Gheethanjali, B., Sandanayake, Y.G. and Bandaranayake, D.M.L.N., 2025. Impact of the Sri Lankan government economic reform programmes on the construction industry since year 2022. In: Waidyasekara, K.G.A.S., Jayasena, H.S., Wimalaratne, P.L.I. and Tennakoon, G.A. (eds). *Proceedings of the 13th World Construction Symposium*, 15-16 August 2025, Sri Lanka. pp. 853-865. DOI: https://doi.org/10.31705/WCS.2025.64. Available from: https://ciobwcs.com/papers/

IMPACT OF THE SRI LANKAN GOVERNMENT ECONOMIC REFORM PROGRAMMES ON THE CONSTRUCTION INDUSTRY SINCE YEAR 2022

B. Gheethanjali[1], Y.G. Sandanayake[2] and D.M.L.N. Bandaranayake[3]

ABSTRACT

The recent economic crisis in Sri Lanka has had a devastating impact on each economic sector, and the construction sector is no exception. Hence, the Sri Lankan government has entered into an agreement with the International Monetary Fund (IMF) to perform an economic reform programme to uplift the country from its insolvent position. However, there is a lack of studies on the impact of economic reforms on the construction industry. Hence, this research aims to identify the impacts of the current economic reform programme of the Sri Lankan government on the construction sector. A comprehensive literature review was conducted to understand the economic crisis, the economic reform programme and its impact on Sri Lanka. Further, under the qualitative research approach, 20 semi-structured interviews were conducted with the experts in the construction sector selected through purposive sampling. The collected data was analysed through code-based content analysis using N-Vivo software and manual content analysis. According to the findings, import restrictions, increased material prices and fuel shortages were highlighted as the major challenges faced by the industry, which led to project terminations, staff turnover, increased construction costs, and bankruptcies. Further, IMF programme objectives such as restoring macro economy, ensuring debt sustainability, establishing export-driven economy and emphasising anti-corruption are appreciated by the experts while highlighting the need for more objectives to be included in future revisions. . Findings of this study can be utilised by the government to improve its reform programme in future to safeguard the construction industry.

Keywords: *Construction Industry; Economic Crisis; Economic Reform Programme; IMF Programme; Sri Lankan Construction Industry.*

1. INTRODUCTION

The construction industry is one of the major industries affecting economic growth, especially in developing countries (Jayamal et al., 2023). Therefore, changes and issues related to the economy of a country including economic crisis directly affect the performance of the construction sector and vice versa (Gnanothayan & Kauškale, 2022).

[1] Student, Department of Building Economics, University of Moratuwa, Sri Lanka, anjana122000@gmail.com
[2] Professor, Department of Building Economics, University of Moratuwa, Sri Lanka, ysandanayake@uom.lk
[3] Lecturer, Department of Building economics, University of Moratuwa, Sri Lanka, lakshithab@uom.lk

An economic crisis is a negative situation faced by any nation as a result of a downturn in their economy due to several factors.

In the year 2022, Sri Lanka recorded the deepest contraction in the economy in history due to the economic crisis (Central Bank of Sri Lanka, 2023). This has resulted from a series of events such as the Easter Sunday bomb attacks in 2019, the COVID-19 pandemic, the Russia-Ukraine war, economic mismanagement, high dependence on foreign debts, reduction in foreign reserves, currency decline and inflation (Pathirana, 2021; George et al., 2022). As with many other industries, the construction sector is extremely sensitive to economic downturns due to its interdependent relationship with the economy (Musarat et al., 2021). Therefore, structural reform is essential, which focuses on long-term development of the country, the construction industry and especially the economy to address the economic crisis.

Economic reform refers to the changes to the government policies when the current economic policies are not satisfactory or the alternate policies which provide preferable productivity to the current productivity of the economy (Khemani, 2017). In the Sri Lankan context, the country has requested extended funds from the IMF to improve its economic performance in the year 2022. The IMF has approved a three billion extended fund facility for 48 months duration to uplift the economy of the country (IMF, 2023). However, the economy is still unstable, with risky debt management (IMF, 2024a). Due to the symbiotic relationship between the construction sector and economy, the economic reform programme will create a significant impact on the construction sector. On the other hand, there is a lack of investigation into the impact of the Sri Lankan government's economic reform programme on the construction sector. Therefore, it is essential to investigate the impact of the economic reform programme on the construction sector in order to minimise the further effects and strengthen the industry. Hence, this paper presents the research findings on the impact of the economic crisis as well as the economic reform programme on the Sri Lankan construction sector. This paper starts with an introduction, followed by a literature review. Section 3 outlines the research methodology, while Section 4 presents the research findings and discussion. Finally, the paper concludes with a summary of findings and recommendations.

