



Central Bank of Sri Lanka
Ministry of Finance, Economic Stabilization & National Policies

Investor Presentation – March 2023



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Opening Remarks



Dr. P. Nandalal Weerasinghe
Governor of the Central Bank of Sri Lanka



Mr. K M Mahinda Siriwardana
Secretary to the Treasury and Ministry of Finance

Any questions during this presentation may be submitted directly through the platform's Q&A chat box



I. SRI LANKA'S IMF PROGRAM AND MACRO-FISCAL FRAMEWORK



Sri Lanka's IMF program has been recently approved by the Board

The IMF program provides a clear roadmap in terms of policy implementation, and will anchor economic recovery

5 key pillars of the new IMF program supported by EFF approved on 20th March 2023



▶ The IMF program will allow Sri Lanka to stabilize its economy, regain its growth potential and address its economic vulnerabilities

Source: IMF



Sri Lanka has already demonstrated a strong commitment to reforms...

The Authorities have successfully achieved all prior actions required to unlock the IMF financing

Implementation status

- | | | |
|---|---|---|
| 1 | Cabinet approval of the new Central Bank Act with amendments from the bill submitted to Parliament in November 2019 in consultation with IMF staff | ✓ |
| 2 | Cabinet approval of Banking (Special Provisions) Act to strengthen key elements of the CBSL's crisis management powers | ✓ |
| 3 | Hiring by the CBSL of an independent firm to conduct banking sector diagnostic exercise based on Terms of Reference and timeline established in consultation with IMF staff | ✓ |
| 4 | Increase of policy interest rates by 100 basis points to ensure forward-looking real policy rates on a firmly upward path | ✓ |
| 5 | Cabinet approval of revenue measures to support fiscal consolidation during 2023, in line with program parameters | ✓ |
| 6 | Parliament approval of a revised 2022 budget that is in line with program parameters | ✓ |
| 7 | Submission to Parliament of the 2023 Appropriation Bill that is in line with program parameters | ✓ |
| 8 | Cabinet approval to automate monthly retail fuel price adjustment as prescribed by the 2018 fuel pricing formula to achieve cost recovery | ✓ |
| 9 | Cabinet approval to automate semi-annual cost-recovery based electricity price adjustment | ✓ |

▶ All prior actions included in Sri Lanka's IMF Program have been implemented in a swift and orderly manner



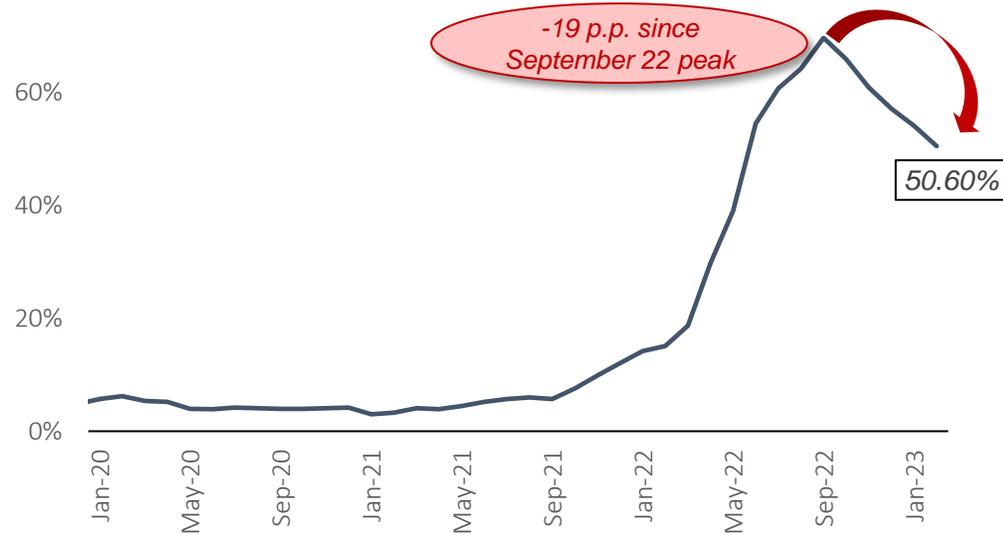
Sources: Ministry of Finance, Economic Stabilization and National Policies, Central Bank of Sri Lanka, IMF

