>

Proposal	Remarks
3. To maximise the multiplier effects of fiscal spending for growth, review public investment to reallocate budgetary resources to high impact sectors.	Undertake rigorous work on the impact of public investment on growth (i.e. multipliers). As a part of releasing resources, review options for restructuring state-owned enterprises that affect the budget negatively and state banks (e.g. Sri Lankan Airlines, CPC, CEB). Options should include better management, public–private partnerships and divestment.
4. To prevent ‘white elephant projects’, apply rigorous and transparent selection process for all infrastructure projects in the Public Investment Programme prepared by the Ministry of Finance.	This may include training of key officials on cost–benefit analysis and project appraisal.
<b>Promote global supply chains, exports and FDI</b>	
5. Strategically map a free trade agreement (FTA) pathway for the most benefit to Sri Lanka and build capacity for FTA negotiations.	Undertake rigorous impact assessment of the benefits of FTAs with Bangladesh, India and China.  Support business in using preferences in existing FTAs (e.g. Thailand) and restart FTA negotiations via a properly resourced Sri Lanka Trade Representative Office. Undertake a feasibility study for a Sri Lanka trade representative office and implement capacity-building programmes on FTA negotiations.
6. Appoint a presidential tariff commission consisting of members possessing relevant expertise and a proven track record to rationalise tariffs according to Sri Lanka’s comparative advantage and national interest.	Gradually reduce import tariffs on intermediate goods imports to support entry into supply chains and continue phasing out para-tariffs.
7. Pursue quiet diplomacy with the US to mitigate of any tariff increases on Sri Lanka exports.	
8. To maximise the benefits of economic diplomacy, revamp Sri Lanka’s overseas missions to create a few key hub embassies in major trading and FTA partners.	Equip hubs (e.g. US, EU, UK, India, China, Japan, Singapore, Thailand, Pakistan) with specialised marketing/commercial staff (e.g. from the private sector) and provide performance incentives and targets.
9. Undertake ‘stroke-of-the-pen’ reforms to drastically cut cumbersome regulations related to entry, exit and business operations for foreign and local investors.	Collect data early for the World Bank’s Be Ready Index and use the pillars for improving the business climate. Cut red tape and facilitate entry and operation of small-scale foreign investors.  Unleash the much-delayed full potential of the Colombo Port City to benefit the national economy. Expedite the legal framework and dedicated unified regulatory authority.
10. Board of Investment and overseas missions to promote investment from overseas Sri Lankans from strategic markets (e.g. Australia, Canada, UK, US and the Middle East).	Offer a variant of the Overseas Citizen of India scheme to overseas Sri Lankans.
11. To promote regional supply chain integration and exports, encourage business-to-business ties between Sri Lanka business and business in the five South Indian states through visits by the respective chambers.	The five South Indian states are Andhra Pradesh, Karnataka, Kerala, Telangana and Tamil Nadu. Expanding the Make in India Programme to Sri Lanka may be a useful incentive.

Proposal	Remarks
12. Invest in critical trade-related infrastructure and trade facilitation, modernise customs procedures and implement World Trade Organization (WTO) Trade Facilitation Agreement.	<p>Review projects on port and airport development linked to traffic flows (e.g. North Terminal Colombo Port, KKS Port expansion, extension of Bandaranaike International Airport and Palaly Airport).</p> <p>Modernise customs procedures (implement new customs act) and implement WTO Trade Facilitation Agreement.</p>
<b>Improve factor markets</b>	
13. To improve technical workforce skills (including those relevant to the modern digital economy), provide tax incentives to encourage spending on firm-level training.	<p>These incentives can be tax breaks on training expenses to at least 0.5% of sales.</p> <p>Undertake a review of teacher and principal training programmes for schools to address curriculum gaps as well as outdated teaching and school management methods.</p>
14. To expand high-quality jobs, establish a national centre of excellence for science, technology, engineering and mathematics education.	Consider upgrading the University of Moratuwa to such a national centre, in partnership with a highly reputed international university.
15. To boost labour productivity, streamline public holiday entitlement to a limited number of paid public holidays in a year.	Existing public holidays can be gradually reduced to around the levels of highperforming economies in East Asia. For example, Singapore and Korea have 11 public holidays each while Viet Nam has 13 public holidays.
16. Increase female labour force participation rates by encouraging firms to provide creches for under five year olds, a midday meal and safe transport.	
17. To fill acute skill gaps caused by outmigration across the economy, gradually open the labour market by streamlining temporary migration processes following the Dubai/Singapore models.	Assess the impact and effectiveness of the recently introduced scheme for state sector employees for temporary employment overseas.
18. To alleviate scarcity of land for business use, activate a land bank to provide state land on 25-year leases.	The leases should be provided on properly valued commercial terms.
<b>Sector- and market-specific policies</b>	
19. Undertake a rigorous review of sectoral and business opportunities and comparative advantages of Sri Lanka.	Build state capacity to collect and analyse production and trade statistics and enterprise data. Support production and trade benchmarking with a set of comparator countries.

Proposal	Remarks
20. To promote tourism inflows and national spread, increase spend on branding and marketing Sri Lanka as a diverse and authentic tourism destination, with targeted development of less-visited regions.	<p>Less-visited regions include North-Central, Uva, North and East provinces.</p> <p>Develop a tag line like ‘Fabulous Sri Lanka’ emulating examples such as ‘It is more fun in the Philippines’, ‘Incredible India’ and ‘Malaysia Truly Asia’.</p> <p>Adopt international standards on tourism island-wide for physical safety (especially women), service standards for hotels/guest houses, food hygiene measures in restaurants/food stalls and appropriate quality assurance to ensure value for money and sustainability. Thailand, which gets 0.51 tourists per resident, can be a model. Digitalise tourism services, including via traffic-dependent pricing at key destinations, thereby supporting the growth of sustainable tourism.</p>
21. Increase value addition in agriculture and fisheries by increasing productivity, introducing modern practices for climate resilient agriculture and implementing legal reforms.	<p>Review the Paddy Land Act.</p> <p>Strictly adopt and adhere to international sanitary and phytosanitary and other standards in export markets. Undertake collective action by smallholders on purchasing inputs and marketing.</p> <p>Revitalise the operations of agricultural service centres through training and key performance indicators. Commercialise knowledge/training capacity in university agriculture/agribusiness departments.</p>
22. To improve energy security and power trade, leverage Indian aid and FDI for bilateral electricity grid and fuel pipeline connectivity.	
23. Implement policies and reforms to support manufacturing effectively focused on eliminating barriers and improving competitiveness.	<p>Simplify and rationalise regulations, institutions and procedures to create a more conducive environment for business operations.</p> <p>Ensure the availability, affordability and quality of inputs – both primary and secondary – to maintain uninterrupted industrialisation and international competitiveness of industries.</p> <p>Reform cross-border policies and regulations while adopting digitalised processes and a ‘single window’ system to streamline trade and investment flows. Align industrialisation with 21st-century requirements by embracing sustainability standards and advanced digital processes.</p> <p>Expand the government’s role in thrust areas such as the small and medium enterprise sector, regional industrialisation and targeted industries to foster more equitable growth and support strategic industries.</p>

Proposal	Remarks
24. Invest in digital public infrastructure, improve e-government public services and increase the attractiveness of digital payments.	<p>Expedite the introduction of the digital ID with strong data protection and cybersecurity standards and regulatory reforms.</p> <p>Prepare a database on the digital economy and services (e.g. a survey on e-commerce and e-payments).</p>
<b>Reducing poverty</b>	
25. Reduce post-harvest losses and tackle shortages to improve food security and reduce high food prices.	<p>Liberalise food imports as an emergency measure (as needed) to alleviate shortages to reduce food prices. Partner with supermarkets/traders in better cold storage systems, introduce modern cold storage containers for transporting perishable food, explore a pilot project to use CTB buses to transport food and invest in rail transport (where possible) to reduce post-harvest losses. Upgrade Sathosa outlet networks to sell a basket of basic food at controlled prices to those on a low income.</p>
26. Under the Aswesuma programme, better target time-bound cash transfers towards the poorest to sustain essential consumption for a temporary period while providing coordinated support for graduation into quality work.	<p>Household electricity consumption or mobile data usage, for instance, may be used as an income proxy in the absence of more precise targeting.</p> <p>Expedite implementation of the Unique Digital ID Scheme to enable e-cash transfers and improve cybersecurity capabilities.</p> <p>Encourage the poor to open bank accounts to enable e-cash transfers.</p>
27. Study the fixability of increased development finance for micro, small and medium enterprises (MSMEs) through existing financial institutions (and or new institution) and setting up a credible credit scoring system nationally.	<p>Seek long-term credit lines from the Asian Development Bank or Japan to reduce the maturity mismatch that increases the risks of MSME lending.</p> <p>Focus on finance for sectors like tourism and agriculture. Expand the credit scoring services of the Credit Information Bureau of Sri Lanka by incorporating all relevant data sources.</p> <p>Encourage industries with more value addition targeted towards export diversification</p> <p>Strengthen the services of Export Development Board, the Industrial Development Board, the Commerce Department, the Sri Lanka Export Credit Insurance Corporation, etc. to facilitate MSMEs to access financing and markets.</p> <p>Address the low penetration of insurance products to mitigate business risks.</p> <p>Implement the National Financial Inclusion Strategy of the Central Bank of Sri Lanka (including the Financial Literacy Roadmap) in collaboration with all stakeholders.</p>