2. LITERATURE REVIEW

This section reviews the literature on the economic crisis, its impact on the construction industry in global and Sri Lankan contexts, economic reform programmes, and its impact on the Sri Lankan and global construction sector.

2.1 ECONOMIC CRISIS AND ITS IMPACT ON THE CONSTRUCTION SECTOR

An economic crisis is a situation in which a country's economy is significantly affected by a financial crisis. Moreover, the Gross Domestic Product (GDP) decline, liquidity dry-up, and inflation or deflation are some of the main indicators of an economic crisis (India Today, 2022). After the Great Recession in 2008, the global economy was significantly affected in 2020 due to the COVID-19 pandemic. According to IMF (2022a), global economic growth has decelerated to 2.7% in 2023 from 6% in 2021. However, the factors contributing to the crisis extend beyond COVID-19. China's economy was affected due to continuous lockdowns, which consequently affected the global economy due to its influence on the global supply chain (Saliu & Memaj, 2023). Moreover, the war between Russia and Ukraine in 2022 has also had a significant impact on the economy worldwide in numerous sectors (Saliu & Memaj, 2023). The economic crisis has significantly affected the construction sector, especially firms with low financial capabilities, including the additional costs to ensure site hygiene, construction delays, high rates of unemployment, labour shortages, large projects being halted or terminated, overdue payments for completed works which affect cashflow, and material shortages (De Silva et al., 2023).

On 12 April 2022, Sri Lanka announced a pre-emptive sovereign default on all its foreign debt of about $50 billion. The sovereign default precipitated the worst economic crisis in the country's post-independence history (Moramudali, 2024). Specific decisions and policies implemented by the Sri Lankan government in the past and global and local conditions including the Easter Sunday Bomb attack in April 2019, the COVID 19 pandemic, and the Russia-Ukraine war have significantly contributed to the economic crisis in Sri Lanka (Pathirana, 2021).

The Sri Lankan economic crisis has directly impacted the performance of the construction industry, which resulted in 75% of construction projects being halted due to the increased building material prices and fuel shortage (De Silva et al., 2023). According to Jayamal et al. (2023), slowdown or complete shutdown in government-funded projects, only execution of foreign-funded projects, and disruptions to the proper functioning of construction sites due to health concerns were some of the challenges faced by contractors. Further, the local investors, clients, and contractors had insufficient financial reserves to invest or continue their projects and difficulty in obtaining any bank loans worsened the crisis and affected the payment to the third parties and other stakeholders including suppliers, labour wages and repayment of loans (Jayamal et al., 2023). According to Razeek (2022), in 2022, the total overdue payments due to the economic crisis is Rs. 100 million. Moreover, the construction industry is forced to rely on locally manufactured materials and finished goods due to the import restrictions (Pathirana, 2020). In addition, several difficulties were faced by the industry including material shortage, construction delays, staff turnover, non-recovery of payments from clients, disruption in machinery operations due to fuel shortage, high rate of unemployment, high rate of bankruptcy, and additional cost for idling machines due to fuel shortage (Pathirana, 2021; Jayamal et al., 2023).

2.2 ECONOMIC REFORM PROGRAMME AND ITS IMPACTS ON THE CONSTRUCTION SECTOR

Economic reform programmes are policies introduced by the government of any nation which change the way the economy is organised (Khemani, 2017). The Nigerian government initiated a reform programme in 2023 and was able to reduce the inflation from 32% to 24% in 2024 with the monetary tightening. The Pakistan government entered into an agreement with the IMF on 25th September 2024 for a 37-month Extended Arrangement for 7 billion US dollars (IMF, 2024b). Further, Argentina entered into an agreement with the IMF in March 2022 for a 30-month Extended Fund Facility (EFF) amounting to 44 billion USD (IMF, 2022b). According to Hill International (2024), the Pakistan construction industry is expected to boom in the following years, along with the vertical developments initiated all over the country.

The Sri Lankan government initiated the preliminary discussion with the IMF within a week after the announcement of default on foreign debt. The agreements and the timeline of activities with the IMF are shown in Figure 1.