... which have already contributed to relative improvements to the country's economic outlook

Sri Lanka's economy has shown some encouraging stabilization signs, with year-on-year inflation slowing down and earnings from tourism rebounding to more standard levels

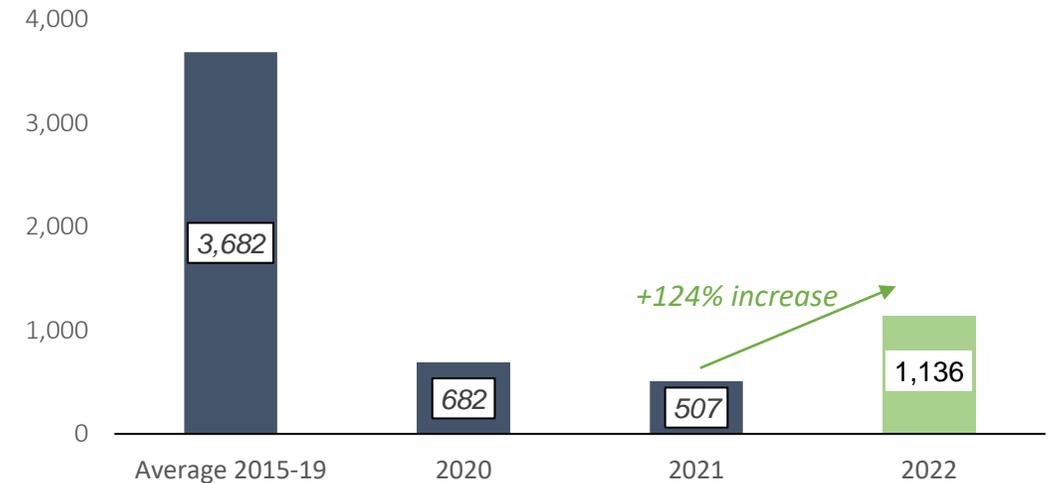
CCPI Inflation is slowing down

Headline inflation, in y-o-y change (%)



Earnings from tourism are slowly returning to normal levels

Yearly earning from tourism, in USDm



▶ Despite these signs of improvement, the overall situation remains fragile as the country is still burdened by high levels of public debt and low FX reserves



Sources: Ministry of Finance, Economic Stabilization and National Policies, Central Bank of Sri Lanka

Sri Lanka has pledged to undertake further ambitious reforms as part of its IMF program

Building on its recent achievements, the country envisages further extensive reforms¹ to extend the currently improving economic performance and secure long-term recovery

Q3 and Q4 -2023

- Revamping the VAT system by removing almost all product specific VAT exemptions
- Submitting the Public Financial Management (PFM) Law to Parliament
- Parliamentary approval for the full revision of the Banking Act

Beginning of IMF Program



1st IMF review (Sept. 2023)²

2nd IMF review (Mar. 2024)²

3rd IMF review (Sept. 2024)²

4th IMF review (Mar. 2025)²

Q2-2023

- Parliamentary approval of welfare benefit payment scheme (Enhanced Social Safety Nets)
- Cabinet approval of a comprehensive strategy to restructure the balance sheets of key SOEs
- Parliamentary approval of new anti-corruption legislation
- Parliamentary approval of the new Central Banking Act

2024

- Introduction of reforms making the Minister of Power and Energy responsible for implementing cost-recovery based fuel and electricity price adjustments
- Introduction of a property tax, a gift and an inheritance tax

Other key policy commitments

Improving efficiency of public investments, optimizing capital expenditure, improving borrowing of SOEs, increasing accounts transparency of SOEs, liberalising trade regime, simplifying investment regime

Sources: Ministry of Finance, Economic Stabilization and National Policies, Central Bank of Sri Lanka

Note: (1) The reforms presented are selective; a complete list of the authorities' committed reforms can be found in the IMF staff report, (2) The IMF program timeline is tentative and reviews are subject to assessment of debt restructuring progress, which should be completed by the first review