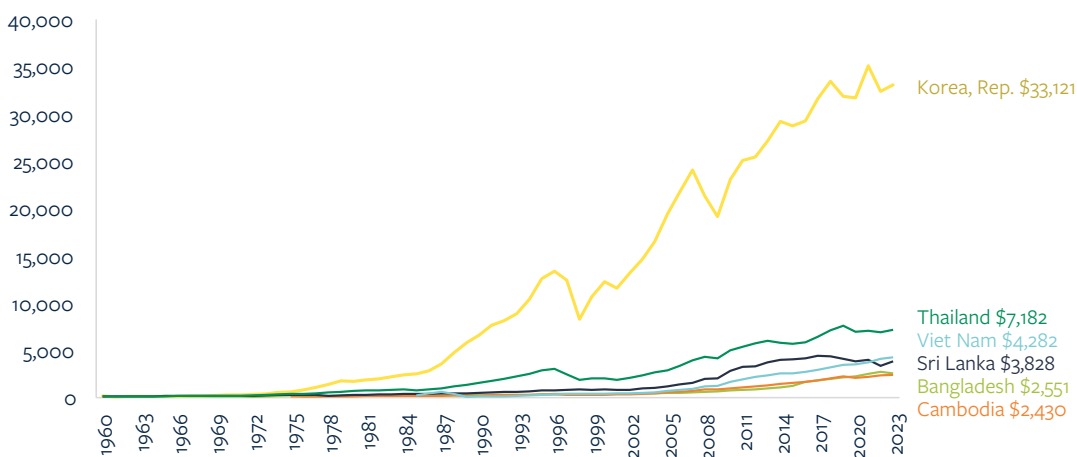
Proposal	Remarks
<b>Build policy consensus and state capacity</b>	
28. Government to appoint an independent growth commission to formulate a national growth plan drawing on examples of successes like Korea, Malaysia, Singapore, Thailand, Viet Nam, the United Arab Emirates and India.	Government to convene a national conference with key stakeholders to develop a consensus on the plan and long-term implementation. Ideas from this should inform the revision of the Economic Transformation Act.
29. Develop a laser-like focus on policy implementation and project monitoring through setting up a committee of secretaries of development ministries to strengthen priority-setting and coordination for implementation; a national operations room for monitoring of all policies, programmes and projects; a rigorous process for onboarding projects; and a project monitoring committee to monitor the progress of prioritised large-scale projects.	Such initiatives should also be guided by the need to sustain macroeconomic stability.
30. Significantly upgrade training on public policy and administration for public servants and members of parliament.	<p>Establish a top public policy and public administration school for executive education for public servants and members of parliament by partnering with a world class international university (e.g. Science Po in Paris, the Crawford School of Public Policy at the Australian National University in Canberra and Lee Kuan Yew School in Singapore).</p> <p>Explore tying the Sri Lanka Institute of Development Administration with international equivalents (e.g. Malaysia, India and Australia) to train public servants in modern public service management, value for money service delivery and integrity.</p>

# 1 Introduction: overview and policy proposals

At Independence in 1948, Sri Lanka was second to Japan on most socioeconomic indicators; in 1960 it was ahead of Korea on per capita income. It has since slipped behind most Asian neighbours (see Figure 1 and table in Appendix 1).<sup>1</sup> Far worse in terms of the impact on the economy and the Sri Lankan people, in 2022 the country fell into its worst economic crisis since Independence, precipitated by defaulting on its foreign debt, and entered its 17th International Monetary Fund (IMF) programme.

Sri Lanka's experience offers valuable lessons for middle-income countries grappling with post-Covid debt distress. While the economy is showing signs of stabilisation since 2024 – bolstered by positive growth, low inflation, a boom in tourism and a bullish stock market (IMF, 2025) – the challenges to achieving continued inclusive growth and economic transformation are far from over.

**Figure 1** GDP per capita (current US\$)



Source: World Bank World Development Indicators database

Sri Lanka finds itself on the precipice of both opportunity and risk. In this context, it is crucial that the new National People's Power (NPP) government chart a new

path towards inclusive and transformative growth that ensures debt sustainability, avoids future crises and delivers for all Sri Lankans. 'Business as

<sup>1</sup> Explanations for Sri Lanka's development slippage are to be found in Kelegama (2000) and Amerasekera and Venuganan (2021).

usual’ represents a cul de sac of lower competitiveness, petering out of growth and indebtedness.

To address this critical need, ODI Global has initiated a study group with eminent Sri Lankan economic thinkers to develop a new growth plan for the country. This exercise builds on our co-edited essay series, *Sri Lanka: from debt default to transformative growth*, which presents 27 pragmatic policy proposals drawing on insights by leading Sri Lankan and international experts (Wignaraja and te Velde, 2025).

Within its recovery programme, Sri Lanka must navigate emerging global challenges resulting from the introduction of US reciprocal tariffs. If implemented as proposed, these tariffs would have direct impacts on a quarter of Sri Lanka’s exports, while eroding the country’s export competitiveness with its rivals. Global trade tensions, policy uncertainties and a potential downturn in the world economy further complicate Sri Lanka’s recovery trajectory. These challenges highlight the complexities of Sri Lanka’s protective trade policy regime but also present opportunities for necessary reforms.

In light of the lingering effects of the economic crisis and these external pressures, achieving transformative and sustained growth is critical for Sri Lanka. Growth is essential to support the recovery programme via fiscal consolidation and debt sustainability. Furthermore, better fiscal spending delivers faster growth. It would reduce the country’s vulnerability to external shocks, helping avert any future economic crisis. Growth serves as a pathway to address crisis-induced income losses and mass poverty levels by creating jobs and generating incomes. Finally, a sustained higher growth momentum is the underlying requirement for achieving Sri Lanka’s ambitious high-income target within next 25 years.

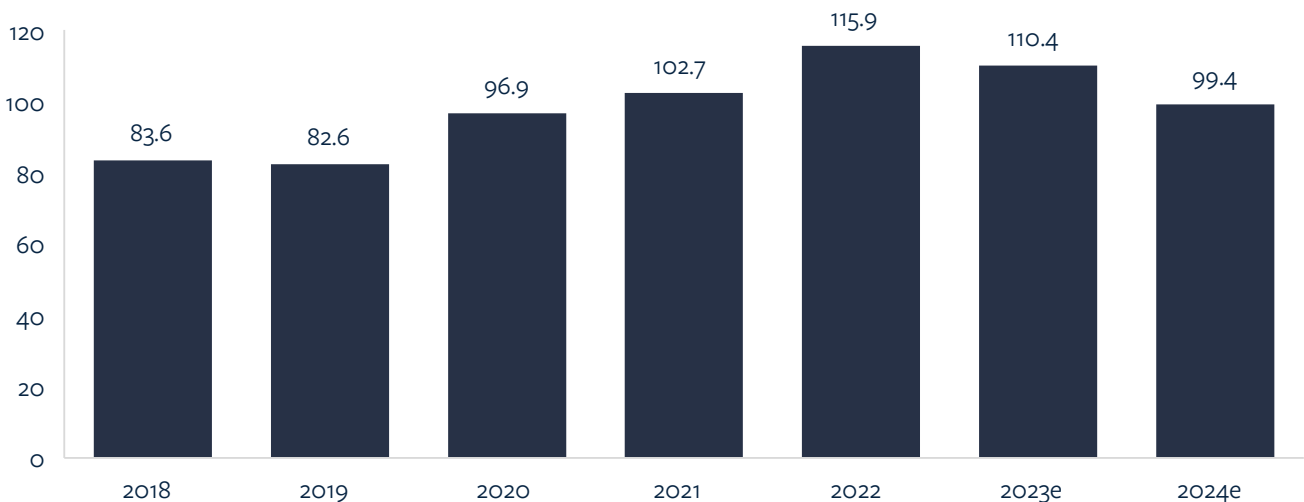
This report is structured as follows. Section 2 briefly discusses the causes of the economic crisis. Section 3 reviews the remarkable economic stabilisation Sri Lanka has achieved, albeit with growing risks. Section 4 sets out the key ingredients of and policies for a growth plan. Section 5 discusses lessons for implementing reforms. Section 6 concludes. Table ES1 in the Executive Summary provides proposals for accelerating growth and reducing poverty in Sri Lanka.