Sep 2022	•Agreement with IMF on EFF Programme
Mar 2023	•Approved and provided first tranche of EFF
Oct 2023	•First review by the IMF
Dec 2023	•Approved and provided second tranche of EFF
Mar 2024	•Second review by the IMF
June 2024	•Approved and provided third tranche of EFF
Nov 2024	•Third review by the IMF
March 2025	•Approved and provided fourth tranche of EFF

Figure 1: IMF Programme Outline for Sri Lanka
Adopted from (IMF, 2024f, 2024h; CBSL, 2025; Ada Derana, 2025)

The Sri Lankan government entered into an agreement with IMF for a four-year IMF Programme with EFF of 2.9 billion USD in March 2023 (Nicholas & Nicholas, 2023). The main objective of EFF programme for Sri Lanka is to restore macroeconomic stability, debt sustainability, protect the poor and vulnerable from the impact of economic crisis, emphasise anti-corruption, governance reforms and ensure financial sector stability (IMF, 2023a). Moreover, the government has introduced the new Central Bank Act to replace the previous Monetary Law Act (Nicholas & Nicholas, 2023). The Government introduced the Economic Transformation Bill, which includes numerous economic targets to be achieved in the next 15 years (The Parliament Democratic Socialist Republic of Sri Lanka, 2024).

Further, the government enacted the Public Financial Management Act No. 44 of 2024 by repealing the Fiscal Management Act No.3 of 2003 in August 2024. The act repealed the Fiscal Management Act due to a breach of the Fiscal Management Act (Finance.lk, 2024). The newly implemented Act includes numerous objectives to ensure transparency and accountability in public financial management in future. Moreover, Public Debt Management Act No. 33 of 2024 was also implemented in June 2024 which includes main objectives, including payment of debts on time and obtaining loans with low risk (Public Debt Management Act, 2024).

Moreover, the IMF emphasised the need to provide the Central Bank of Sri Lanka (CBSL) more freedom to make decisions without political influence (IMF, 2024c). Further, in December 2024, the Sri Lankan government restructured its 12.55 billion USD international bond debt with new but untested instruments, linked to economic growth and governance. Moreover, by finalising this bond exchange, Sri Lanka became the fourth country to conclude its bond this year following Ghana, Ukraine, and Zambia (Ada Derana, 2024a). Moreover, the Sri Lankan government has announced to uplift the import restrictions on vehicles for personal use from the 1st of February 2025 (Ada Derana, 2024b). Further, the government has announced a few tax reforms in December 2024 to be implemented from April 2025 (Taxadvisor.lk, 2024).

The government has implemented a few other policies as well including (Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) being reduced to 8.5% and 9.5% respectively, the treasury bill limit being increased to Rs. 6,000 billion from Rs. 5,000 billion, Inland Revenue Act No.04 of 2023 was enacted, VAT for goods and services supplied and imported goods increased up to 18% from 15%, VAT exemption for petrol, diesel and LP Gas was removed, and VAT registration threshold reduced to 60 million per annum from 80 million per annum (CBSL, 2022, 2024). Moreover, Nicholas and Nicholas (2023) emphasised that the CBSL has now focused on the interest rates to control the cash flow in the market. Earlier, the CBSL assumed that the main duty of the Central Bank is to control the cash flow in the system. However, the CBSL and IMF have accepted that they should not control the cash flow in the system directly, instead, they should influence the economy through the interest rates during a crisis. Since the economic reforms have been implemented since 2022, there has been limited research on the subject. Furthermore, as the construction industry plays a significant role in the economy, a comprehensive study is necessary to examine the impact of the aforementioned economic reform programmes on the sector. Hence, this study aims to identify the impacts of the current economic reform programme by the Sri Lankan government on the construction sector.

3. RESEARCH METHODOLOGY

Three methodological steps were employed under the qualitative research approach to accomplish the aim of the research. First, a comprehensive literature review was conducted to explore the economic crisis and economic reform programmes initiated by Sri Lanka and other countries during their economic downturn, and the effects of those reforms on the construction sector. The sources used for the literature review were research papers, journal articles, books, official reports, conference proceedings, and newspaper articles. Second, a desk study examined the Sri Lankan government's economic reform program since 2023 using various sources, including government documents, reports, newspaper articles, sources from reliable government websites, and publications. Finally, semi-structured interviews with construction experts were carried out to identify the effects of those reforms on the construction sector. Respondents were selected through snowball sampling to ensure diverse and most appropriate responses. Twenty semi-structured interviews were conducted with both consultants and contractors, including professionals from various institutions, to assess the impact of the economic crisis and economic reform programme on the construction industry. The respondent's profile is given in Table 1.