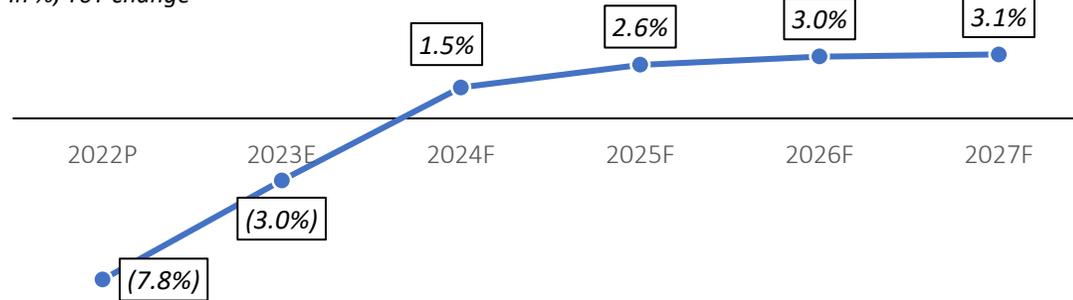


Such reforms will allow the economy to fully recover and secure a long-term growth in line with its potential

The focus of the IMF program will be to lay the foundations of a restored macroeconomic stability and fiscal sustainability, that will allow Sri Lanka to unlock its full growth and trade potential

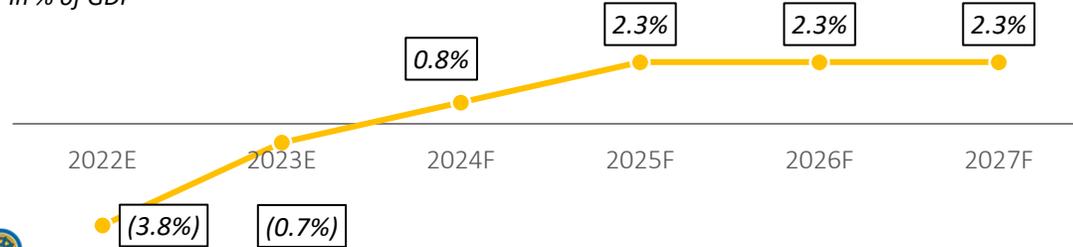
Real Growth Trajectory

In %, YoY change



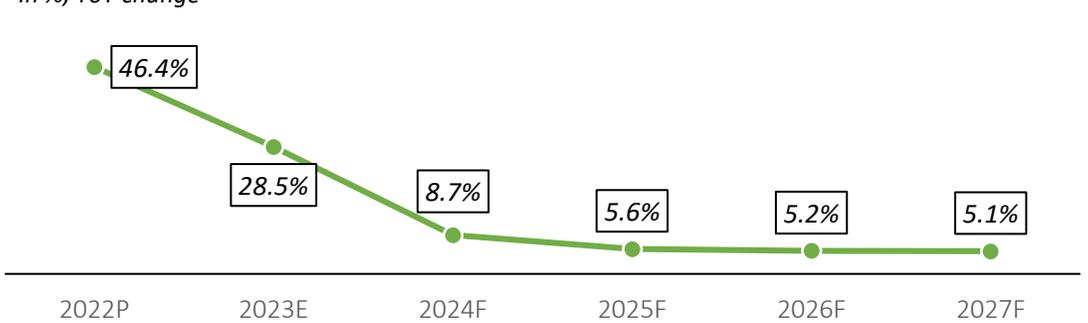
Primary Balance

In % of GDP



Inflation¹ Path

In %, YoY change



Current Account

In % of GDP



Sources: IMF (for estimates and forecasts), Ministry of Finance, Economic Stabilization and National Policies, Central Bank of Sri Lanka (for provisional)
 Note: (1) Average inflation figures