## 2 Causes of the economic crisis

Achieving higher growth in Sri Lanka is a priority for the NPP government, led by President Anura Kumara Dissanayake, which entered office in late 2024 at a pivotal moment (Wignaraja, 2024a). Sri Lanka is emerging from its worst post-Independence economic crisis (2022–2023), which resulted in a default on external debt obligations in April 2022 (Basu, 2022; East Asia Forum, 2023). Sri Lanka's public debt to gross

domestic product (GDP) ratio increased significantly from 84% to 116% between 2018 and 2022 (see Figure 2). The default follows a 15-year period during which Sri Lanka's debt profile changed significantly in terms of composition and risks, including a move to less concessional financing, loss of access to international capital markets, bigger bilateral borrowing and a lack of revenue (Smith, 2025).

**Figure 2** Public debt as a share of GDP (%)



Note: e = estimate

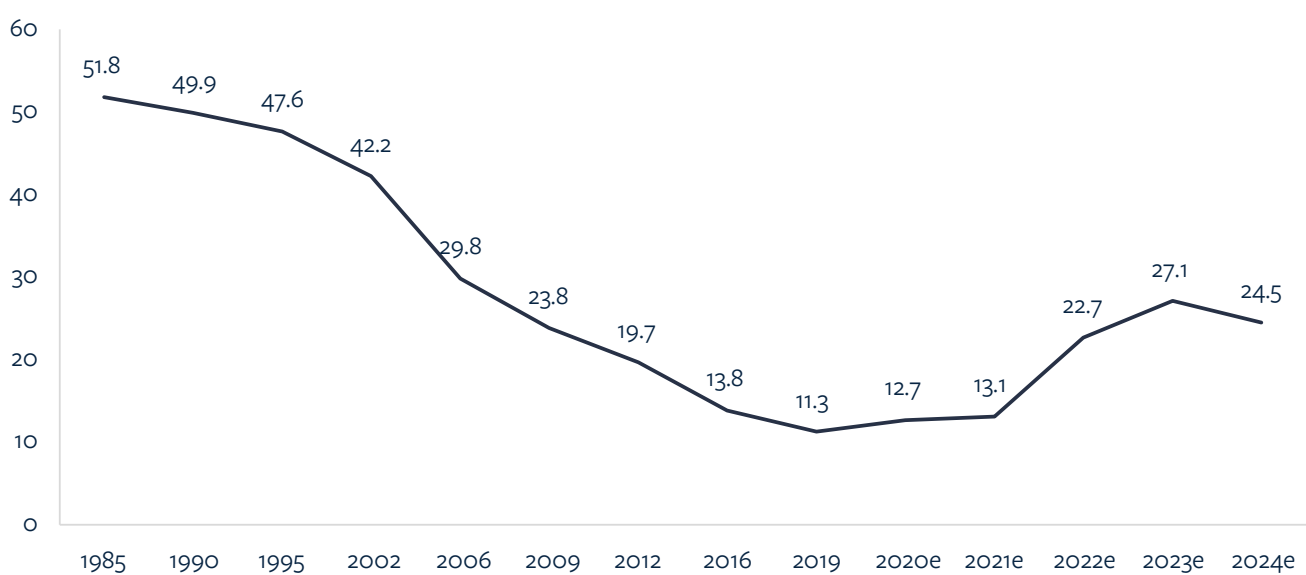
Source: IMF World Economic Outlook April 2025 database

The default represented a development setback for Sri Lanka, which was often cited as a 'basic needs' success story as early as the 1970s despite being a poor country (Isenman, 1980). The World

Bank estimates the share of the population in poverty (income poverty measured at \$3.65 a day) to have more than doubled from 11.3% to 27.1% between 2019 and 2023 (see Figure 3).

The reversal in poverty reduction gains during the crisis has taken Sri Lanka back to the high poverty levels of the early 2000s.

**Figure 3** Poverty headcount ratio at \$3.65 a day, 2017 PPP (% of population)



Notes: e = estimate. Estimates for 2020–2024 are based on World Bank’s nowcast.  
Sources: World Development Indicators for 1985–2019 data; World Bank Group (2023 for 2020–2021 data; World Bank Group (2025a) for 2022–2024 data

Furthermore, based on the 2022–2023 National Citizen Survey of 25,000 households, the United Nations Development Programme (UNDP) estimates that 55.7% of the population in Sri Lanka is multidimensionally vulnerable (UNDP, 2023). This means that an eye-catching 12.3 million people are deprived on at least three out of the 12 indicators that span the critical dimensions of education, health, disaster and living standards. However, some double-counting may be involved, leading to higher-than-expected deprivation numbers.

The causes of this crisis are complex and widely debated. Broadly speaking,

they can be categorised into external and internal to Sri Lanka (Weerasinghe, 2021; Abeyratne, 2023; Wignaraja, 2024b; Athukorala, 2025; Devarajan, 2025). The external factors include external shocks like the fallout from the Easter Bomb attacks in 2019, the Covid-19 pandemic, the Russia–Ukraine crisis and the Red Sea conflict. The internal factors include an inadequate shift of the economy to tradable production and export growth; commercial borrowing from China’s policy banks for a plethora of low-return infrastructure projects (e.g. Hambantota Port and Mattala Airport); persistence of fiscal and balance of payments deficits and acute economic mismanagement during 2019–2022 (locally known as

‘homegrown solutions’); lack of attention to productivity growth; and limited accountability of entrepreneurs to markets and governments to citizens.

There is growing consensus that the internal factors have greater explanatory

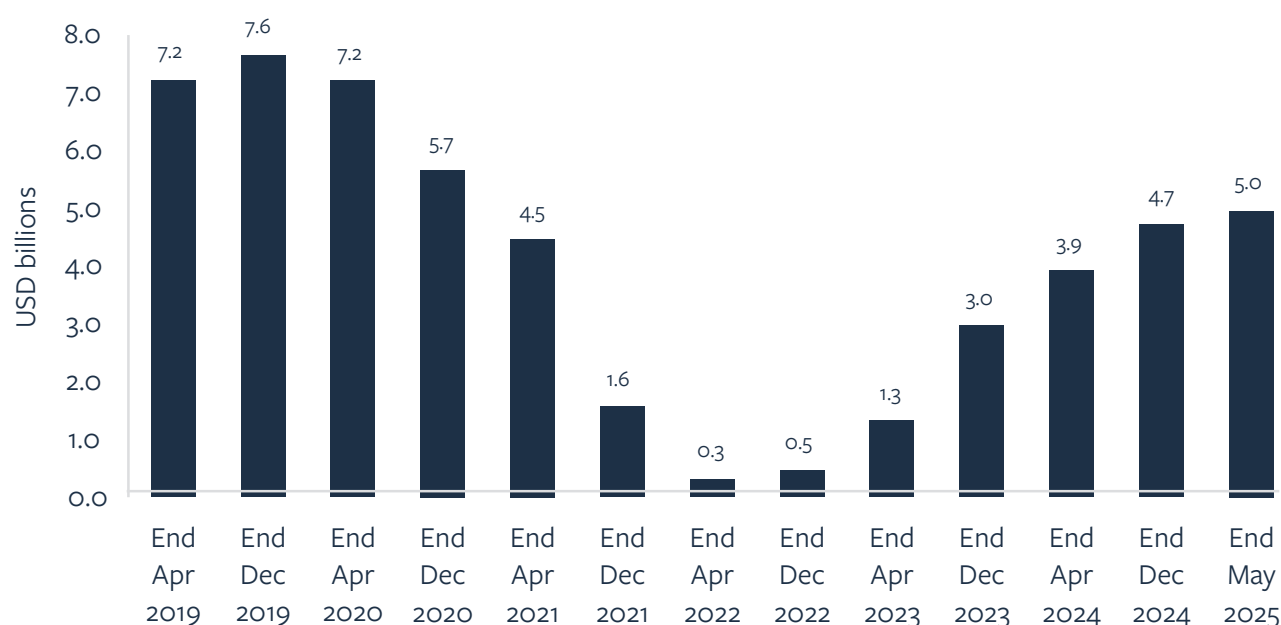
power than the external ones.