Table 1: Profile of the respondents

Code	Organisation type	Designation	Experience
R1	Consultant Organisation	Quantity Surveying Department Head	27
R2	QS Consultancy Firm	Director	32
R3	QS Consultancy Firm	Director	32
R4	Contractor Organisation	Manager Projects Monitoring and Controlling	10
R5	Contractor Organisation	Chief Executive Officer	20
R6	Consultant Organisation	Chief Executive Officer	20
R7	Consultant Organisation	Director	55
R8	Consultant Organisation	Director	40
R9	Contractor Organisation	Deputy General Manager	20
R10	Consultant Organisation	Quantity Surveying Department Head	26
R11	Consultant Organisation	Director	18

Code	Organisation type	Designation	Experience
R12	Consultant Organisation	Managing Director	22
R13	Consultant Organisation	Director	25
R14	Consultant Organisation	Chief Quantity Surveyor	30
R15	Consultant Organisation	Director	35
R16	Contractor Organisation	Chief Engineer	30
R17	Consultant Organisation	Director	23
R18	Consultant Organisation	Chief Executive Officer	18
R19	Contractor Organisation	General Manager Contracts and Estimates	17
R20	Contractor Organisation	Project Manager	18

As shown in the table, semi-structured interviews were conducted with 20 experts currently practising in the construction industry, covering Directors, CEOs, Quantity Surveyors, Engineers, and Project Managers. Interviewees were selected based on their expertise, experience and sound knowledge of the construction industry and the IMF reform programme and its impact on the industry. Their experience ranged from 10 to 50 years, both in Sri Lanka and abroad. The collected data was analysed using manual content analysis and NVivo software was used to analyse the data using code-based content analysis.

4. RESEARCH FINDINGS AND DISCUSSION

The key research findings obtained through expert interviews are presented in this section. The impact of the economic crisis and the economic reform programme on the construction sector is analysed in this section.

4.1 CHALLENGES FACED BY THE CONSTRUCTION INDUSTRY DURING THE ECONOMIC CRISIS

During the interviews, the experts were requested to explain the challenges they had faced during the economic crisis. Further, the respondents were requested to identify the

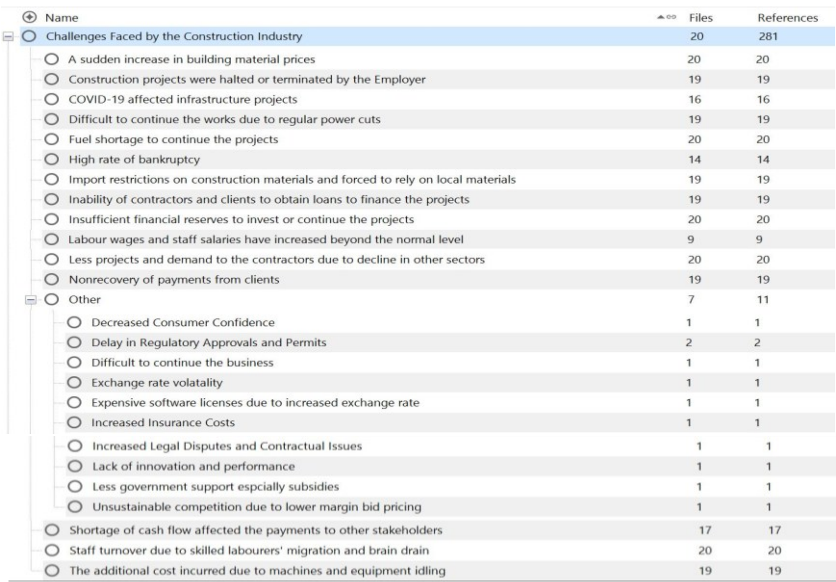

Figure 2: Challenges faced by Sri Lankan construction industry during the economic crisis

challenges which have not been listed in the interview guideline. Figure 2 summarises the challenges faced by the stakeholders.

All the respondents agreed that there is a severe increase in material prices. R1 said, "*cost of imported construction materials such as steel, cement, and MEP components increased drastically*". R4 added to that, stating "*the employers could not afford the escalation because it was two times the initial cost. Therefore, mainly the locally funded projects, terminated or suspended"*. According to R1, the fuel crisis mainly impacted rural area projects, especially road projects. "*In building projects, a few types of machinery employed, and we needed the fuel to run the generators, which is more manageable*", according to R5.

Further, R1, R4, R5, and R8 mentioned that they had several disputes stemming from insufficient financial arrangements, due to unexpected increases in costs. Further, R8 highlighted that the cost has increased by another 60% due to inflation. Moreover, R4 highlighted that "*financial reserves were not enough for the locally funded projects, whereas the foreign-funded projects continued, due to currency depreciation and the fund was in foreign currency"*. Moreover, R20 emphasised that "*financial institutions were reluctant to provide loans as Central Bank is not encouraging to provide the loan as the banking system may get collapsed",* which is the main reason for insufficient financial reserves. Strengthening this statement, R5 said, "*construction industry was identified as a high-risk industry to provide loans during the crisis by the financial institutions*". While highlighting the payments to other stakeholders, except R2, R9 and R19, all the respondents mentioned that they have experienced a severe issue paying their suppliers and labourers. Further, R8 mentioned that "*due to the crisis, not a single supplier gave credit basis material to contractors".* R2, R9, and R19 mentioned that they were able to manage the payments to some extent due to the mix of projects they had, where they received the payments for foreign funded projects on time.

R16 highlighted that *"there is a 60% reduction in projects due to regular power cuts*" whereas, R20 mentioned that *"processes were halted or slowed down because night shift was not a practical solution due to increased labour charges for overtime*". On the contrary, R2 mentioned that "*we obtained fuel from the government on quota basis. However, our regular works were disrupted. But we managed based on power cut schedule and increased the working hours and did night shifts*". Further, respondents highlighted that the project progress was affected dramatically due to import restrictions especially elevators according to R8 and R20. Moreover, respondents R2, R5, R7, R12, R14, and R17 highlighted that most of the SMEs were not bankrupted due to economic crisis, but they have diversified into other businesses.

Apart from the challenges identified through the literature review, the respondents have identified a few other challenges. R1 added "*delay in regulatory approvals and permits, decreased foreign investment in construction projects, increased legal disputes and contractual issues, increased insurance costs, and decreased consumer confidence*" to the list. Further, R5 highlighted "*companies are tendering at very low margins which will be an unsustainable level of competitiveness*", R6 mentioned that "*the cost of software licenses was very high due to the increase in exchange rates*", R10 discussed the low performance and low productivity, R12 mentioned that "*difficulty in continuing the business in the existing level and forced to shrink the business*", R16 stated that "*no government support received and lack of motivation*", R19 included "*exchange rate* *volatility and delay in procurement and payment procedures*" and R20 discussed the challenges in restarting the projects after a halt.

4.2 Impact of Economic Reform Programme Proposed by the Sri Lankan Government on the Construction Industry

The objectives of the IMF programme, Public Financial Management Act and Public Debt Management Act were listed in the interview questionnaire to identify the impact of each objective on the construction sector. Table 2 summarises the key findings.

Table 2: Impact of objectives of IMF programme on the construction industry

Objectives	Impact			No Impact
	Positive	Negative	Both	
Restore macroeconomic stability	18	1	1	0
Ensure debt sustainability	18	0	2	0
Protect the poor and vulnerable community from the impact of economic crisis	3	0	2	15
Emphasize on anti-corruption	19	0	1	0
Governance reforms and ensure financial sector stability	18	0	1	1
Increase real GDP growth rate at 5% until 2027 and 8% for the next 15 years	19	0	1	0
Unemployment is aimed to be reduced to 5% in 2025	9	0	6	5
Establish an export-driven economy in 2040	19	0	1	0
Reduce the government annual financing needs to GDP ratio below 13% in 2032	1	16	3	0
Reduce the government annual debt service in foreign currency to GDP ratio below 4.5%	2	12	6	0
Reduce the public debt to GDP ratio below 95% in 2032	0	13	6	1
The current account deficit should not exceed 1% of GDP annually	8	5	7	0
Objectives of Public Financial Management Act	19	0	1	0
Objectives of Public Debt Management Act	18	0	2	0

According to the majority of the respondents, restoring the macro economy will benefit the construction sector directly, and R1 mentioned that "*macro-economic stability tends to restore investor confidence, which is critical for the construction industry*". However, R3 argued that *"the government never looked at the SME sector. 97.4% is SMEs in Sri Lanka. Therefore, monopolies survived, oligopoly survived, not the SMEs*". Except for R1, R3 and R5, all the respondents believed that debt sustainability would boost the construction sector by attracting foreign investors, whereas R5 argued that "*debt sustainability leads to reduced Capex spending, which has a direct negative impact on the construction sector*". Except for R1, R7, R16, R18, and R19, the other respondents mentioned that the protection of poor people will not create any impact on the construction sector, whereas R1 argues that "*protection of poor people could lead to funding for low-cost housing projects, providing opportunities for construction firms*".

Moreover, the majority of the respondents highlighted that objectives including establishing export-driven economy, increasing real GDP growth to 8%, anti-corruption, and objectives of Financial Management Act will impact positively the construction sector. Further, R1 and R20 stated that "*To meet debt obligations, the government may cut funding for public sector projects, limiting opportunities for construction companies*". Moreover, when considering the objective of maintaining the current account deficit below 1%, R1 stated that "*efforts to reduce the deficit may lead to import restrictions*", whereas R4 agreed with the statement by mentioning "*there might be import restrictions, but yet again in the long run, it will be positive*". Moreover, R1 highlighted that the reduction in annual debt servicing in foreign currency to GDP ratio will negatively impact the industry by stating that "*to achieve this target, the government may cut back on infrastructure spending*" and R2 agreed with the statement by stating "*leads to* a *reduction in construction project investment as construction projects are mostly funded through debts*". Further, when reducing unemployment, depends on the initiatives taken, the impacts will differ. If those merely create job opportunities to reduce unemployment, it may lead to negative impacts as well. However, if unemployment is reduced, according to R18, "*if one is employed, then they have more disposable income, and that will lead to more construction projects*". However, the majority of the respondents believed that these objectives did not directly address the issues in the construction industry.