President Dissanayake and the NPP campaigned on a platform of compassionate and corruption-free governance, promising a clear pathway out of the crisis for all Sri Lankans (NPP, 2024).

### 3 Remarkable economic stabilisation – but risks remain

Sri Lanka's recent economic outlook offers reasons for cautious optimism (Wignaraja and te Velde, 2025). Thanks to prudent monetary and financial stability policies by the Central Bank of Sri Lanka, a \$3 billion four-year IMF programme and \$4 billion of bridging finance from India, the economy appears to have stabilised after severe macroeconomic turbulence (Breuer and Woldemichael, 2025; Weerasinghe et al., 2025). To his credit, President Dissanayake has committed to the IMF programme, but with increased social spending to reduce high poverty. The recent completion of the debt restructuring process also provides much-needed continuity. A \$17.5 billion debt restructuring deal with private

bondholders and China has provided much-needed breathing room, and a resurgence in tourism has boosted foreign exchange reserves (Ministry of Finance, Economic Stabilisation and National Policies, 2024). Figure 4 shows the gradual build up of gross official reserves (US\$) from a historic low at the sovereign default in April 2022 and May 2025. The data exclude the People's Bank of China (PBoC) swap, originally signed in 2021, of about \$1.4 billion. The agreement was renewed in December 2024, extending the PBoC swap for another three years. The swap becomes usable once gross foreign reserves rise above three months of the previous year's import cover.

**Figure 4** Gross Official Reserves, excluding People's Bank of China Swap

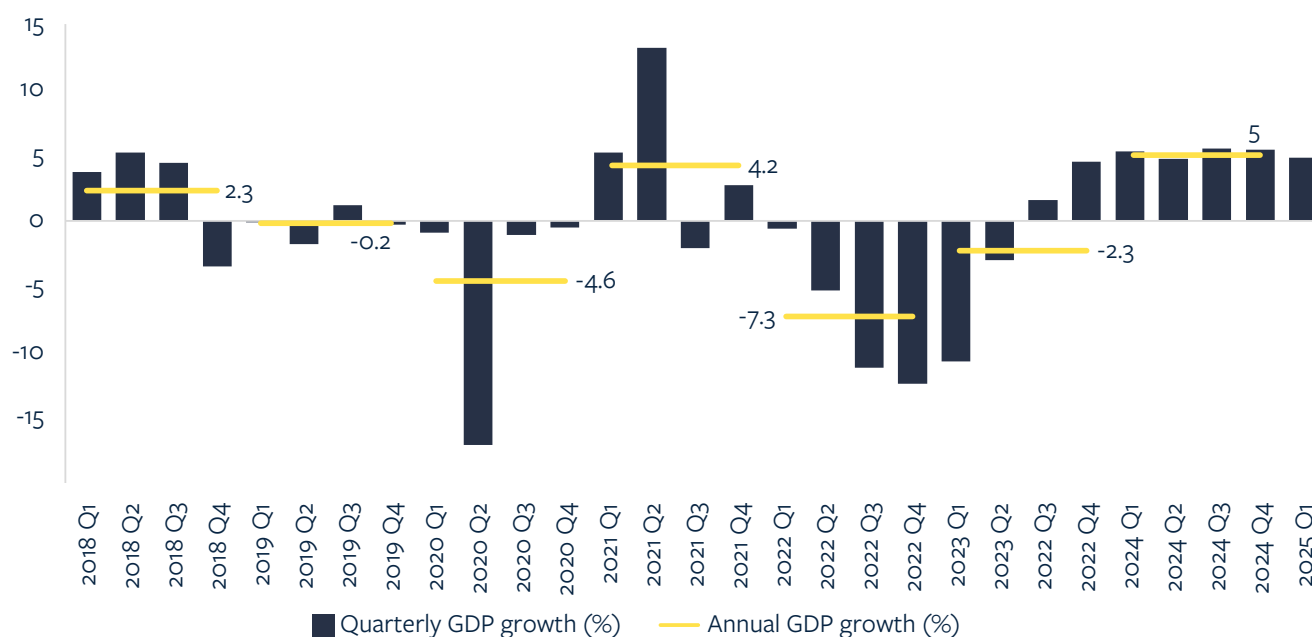
Source: Central Bank of Sri Lanka

The new government's first budget, in mid-February 2025, suggests continuity with fiscal consolidation and economic reform efforts. It highlights the new government's pragmatic attempt to balance meeting the requirements of the IMF programme with fulfilling its mandate of equitable growth. The focus is on revenue-raising measures amid gradual fiscal consolidation, increased spending on social welfare and education, reforms to enhance the digital economy, meeting debt repayments and economic stability (Parliament of Sri Lanka, 2025). Through these measures, the new government expects economic growth of 5% in the medium term.

In this environment, the new government has inherited a stabilising economy.

Figure 5 shows that growth picked up from -2.3% to 5.0% between 2023 and 2024. The pick-up continued in early 2025 with growth of 4.8% in 2025Q1. However, IMF forecasts published after the budget project growth as slowing from 4.5% to 3.0% between 2024 and 2025 and to remain around 3% for the next five years till 2030 (IMF, 2025). Interestingly, World Bank growth forecasts also point to growth slowing, from 5.0% in 2024 to 3.5% in 2025 (World Bank, 2025b). The road ahead is still fraught with uncertainty. The best way to overcome this uncertainty is to have a robust growth plan in place to address potential risks.



**Figure 5** Sri Lanka's annual and quarterly GDP growth rates (%)

Source: Central Bank of Sri Lanka Annual Reports, various years

While the economic outlook is positive, there are looming risks that the new government must tackle head-on. One significant risk is external to Sri Lanka. This relates to an unpredictable international trade policy environment, wherein the US Administration's signature tariff-raising policies and tough policies towards China and tit-for-tit actions by trading partners could affect the geoeconomics of the Indo-Pacific and lead to a trade war (Takada, 2025). On 2 April 2025, the US announced 44% reciprocal tariffs on Sri Lanka based on a formula incorporating a trade surplus vis-à-vis the US, national trade barriers and exchange rate policy. If the US implements reciprocal tariffs as announced, Sri Lanka is likely to lose export competitiveness, affecting a quarter of its exports to the US market. Additionally, the country may face a disadvantage compared with most

competitor nations, which would be subject to lower reciprocal tariffs than those imposed on Sri Lanka.

While it is too early to judge the impacts on the Sri Lankan economy, the overall direction will be negative on foreign exchange earnings, with implications for growth, jobs and poverty. Some say that, globally, this could be a return to a gloomy 1930s global economic scenario of beggar-thy-neighbour tariffs and, ultimately, a deep global economic recession. Sri Lanka needs a more resilient approach to deal with this uncertain international trade policy environment.

Other issues are internal to Sri Lanka. For instance, public debt levels could remain high (at about 95% of GDP in 2027 after the end of the current IMF programme) despite the restructuring deal with private and official creditors. There are

risks of excessive wage demands from public sector trade unions concerned about the high cost of living, and possible higher-than-expected motor vehicle imports following the lifting of import restrictions, with impacts on the foreign exchange situation (Fitch Ratings, 2025).