Further, Table 3 summarises the key findings regarding implemented policies.

Table 3: Impact of the policies implemented on the construction industry

Policy Measures	**Impact**			**No Impact**
	Positive	**Negative**	**Both**	
SDFR and SLFR is reduced to 8.5% and 9.5% in March 2024	19	0	1	0
STaRR project credit scheme loan limit is increased up to Rs. 400,000	0	0	1	19
The Saubhagya loan scheme and Domestic Agriculture Development loan scheme were concluded in 2023	0	1	1	18
Introduced the Manusavi loan scheme for Sri Lankan migrant workers	2	7	1	10
Decided not to introduce new loan schemes	0	9	1	10
Direct issuance of SLDB was suspended	0	6	1	13
The treasury bill limit is increased to Rs. 6,000 billion	1	2	4	13
Allowed the importation of a list of goods which were temporarily suspended	19	0	1	0
All individuals above 18 years should register to the IRD	1	6	1	12
VAT increased upto 18% from 15%	0	19	1	0

Policy Measures	Impact			No Impact
	Positive	Negative	Both	
VAT exemption for petrol, diesel, and LP Gas was removed from January 2024	0	19	1	0
The VAT registration threshold was reduced to 60 Mn from 80 Mn per annum	0	17	2	1
Restructured 12.55 billion USD international bond debt	17	0	3	0
Uplift the import restrictions on vehicles	1	2	2	15
Revised the personal income tax	11	1	1	7
Withholding tax is increased from 5% to 10%	0	15	3	2
18% VAT is applicable for digital services	0	7	1	12
Taxes on betting, gaming, tobacco and liquor industries will increase from 40% to 45%	1	1	1	17
VAT exemption for domestic dairy products	0	0	1	19
Stamp duty on leases will increase from 1% to 2%	0	18	1	1

Among the policies implemented, most of the respondents stated that policies included increasing the loan limit for the STaRR project, VAT exemption for domestic dairy products, taxes on betting, gaming, and tobacco industries, uplifting the import restrictions of personal vehicles and conclusion of Saubhagya loan scheme and Agricultural loan scheme will not create any major impacts on the construction sector. However, the VAT increase from 15% to 18%, removal of VAT exemption for petrol, diesel and LP Gas and decrease in VAT registration threshold will directly negatively impact the construction sector. R2 highlighted that by mentioning, "*if somebody is building a factory or any building, the cost has increased by 3%*". Further, R15 explained this impact mentioning "*if a company is VAT registered those companies will not have an impact as they collect the VAT component and pay whereas, if the company is not registered, it is a disadvantage for them. And when it comes to the client's point of view, they have to pay more money for a project*". In addition, R4 highlighted that "*the VAT for condominium was zero, and when it is increased up to 18% at once, the condominium projects were totally dropped".*

Moreover, when analysing the impact of a debt restructuring of 12 billion USD, the majority of the respondents accepted it as a favourable step toward the construction sector. R10 stated "*confusion of insolvency can be, taken out, so that may, encourage the investments*", whereas R6 argued that "*despite the attraction of investors, we have to continue paying these debts for so many years in the future. That means there is less, to invest in the country*". The importation of materials that were restricted during the economic crisis is considered a favourable step by the majority of the respondents, whereas R1 argued that "*Increased imports could lead to foreign currency outflows, reducing the dollar reserves*". Moreover, the increase in stamp duty is also highly criticised by the respondents, stating that *"it increased operational costs, reduced profitability, especially for smaller contractors*" according to R1. Moreover, regarding the revision of personal income tax, some respondents believed that it would not create any major impact on the construction sector, whereas others argued that it would positively impact the industry. R1 stated that it "*provides more disposable income for the* *public, potentially improving spending on construction-related goods and services*". Further, R6 highlighted that "*higher disposable income will reduce the pressure on companies having to increase salaries*". However, R3 argued that "*still the tax percentages are very high. Therefore, the disposable income is very low, which will decrease the investment in the construction sector. Still, nonpayers are not identified, and taxes are not collected"*.

Therefore, all the experts highlighted that the implemented policies are not sufficient to address the issues in the construction sector and close attention is required towards the construction sector.

5. CONCLUSIONS AND RECOMMENDATIONS

The economic crisis is a significant condition which dramatically affects the major sectors of a national economy including the construction sector due to their interdependency. The Sri Lankan economic crisis and declaration of insolvency have created a large impact on the construction sector. To recover from the economic crisis, a proper economic reform programme should be implemented. However, as a major contributing industry, the issues in the construction sector should be addressed, and policy measures should be taken to improve the industry. Hence, to analyse the impact of the economic crisis on the construction sector and the impacts of the economic reform programme on the construction sector, 20 semi-structured interviews were conducted under the qualitative approach. Since the research is focused on the impact of the economic reforms on construction sector, the sample included only the experts from construction sector who has vast knowledge regarding IMF reform programme. Further, the study was limited to the economic crisis since 2020, IMF reforms in 2022 and their impact on construction industry. The majority of the respondents highlighted import restrictions, power cuts, insufficient financial reserves, increased material prices and construction costs, fuel shortages and staff turnover as the main challenges faced by the industry during the economic crisis. The respondents emphasised that some of the challenges are still faced by the industry even after three years. Further, the findings revealed that, some objectives of the IMF programme including restoring macro-economic stability, ensuring debt sustainability, establishing export driven economy, and ensuring anti-corruption are considered preferrable objectives of the IMF programme. However, a few other objectives including reduction in current account deficit, reduction in annual financing needs and annual debts to GDP ratio are considered positive objectives from the country's economic perspective although those are negative on the construction sector investments. While analysing the policies implemented, VAT increase is highly criticised by the respondents and considered as the money collection process to pay the debts rather than investing in public projects. Therefore, other than the expected positive impacts received from the objectives of the IMF reform programme, the implemented policies have not created an evident impact on the construction sector. The majority of the policies have neither created any impact nor negative impacts whereas very few created positive impacts. Therefore, the industry expects and requires more policies to be implemented in the future. Hence, it is recommended the government authorities and the industry experts to revisit the IMF reforms and customise the policies to address the ongoing issues of construction industry due to economic crisis. This research findings will be beneficial for the government to improve the policies in future to encourage the construction industry to grow which will directly improve the national economy through GDP contribution. As the next step, this research will investigate the policies to be implemented in future to enhance the construction sector.

6. REFERENCES

Ada Derana. (2024a). *Sri Lanka's bondholders sign off on USD 12.55 billion debt overhaul*. Ada Derana. https://www.adaderana.lk/news.php?nid=104302

Ada Derana. (2024b). *Sri Lanka to allow vehicle imports from February 2025*. Ada Derana. https://www.adaderana.lk/news.php?nid=104333

Ada Derana. (2025). *IMF reaches staff-level agreement with Sri Lanka on fourth review*. Ada Derana. https://www.adaderana.lk/news.php?nid=107750

CBSL. (2022). *Major Economic Policy Measures*. https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/red/2022/Policy_Measures_e.pdf

CBSL. (2024). *Major Economic Policy Measures*. https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/aer/2024/en/22_Box_05.pdf

Central Bank of Sri Lanka. (2023). *Annual report of Central Bank of Sri Lanka for the year 2022*. Central Bank of Sri Lanka. https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/annual_report/2022/en/5_Chapter_01.pdf

De Silva, S. S., Wijekoon, W. M. C. L. K., & Kalugala, C. (2023). Impact of economic crisis on employees of contractors' organisations in the Sri Lankan construction industry. In: Sandanayake, Y.G., Waidyasekara, K.G.A.S., Ramachandra, T. and Ranadewa, K.A.T.O. (Eds). *Proceedings of the 11th World Construction Symposium*, 21-22 July 2023, Sri Lanka. [Online]. pp. 557–568. https://doi.org/10.31705/WCS.2023.46

George, A. H., George, A. S., & Baskar, T. (2022). Sri Lanka's economic crisis: A brief overview. *Partners Universal International Research Journal*, 1(2), pp. 9-19. https://doi.org/10.5281/zenodo.6726553

Gnanothayan, J. G., & Kauškale, L. (2022). Development of the construction industry and its interconnection with the development of national economy of Sri Lanka. *Baltic Journal of Real Estate Economics and Construction Management*, *10*(1), 106–112. https://doi.org/10.2478/bjreecm-2022-0007

Hill International. (2024). *Pakistan construction market overview: maximizing opportunity, minimizing risk*. Hill International. https://www.hillintl.com/articles/pakistan-construction-market-overview-maximizing-opportunity-minimizing-risk/

IMF. (2022a). *World Economic Outlook - Countering the Cost-of-Living Crisis*. www.imfbookstore.org

IMF. (2022b). *IMF executive board approves 30-month US$44 billion extended arrangement for Argentina and concludes 2022 Article IV consultation*. IMF. https://www.imf.org/en/News/Articles/2022/03/25/pr2289-argentina-imf-exec-board-approves-extended-arrangement-concludes-2022-article-iv-consultation