Another risk is the outflow of skilled professionals within the context of a rapidly ageing Sri Lankan population. In 2022 alone, an estimated 300,000 individuals, including IT, banking, marketing and medical professionals, migrated to seek better opportunities abroad (Sri Lanka Bureau of Foreign Employment, 2024). This brain drain poses a serious challenge for both business and governance, as the country faces a growing gap in the talent pool needed to propel growth (Kaluarachchi

et al., 2024). Sri Lanka's immigration and emigration policies permit only exit without entry, resulting in a net loss of human resources for the country.

Rather than putting barriers to outward migration, creating an environment that encourages skilled professionals to stay under more flexible labour market conditions is crucial. This requires a growth plan that incentivises the use of their skills, provides competitive salaries and benefits, and fosters a stable and promising economic future. In addition, given the crucial need for human resource advancement in the country, it would be worthwhile to set mechanisms for attracting 'foreign talents' to bridge the skill gaps. This is important for sustaining the current growth momentum in the long run.

## 4 Key ingredients of and policies for a growth plan

The growth plan in Table ES1 consists of six core policy areas:

1. continue macroeconomic stability and enhance credibility
2. promote global supply chains, exports and foreign direct investment (FDI)
3. improve factor markets
4. design and implement sector and market-specific policies
5. improve policies to reduce poverty
6. build political consensus and capacity around growth policies

This section discusses sound macroeconomic policy (4.1) and structural reforms (including examples of these that promote global supply chains, trade and FDI as well as improve factor markets) (4.2). It provides examples of sector policies (4.3) and improved policies to reduce poverty (4.4). Section 5 looks at building political consensus and capacity around growth policies.

### 4.1 Sound macroeconomic policy

An effective growth plan requires a robust platform in the form of sound macroeconomic fundamentals. For this, Sri Lanka needs to break out of its repeating cycles of macroeconomic stress. In this connection, unsustainable fiscal deficits, the root cause, have been addressed by tightening fiscal rules under the new Public Finance Management

Act (2024) and the IMF programme. Medium-term fiscal consolidation should be reinforced, ensuring it remains uncompromised by the expansion of populist expenditure proposals, despite rising tax collection. Unlike in the earlier Fiscal Management Responsibility Act (2003), there are now annual targets as a percentage of GDP: primary surplus 2.3%, revenue 15% and primary expenditure 13%. Revenue-based fiscal consolidation remains at the heart of achieving macroeconomic stability. In addition, digitalisation of the revenue agencies has a major role to play in this connection.

Fiscal sustainability remains one of the most contentious issues facing the new government. To date, there has been very little attention to the growth and development impacts of fiscal multipliers in Sri Lanka (i.e. active targeted fiscal policies that support growth rather than just saying ‘fiscal prudence’). This is an important area for research and policy action. While revenues have increased, rationalising government spending remains a priority, largely because of the state’s expansive role in the economy.

While ruling out privatisation, the government plans to improve the management of state-owned enterprises (SOEs). However, reconsidering the privatisation or restructuring of some of the larger loss-making SOEs, like Sri Lankan Airlines, may be necessary, as

their continued drain on public funds threatens long-term fiscal stability. With the support of the international financial institutions, the government should pursue a strategy that right-sizes the state, encourages private sector-led growth and ensures fiscal health in the coming years.

Appropriate monetary and financial policies are also crucial ingredients of a growth plan. The Central Bank Act 2023 provides a framework for flexible inflation targeting along with a flexible exchange rate policy. Enhanced Central Bank independence, along with greater accountability provisions, prevents the Central Bank providing monetary financing to the government and encourages better fiscal discipline and building of reserves/macro buffers.

The fiscal dominance that compromised monetary policy and compounded macroeconomic stress has been addressed through the Central Bank Act 2023 by removing any Treasury presence in the governance structures of the Central Bank; preventing Central Bank financing of the budget deficit; precluding financial repression through administered interest rates by adopting flexible inflation targeting (FIT), which is data-driven and forward-looking, as the regime for monetary policy formulation; and adopting flexible management of the exchange rate as the first line of defence against pressure on the external account as required under FIT. In sum, the new paradigm of macroeconomic

policy-making (that is based on clear frameworks that are embedded in laws) needs to be maintained.

In addition, debt management has been strengthened by moving from a fragmented institutional architecture to a unified Debt Management Office, which should be conducive for a more strategic approach yielding sustainable outcomes.

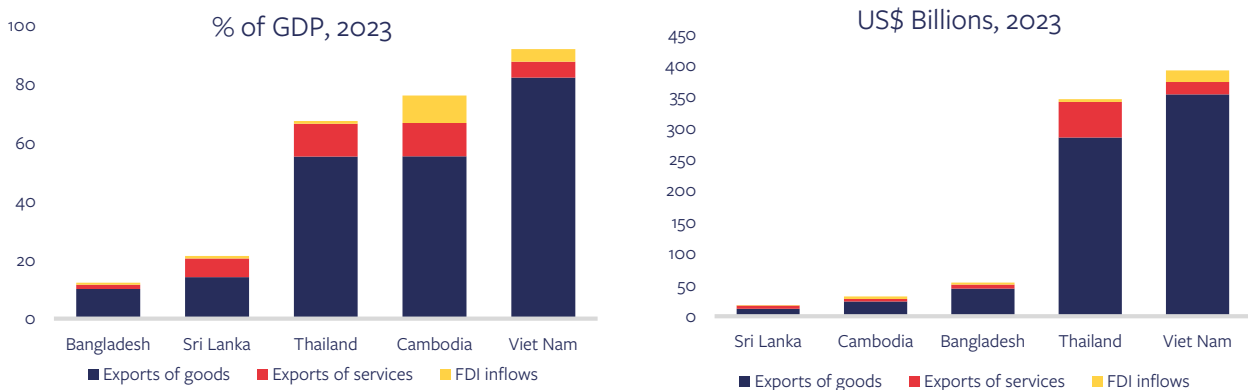
Alongside this, the financial sector must be organised and incentivised to support high-growth sectors and small businesses. The recent launch of the National Credit Guarantee Institution is a step in the right direction. Using the full potential of the Credit Information Bureau of Sri Lanka, including tools such as credit scores, the Secured Transaction Registry will facilitate the building up of a conducive credit culture. Further research is needed, drawing on global good practices, to determine whether the existing banking and non-bank financial system is sufficient or if a new development finance institution is required. Continuing to implement global good practices on methodologies for regular stress-testing of banks is also crucial to determine whether banks have sufficient capital to withstand negative economic shocks. Further, consolidation/rationalisation of the existing banks and reviewing their business models will contribute to enhanced efficiency/productivity and reduce transaction costs.

## 4.2 Structural reforms<sup>2</sup>

Growth in excess of 5% is required to reverse the sharp increase in poverty and multidimensional vulnerability in Sri Lanka (Gunatilake, 2024) and to ensure that another debt restructuring is avoided in 2027/28. However, the IMF currently projects the potential medium-term growth rate at around 3% (IMF, 2025). A

laser-like focus on structural reforms to strengthen the growth framework of the economy is thus imperative. These long overdue reforms include factor market and SOE reforms; improving the investment climate; strengthening investment promotion; trade policy reforms, including in trade agreements; reforms in trade facilitation; and education, training and skills development.

**Figure 6** Untapped Potential for Sri Lanka’s Growth – trade and investment



Source: World Development Indicators

Sri Lanka’s international economic policies are equally important. With worsening macroeconomic imbalances historically and during the crisis, the policy framework for earning foreign exchange (through exports, attracting FDI, tourism and remittances) has been ineffective. For instance, the partial opening-up of the economy to trade together with an overvalued exchange

rate – linked to the behaviour of strong inward-oriented business lobbies – has meant that Sri Lanka’s trade regime continues to exhibit an anti-export bias. Long-term exemptions from tax and import duty have had little effect on FDI inflows. Not surprisingly Sri Lanka has under-performed in trade compared to comparators in Asia (see Figure 6). A comprehensive and integrated national

<sup>2</sup> The term ‘structural reforms’ is used in a broad sense in this report and refers to a range of policies that help transform the economy and move into higher-productivity activities, either via sectoral shifts or within sectors, as such a more comprehensive set of policies than the standard so-called ‘Washington Consensus’ of the 1990s. See Macmillan et al. (2017).

strategy should be adopted to earn sources of non-debt-creating foreign exchange. This should emphasise:

- reducing the anti-export bias in the trade regime through more effective export marketing and a more realistic exchange rate alongside a gradual reduction of import protection
- better-targeted investment promotion, time-bound investment incentives and cutting red tape through digitisation of approval processes

Strengthening economic ties with neighbouring India is vital to ensure Sri Lanka benefits from investments, technology transfer, market access for exports and collaborations with this fast-growing major economy. President Dissanayake’s visit to India in December 2024 and Prime Minister Modi’s visit to Sri Lanka in April 2025 offer a promising foundation for stronger bilateral relations. The focus should now be on making concrete progress in areas such as business-to-business links in high-growth sectors, cross-border energy projects, a digital ID scheme, allowing the usage of the Indian rupee for local transactions in Sri Lanka and the deeper bilateral free trade agreement under negotiation (Wignaraja and Kripalani, 2024).<sup>3</sup> Japan’s relationship with smaller Association of Southeast Asian Nations (ASEAN) countries, which has fostered regional cooperation and integration, may offer a valuable model for such efforts (Kojima, 2000). This has led

to, among other things, an increase in the presence of global supply chains and jobs in Southeast Asia and a framework for regional trade and monetary cooperation.

It is also important to continue a non-aligned foreign policy, which would enable Sri Lanka to take advantage of considerable development support, market access and tourism inflows from China, Korea, Southeast Asia, the EU and the US.

## 4.3 Potential high-growth sectors

A successful growth plan requires considering what are likely high-growth sectors and supporting them. This requires a thorough assessment of the data and empirical evidence around sector selection by the authorities and relevant state institutions. An initial quick look at the information by the growth study group suggests there are several candidates in the country’s evolving comparative advantage, such as tourism, agriculture, manufacturing, information and communication technology (ICT) and the digital economy.

### 4.3.1 Tourism

Tourism, in particular, presents a quick win for the new government. This has long been a critical sector for Sri Lanka and continues to show strong post-crisis recovery. With over 2 million

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3 Modelling work done by ODI Global shows that economic gains to Sri Lanka can arise from tariff liberalisation via a free trade agreement (FTA) between India and Sri Lanka (see Mendez-Parra et al., 2025). Ongoing modelling work is attempting to explore the economic impacts of a more comprehensive bilateral FTA.

tourists visiting Sri Lanka in 2024, a 38% increase over 2023 (Sri Lanka Tourism Development Authority, 2024), tourism offers significant potential to boost foreign exchange reserves and spur growth. However, the government must do more to ensure tourism is sustainable and benefits communities beyond Colombo. Better marketing of Sri Lanka as a multicultural destination, coupled with targeted development of less-visited regions such as the north and east of the country, and support for small businesses linked to tourism activities, such as small hotels, restaurants and wellness products, is essential and will help create a more balanced and decentralised tourism industry.

Furthermore, addressing the recent wave of gang-related violence is vital to ensure the safety and security of tourists (Abeyratne, 2025). Sri Lanka has also received a low ranking on the Global Tourism Development Index 2024, largely because of substandard performance across all key areas of tourism development – enabling environment, policies and regulatory conditions, infrastructure and services, travel and tourism resources, and sustainability status. To enhance the country’s competitiveness as a regional tourist destination, the government must take proactive measures to address these deficiencies and implement strategies for improvement.

### 4.3.2 Agriculture

Sri Lanka’s agriculture sector is characterised by uneconomic

smallholdings, inefficient plantations, low technology, unskilled human resources and a lack of capital. It is kept viable only through subsidies for inputs, fertilisers, price support and irrigation as well as protectionist regulations, among others. The irony is that about a quarter of Sri Lanka’s labour force is jammed in agriculture, not because it is a better choice but because there are few choices available outside the sector. Additionally, botched land reform of plantations in the 1970s contributed to a significant fall in agricultural efficiency and agricultural exports, as well as increased reliance on food imports in US dollars (except paddy). These conditions led to food insecurity and malnutrition during the economic crisis: in 2022, Sri Lanka was faced with a Hobson’s choice of either paying interest on foreign debt or importing food to feed its people.

We should note that food security is measured in terms of the conditions of food availability, affordability, quality, safety and sustainability. In all of these areas, Sri Lanka ranked poorly on the Global Food Security Index 2022 (79th position among 113 countries), indicating that the country is at risk in terms of food security. Looking ahead, it would be prudent to ensure an efficient agriculture sector that both maximises its foreign exchange potential from exports through modern farming and provides food security through sufficient domestic production. A comprehensive review of land use and crop mix would help.

### 4.3.3 Manufacturing

Manufacturing, within a conducive environment, is pivotal in accelerating growth to higher levels in the medium term and sustaining it over the long term, ultimately transitioning the country to a high-income status. A conducive environment encompasses integration with the global economy, addressing the ‘small market’ issue. Such integration enables industries to expand and capitalise on economies of scale. Additionally, it attracts FDI targeting international markets and global supply chains. FDI brings not just capital but also technology, management expertise, professionalism and access to input and output markets – fostering spillover benefits for the host country. Possible areas include joining global value chains (e.g. high-value added textiles and garments, food processing and niche manufacturing [auto parts, boat-building and electronic components]).

Manufacturing also facilitates the transition of excess labour from domestic agriculture while enhancing innovation and productivity growth in the agriculture sector. Furthermore, it bolsters service sector growth, generating value additions during the manufacturing process and preventing the ‘non-tradable bias’ in economic growth.

To support manufacturing effectively, policies and reforms must focus on eliminating barriers and improving competitiveness. Key actions include the following:

- Simplify and rationalise regulations, institutions and procedures to create a more conducive environment for business operations.
- Ensure the availability, affordability and quality of inputs – both primary and secondary – to maintain an uninterrupted industrialisation process and international competitiveness of industries.
- Reform cross-border policies and regulations while adopting digitalised processes and a ‘single window’ system to streamline trade and investment flows.
- Align industrialisation with 21st-century requirements by embracing sustainability standards and advanced digital processes.
- Expand the government’s role in thrust areas such as the small and medium enterprise sector, regional industrialisation and targeted industries to foster more equitable growth and support strategic industries.

### 4.3.4 Digital economy

The digital economy is emerging rapidly in Sri Lanka and could be on course to contribute 12% of GDP by 2030. As the president’s budget speech of 2025 shows, the government recognises the transformative aspect of this sector. The current focus is on the provision of digital public infrastructure; extending e-government services (e.g. digitisation



of tax collection and customs revenue collection) and frameworks; setting up rules to foster innovation; and adoption of digital technologies and digital payment systems<sup>4</sup> throughout the economy. Increasing digital awareness and skills across the population and better cybersecurity systems<sup>5</sup> are other important aspects of digital economy development.

#### 4.4 Improved policies to reduce poverty

Sri Lanka's British-style welfare system provides free universal healthcare through a system of public hospitals and universal education through state schools and universities. Sri Lanka has also implemented various income transfer programmes, including the Janasaviya and Samurdhi Programmes. Aswesuma, a new cash subsidy programme, has been in place since 2023 and is being improved with World Bank support. It aims at addressing post-crisis poverty by tackling the inherent weaknesses of the previous cash transfer programmes. This improved, targeted and time-bound programme operates on a digitised platform, with bank transfers as its foundation. It currently benefits 2 million people; this reach appears

limited when compared with the post-crisis mass poverty level, estimated to be 7–10 million individuals.

Recent surveys by the Centre for Poverty Analysis (CEPA) suggest that Aswesuma could be further refined by addressing exclusion and inclusion errors and adopting more realistic proxies to minimise targeting inaccuracies (CEPA, forthcoming). Despite the quick turnaround of the economy since the crisis and the rapid recovery, the IMF notes that social spending continues to lag behind expectations (IMF, 2025).

In an ideal world, targeted cash transfers should be introduced at the onset of an economic crisis, along with a rationing of basic food and fuel where necessary. Eligibility also should be determined through a Unique ID System, and the benefits should be transferred directly to the bank accounts of beneficiaries (as in the Unique Identification Authority of India's Aadhar System)<sup>6</sup> to eliminate rent-seeking and inefficiencies.

Aswesuma will include a Unique ID System to ensure better targeting, reduce leakages and expand bank account access for the poor.

Addressing crisis-driven poverty requires a distinct approach, as it

4 The government needs to work with banks and payment gateways to negotiate better merchant discount rates so as to create a level playing field for digital payments. Currently, Sri Lanka is reputed to have high merchant discount rates of as much as 2.5% to 3% of the cost of goods and services. This means that digital transactions are relatively expensive compared with cash payments.