IMF. (2023). *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*. IMF. http://www.imf.org

IMF. (2024a). *2024 Article IV consultation and second review under the extended fund facility, request for modification of performance criterion, and financing assurances review*. International Monetary Fund. https://www.imf.org/en/Publications/CR/Issues/2024/06/13/Sri-Lanka-2024-Article-IV-Consultation-and-Second-Review-Under-the-Extended-Fund-Facility-550261

IMF. (2024b). *Pakistan: 2024 Article IV consultation and request for an extended arrangement under the extended fund facility*. IMF. https://www.elibrary.imf.org/view/journals/002/2024/310/002.2024.issue-310-en.xml?cid=556152-com-dsp-crossref

IMF. (2024c). *IMF reaches staff-Level agreement on the second review of Sri Lanka's extended fund facility and concludes the 2024 Article IV consultation*. Press Release. https://www.imf.org/en/News/Articles/2024/03/21/pr2494-sri-lanka-imf-staff-level-agreement-for-second-review-sla

India Today. (2022, March 31). *Economic Crisis explained*. India Today. https://www.indiatoday.in/information/story/economic-crisis-explained-1931518-2022-03-31

Jayamal, D., Gunarathne, N., & Perera, B. L. S. H. (2023). An exploratory study on abandoned construction projects in the Western Province, Sri Lanka. In: Sandanayake, Y.G., Waidyasekara, K.G.A.S., Ramachandra, T. and Ranadewa, K.A.T.O. (Eds). *Proceedings of the 11th World Construction Symposium*, 21-22 July 2023, Sri Lanka. [Online]. pp. 123–134. https://doi.org/10.31705/WCS.2023.11

Khemani, S. (2017). *Political Economy of Reform* (The Policy Research Working Paper). http://econ.worldbank.org.

Moramudali, U. (2024). Sri Lanka's foreign debt crisis: Deep roots? In Kanchana N, Ruwanpura, & A. M. Saleem (Eds.), *Routledge Handbook of Contemporary Sri Lanka* (1st ed.). Taylor and Francis. https://doi.org/10.4324/9781003300991-16

Musarat, M. A., Alaloul, W. S., & Liew, M. S. (2021). Impact of inflation rate on construction projects budget: A review. *Ain Shams Engineering Journal*, *12*(1), 407–414. https://doi.org/10.1016/j.asej.2020.04.009

Nicholas, H., & Nicholas, B. (2023). An alternative view of Sri Lanka's debt crisis. *Development and Change*, *54*(5), 1114–1135. https://doi.org/10.1111/dech.12794

Pathirana, D. S. (2020). Effect of COVID -19 and strategic response: A review on Sri Lankan construction industry. *SSRG International Journal of Economics and Management Studies*, *7*(6), 73–77. https://doi.org/10.14445/23939125/ijems-v7i6p110

Pathirana, L. P. D. S. (2021). Construction industry and factor condition prospective of Sri Lanka: A special reference to skill labour shortage. *IOSR Journal of Business and Management*, *23*(2), 35–41. https://doi.org/10.9790/487X-2302073541

Public Debt Management Act, Pub. L. No. 33, Gazette of the Democratic Socialist Republic of Sri Lanka (2024). https://www.parliament.lk/uploads/acts/gbills/english/6346.pdf

Public Finance.lk. (2024). *Sri Lanka public finance law to limit primary spending at 13-pct GDP: Treasury Secy*. Public Finance.Lk. https://publicfinance.lk/en/topics/sri-lanka-public-finance-law-to-limit-primary-spending-at-13-pct-gdp-treasury-secy-1716178354#:~:text=The%20proposed%20Public%20Financial%20Management,breached%20Fiscal%20Management%20Responsibility%20Act.

Razeek, T. (2022, April 30). *Construction industry in the verge of collapse*. Ceylon Today. https://ceylontoday.lk/2022/04/30/construction-industry-on-the-verge-of-collapse/

Saliu, F., & Memaj, F. (2023). Global financial economic crisis. *International Journal of Integrative Sciences*, *2*(2), 109–120. https://doi.org/https://doi.org/10.55927/ijis.v2i2.3086

Taxadvisor.lk. (2024). *Sri Lanka's new tax proposals: impact on individuals and businesses*. Taxadvisor.Lk. https://www.taxadvisor.lk/article/sri-lankas-new-tax-proposals-impact-on-individuals-and-businesses#:~:text=Revision%20of%20Personal%20Income%20Tax,to%20LKR%201%2C000%2C000%20per%20annum.

The Parliament Democratic Socialist Republic of Sri Lanka. (2024). *Economic Transformation Bill*. Minister of Finance. https://www.documents.gov.lk/view/bills/2024/5/502-2024_E.pdf