5 This is especially important in a world experiencing a growing spread of new technologies such as artificial intelligence and rising cyberattacks by state and non-state actors.

6 <https://uidai.gov.in/en/>

differs significantly from poverty under normal circumstances. In Sri Lanka, pre-crisis poverty was predominantly a ‘development issue’, stemming from individuals being excluded from the mainstream development process. In contrast, crisis-driven poverty is a ‘macroeconomic issue’, triggered by factors such as economic instability – debt defaults, inflation, interest rate hikes and currency depreciation – and economic contraction, which results in business closures, job losses and declining livelihoods and incomes. In addition, the immediate policy response to the crisis

has inadvertently exacerbated poverty levels, further complicating efforts to mitigate its impact.

This distinction underscores that post-crisis poverty cannot be effectively addressed through social protection measures alone, as these provide only temporary relief. Instead, the focus must shift to achieving and sustaining higher growth momentum. By fostering job creation and income generation, such growth becomes the cornerstone for driving long-term economic recovery and alleviating crisis-driven poverty.

## 5 Lessons for implementing reforms

The importance of some economic policies has been known for some time. However, Sri Lanka's development history is replete with examples of partial and inconsistent implementation of economic policies, and this has constrained the country's growth performance. This section looks at the sixth policy area – of implementing the first five growth policies – namely, how to build political consensus and state capacity.

It can be argued that lack of full and effective policy implementation owes largely to:

1. a lack of a political consensus over the direction of economic policy
2. weak state capacity and political incentives
3. a lack of project monitoring.

### 5.1 A lack of political consensus

A political economic viewpoint suggests that the roots of the current economic crisis in Sri Lanka lie in the lack of political consensus on a clear and consistent development strategy. Since the 1960s, Sri Lanka has seen a series of repeating cycles characterised by constant policy reversals, which have bred economic instability and uncertainty. Sri Lanka pursued inward-looking import

substitution policies in the 1960s and 1970s. This is perhaps attributable to lack of political consensus on reforms triggered by vested interests; for many years, there was a tension among those who emerged after the '1956 Revolution', which gave prominence to inward-looking nationalist-thinking policies. The upshot was an economy characterised by low investment, low growth and high unemployment. This meant, in turn, that Sri Lanka was not able to replicate the economic success of export-led neighbours in East and Southeast Asia.

By 1977, the country was ripe for economic reform. The 1977 parliamentary elections resulted in a United National Party government committed to extensive policy reforms to create an economy more oriented to international trade and markets. The package of policy reforms included trade policy liberalisation, fiscal policy reform, elimination of price controls, financial liberalisation, public enterprise reform and industrial policy reform. The policy reforms introduced in 1977 focused on creating more appropriate incentives and strengthening the framework for private sector development. The objective was to shift the emphasis away from production for the domestic market to exports. However, the momentum for reforms soon stalled owing to a lack of political will to deepen structural

reforms in product (e.g. reforms to SOE and domestic competition) and factor markets (e.g. land, labour and capital). Indeed, a lack of consensus on the direction of the country's trade and growth strategies over the decades has also contributed to the current economic predicament.

A consensus on a new five-year vision for national economic development should be reached among political parties, business organisations, trade unions and civil society (Coomaraswamy and Wignaraja, 2023). Conferences and seminars co-hosted by think tanks and the media can facilitate candid conversations on the merits of inward-versus outward-looking policies in an uncertain global economy, and what could be credible sources of economic growth and transformation. Areas of agreement should be codified into a readable national economic development vision document for the next decade outlining:

- economic development achievements and failures

- realistic targets for economic development including investment and productivity change
- an outward-oriented, market-friendly policy agenda
- risks to implementation

To raise public awareness of the national vision for economic development, nationwide outreach activities should be conducted. Often cited success stories of Korea, Malaysia, Singapore, Thailand, Viet Nam, the United Arab Emirates and India offer practical lessons in crafting and implementing such national visions for economic development.

## 5.2 Weak state capacity

A related concern is having the requisite legislative and technical capacity to enact the critical/crucial economic reforms, as well as good oversight.<sup>7</sup> On oversight, many recent parliaments have had a mixed experience. Some say there is a trend towards parliaments with large cohorts of untested first-time representatives, which has raised concerns about the legislative and

7 Surprisingly, there are very few studies on the effectiveness of state capacity for public policy management in Sri Lanka. One early study is Wanasinghe and Gunaratna (1996).

technical capacity in place to enact the economic reforms Sri Lanka so desperately needs. Furthermore, recruitment to the civil service is usually from among graduates from a variety of disciplines, and the main mode of training is on the job. The Central Bank of Sri Lanka provides opportunities for mid-career professionals to pursue graduate studies in economics and related subjects in overseas universities and continuous learning through short-term training, which has improved the institution's technical capacity and supported career advancement. However, this practice of supporting foreign graduate-level training does not apply to many other state institutions. Instead, there is a heavy reliance on state institutions (which may lack finance and faculty) or donor-funded ad hoc short courses to provide formal training.

As such, the government must prioritise public sector service delivery, retain key talent within the state sector and create policies that encourage the development of expertise in governance and public administration. Improved planning to undertake market-oriented public policies, digitisation of public services, training of legislators and understanding the complexities of economic reforms, are also crucial. Establishing a state-of-the-art public policy training institute for capacity-building for legislators and senior administrators would be a valuable addition to Sri Lanka's university network.

### 5.3 Limited project monitoring

Most development projects in Sri Lanka have failed to deliver their intended

benefits in a timely manner to the public, for various reasons, such as lack of preparedness, delays in procurements, poor performance of contractors, delays in receiving third-party clearance, insufficient allocations, suspension of loan disbursements and poor project management. If development projects are to be effectively implemented, they need to be endorsed by the highest levels of government in order to ensure concrete action. A strong leader or political champion will have the ability to push the process ahead. Cooperation between ministries, high-level officials and the various stakeholders is indispensable.

Project monitoring is crucial for government projects as it ensures accountability, transparency and efficient resource allocation. A monitoring framework helps in tracking progress, identifying issues and making informed decisions, ultimately leading to better project outcomes and increased public trust.

Most project management systems involve a variety of processes through which projects are implemented. Such systems can be divided into five main categories: initiating, planning, executing, monitoring and controlling, and closing. Each category comprises several separate processes; often, it is necessary to update or add information on a particular stage of the project management system. Project management is a continuous process, requiring appropriate changes to work

conducted previously and plans in line with end objectives/goals. Moreover, project scope management includes actions guaranteeing the identification and inclusion of activities necessary to create the project product and its successful completion.

## 5.4 Key actions for effective implementation

This section discusses organisational innovations which can support effective implementing of reforms suggested in Table ES1.

- Establish a committee of secretaries of development ministries, chaired by the secretary to the president, to improve consistency and predictability of policy-making as well as to strengthen priority-setting and coordination for implementation.
- Establish a national operations room or a policy implementation and monitoring division in the Presidential Secretariat under the purview of a senior additional secretary to the president, for the monitoring of all policies, programmes and projects, and ensure timely implementation and the achievement of desired targets.
- Set up a rigorous process for onboarding projects in accordance with national economic priorities. Consider the importance of selecting high-priority/mega-scale development projects, in line with the needs of the people, and implement the projects efficiently and effectively, including by
  - establishing a high-level committee, chaired by the prime minister or a senior minister, to prioritise and oversee regional development projects, such as:
    - projects implemented under the Decentralised Capital Budget Programme
    - projects implemented by cabinet ministries
    - projects implemented by provincial councils.
    - foreign funded projects
- Note: A senior additional secretary to the president will function as the secretary and convenor of this high-level committee.
- Establish a project monitoring committee to monitor the progress of the prioritised large-scale projects (over Rs 1,000 million) to ensure their timely implementation and the achievement of targets, chaired by a senior additional secretary to the president. Members of this committee should include the directors general of the following:
  - Department of External Resources
  - Department of National Planning
  - Department of Project Management and Monitoring
  - Department of National Budget
  - Department of Treasury Operations
- Note: An additional secretary to the president, may function as the secretary and convenor of the project monitoring committee.

Public officials who have been involved in strategic trade and investment efforts in previous years must be brought in from across the civil service, as they possess institutional memory, technical expertise and practical insights (CSF, 2025).

The government should engage the expertise available in the country and ensure an inclusive and transparent process for dialogue and consultation.

Advisory committees and special working groups, when appointed, should be truly representative of all sectors/stakeholders in the relevant fields. All committees and working groups should have action-oriented terms of reference with time-bound deliverables and periodic progress reporting to the appropriate authorities. (See Appendix 2 for more details on good practice project monitoring.)

## 6 A last word

Sri Lanka stands at a crossroads and the world is watching. The new government has made a promising start. There has been impressive stabilisation of the economy. The IMF programme is on track and the complex negotiations on debt restructuring have been completed successfully. Above all, there is now a new paradigm for macroeconomic policy-making, with clear frameworks that are embedded in laws. Fiscal rules have been tightened and the channels for fiscal forbearance in monetary policy have been eliminated, with greater autonomy for the Central Bank of Sri Lanka. Under this new regime, the exchange rate will be managed flexibly. The repeating bouts of macroeconomic stress should hopefully be a matter of the past. Taking steps to improve the sovereign rating and business confidence is essential to attract much-needed FDI.

However, there are still formidable challenges ahead in achieving inclusive and transformative growth in these uncertain global economic times. A ‘big bang’ approach to structural reforms is required to transform the economy,

strengthen and diversify its production base and thereby raise growth from 3% to a sustained 5% over the next five years. We think 5% growth is the minimum necessary to avoid another debt restructuring in 2027/28, with more austerity. Growth acceleration is also needed to make material headway in reversing the sharp increase in poverty and vulnerability that has occurred in Sri Lanka. For this, the commitment in the budget speech to implement the Economic Transformation Act (with amendments) must be given effect with the utmost urgency. This growth plan charts pathways for doing this effectively. It also advocates building state capacity for effective implementation.

Successful outcomes will require pragmatic leadership, bold policy decisions, a clear vision for Sri Lanka’s future prosperity and support from development partners. Now is the time for such leadership to grasp the opportunities for transformative growth and avoid sliding back into another macroeconomic crisis.



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# Appendix 1 Goods and services exports, FDI inflows and tourism earnings, country comparison

US\$ million					% of GDP			
Exports of goods	2018	2020	2023	2024	2018	2020	2023	2024
Sri Lanka	11,890	10,047	11,911	12,772	12.6	11.9	14.1	12.9
Bangladesh	39,252	33,605	44,237	47,245	12.2	9.0	10.1	10.5
Cambodia	12,700	17,716	23,470	26,661	38.3	50.9	55.4	56.3
Thailand	252,957	231,634	285,074	300,529	49.9	46.3	55.4	57.1
Viet Nam	243,699	282,629	353,782	403,241	78.6	81.5	82.3	87.8
Exports of services	2018	2020	2023		2018	2020	2023	
Sri Lanka	2,002	3,035	5,416		2.1	3.6	6.4	
Bangladesh	2,197	6,020	6,378		0.7	1.6	1.5	
Cambodia	1,527	1,767	4,188		4.6	5.1	11.4	
Thailand	33,125	30,997	56,662		6.5	6.2	11.2	
Viet Nam	7,006	6,290	19,594		2.3	1.8	5.3	
FDI inflows	2018	2020	2023		2018	2020	2023	
Sri Lanka	1,614	434	712		1.9	0.5	0.8	
Bangladesh	3,613	2,564	3,004		0.8	0.7	0.7	
Cambodia	3,213	3,625	3,959		7.6	10.4	9.4	
Thailand	11,705	-6,284	4,548		2.3	-1.3	0.9	
Viet Nam	15,500	15,800	18,500		3.6	4.6	4.3	
Inbound tourism expenditure*	2018	2020	2022 or latest**		2018	2020	2022 or latest**	
Sri Lanka	5,608	1,076	1,357		5.9	1.3	1.8	
Bangladesh	357	218	420		0.1	0.1	0.1	

	US\$ million			% of GDP		
Cambodia	4,832	1,119	1,529	1.4	0.4	0.4
Thailand	61,383	14,573	16,492	12.1	2.9	3.3
Viet Nam	10,080	3,232	149	3.3	0.9	0.04

\* Inbound tourism expenditure is defined as the tourism expenditure of a non-resident visitor within the economy of reference.

\*\* Latest tourism expenditure for Viet Nam is as of 2021.

Sources: Authors' computations based on data on exports of goods and services and FDI inflows from UNCTAD database, inbound tourism expenditure from UN Tourism database and current GDP data for 2018, 2022 and 2023 from World Bank and for 2024 from IMF World Economic Outlook April 2025

## Appendix 2 Good practice project monitoring

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Monitoring is a process to periodically collect, analyse and use information to actively manage performance, maximise positive impacts and minimise the risk of adverse impacts. In other words, it is a continuous process of tracking, measuring and evaluating a project progress against its predefined goals, objectives and timelines.

- tracking: gathering data on project activities, milestones and deliverables
- measuring: analysing the collected data to assess performance against established benchmarks
- evaluating: drawing conclusions from the analysis to identify potential issues and recommend corrective action

### Importance of monitoring

Monitoring is an important part of effective management because it can provide early and current information required to shape implementation in advance evaluation. This could be further described, as follows:

- early identification of issues: proactive problem-solving and risk mitigation
- improved decision-making: informed adjustments to plans and resource allocations
- enhanced communication: clear and timely updates to stakeholders
- increased accountability: tracking progress and ensuring responsibility
- improved project outcomes: higher likelihood of achieving project goals within budget and on schedule

### Monitoring key areas

Key performance areas are specific elements that are required for the success of an organisation, team or project. Defining key performance areas will assist not only in aligning the focus and allocating resources but also in setting measurable goals that will lead to drive productivity and performance. This could be further described, as follows:

- scope: ensuring the project stays within the defined boundaries
- schedule: tracking progress against deadlines and identifying potential delays
- budget: monitoring expenses and ensuring they meet expectations

- quality: assessing the quality of deliverables and ensuring they meet expectations
- risks: identifying and mitigating potential threats to project success
- stakeholder communication: maintaining open and effective communication with all stakeholders

## Monitoring methods

Monitoring is a crucial component in project management, research and various fields that require systematic tracking of activities and outcomes. It involves the regular collection, analysis and use of information to ensure a project or programme is on track to achieve its goals. Different types of monitoring methods serve various purposes, each providing unique insights and data that can drive effective decision-making. Key monitoring methods are stated below:

- regular meetings: project status meetings, steering committee meetings
- progress reports: written reports, dashboards, presentations
- key performance indicators: key metrics that measure project performance
- issue tracking systems: tools for identifying and resolving issues
- risk registers: tools for identifying, assessing and mitigating project risks

## Best practices

Best practices in monitoring and evaluation are essential to ensure the success of any project or programme. The process of monitoring and evaluation helps highlight any areas that need attention or any changes that need to be made to ensure the desired outcomes are achieved. Moreover, an effective monitoring and evaluation process can provide more accurate and timely data to inform decision-making. By following these best practices, organisations can ensure the monitoring and evaluation process is successful and helps them reach their goals. These practices include:

- establish a clear monitoring plan: define what to monitor, how to monitor and who is responsible
- use a data-driven approach: collect and analyse data objectively to inform decisions
- regularly review and adjust: continuously refine the monitoring process based on feedback and lessons learned
- involve stakeholders: keep stakeholders informed and engaged throughout the monitoring process
- focus on continuous improvement: use monitoring data to identify areas for improvement and enhance future projects



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Sri Lanka stands at a crossroads. Having emerged from its worst economic crisis since independence, the country faces the dual challenge of maintaining hard-won macroeconomic stability while igniting transformative growth. This report, a collaborative effort by ODI Global and the Centre for Poverty Analysis (CEPA), offers a crucial roadmap for navigating this complex landscape. While recent stabilisation efforts have yielded positive results, including renewed growth and reduced inflation, poverty levels remain alarmingly high. This study argues that continued structural reforms are essential to avert future crises and unlock Sri Lanka's vast potential. By focusing on six key policy areas – macroeconomic stability, global supply chain integration, improved factor markets, targeted sectoral policies, poverty reduction and consensus-building – Sri Lanka can capitalise on opportunities in tourism, the digital economy, niche manufacturing and agriculture to achieve sustainable and inclusive growth between 2025 and 2030.

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