II. SRI LANKA'S DSA AND NEED FOR DEBT TREATMENT

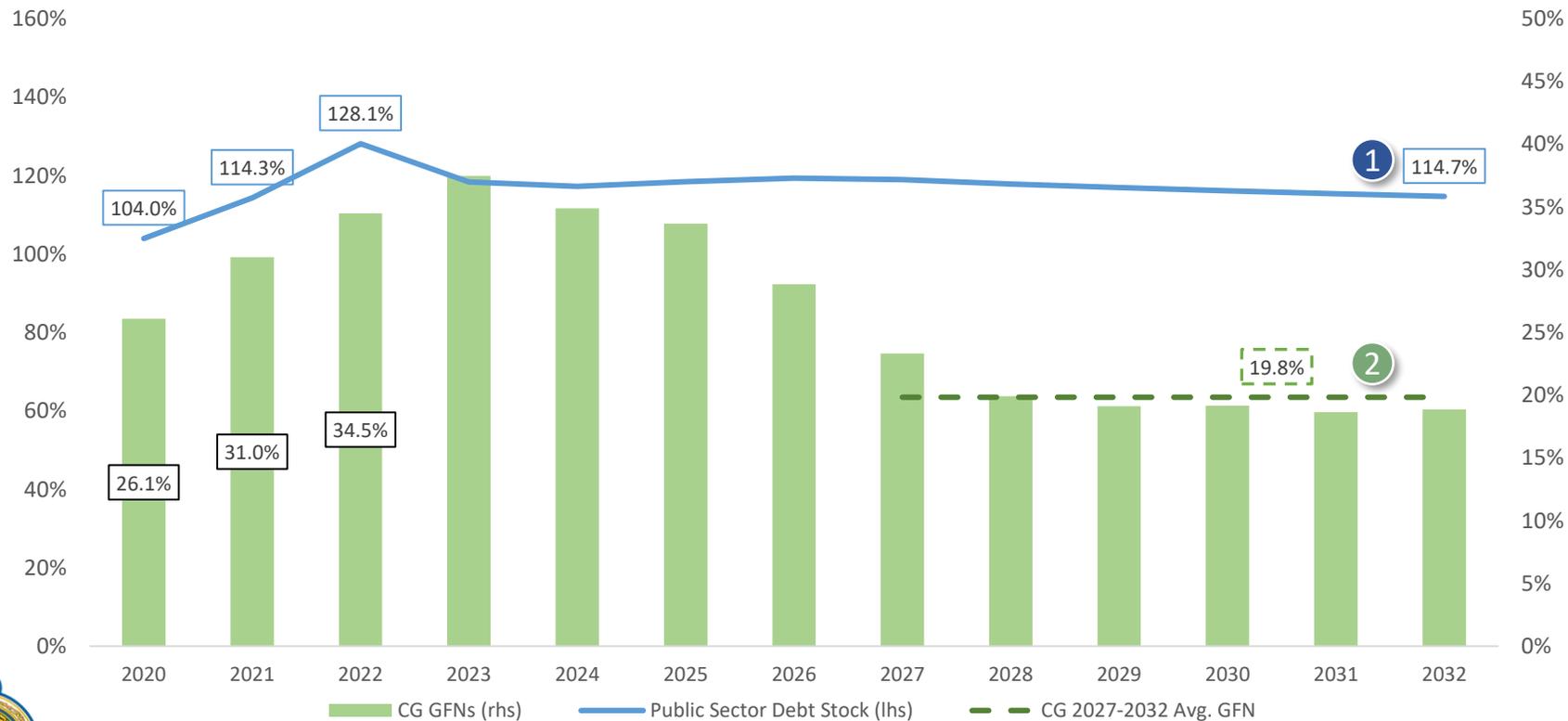


Sri Lanka's Public Debt has grown rapidly and has reached unsustainable levels

Despite the ambitious fiscal consolidation efforts, Sri Lanka's public debt trajectory is set to remain unsustainable in the absence of a comprehensive debt treatment

The pre-restructuring scenario¹ results in an unsustainable debt trajectory, both in relation to debt stock and flow indicators

In % of GDP², Public Sector Debt Stock (lhs), and CG GFNs (rhs)



In the absence of debt treatment...

- 1 Public debt expected to remain excessively high
- 2 GFNs expected to remain at unviable levels

Sources: Ministry of Finance, Economic Stabilization and National Policies, Central Bank of Sri Lanka, IMF
 Notes: (1) The above DSA trajectory reflects a "pre-restructuring scenario" (i.e., a DSA scenario assuming the IMF program's adjustment path and foreseen multilateral/project loans financing and in which the remaining financing gap is financed with an illustrative 12% interest rate debt instrument), (2) CG Debt/GDP and CG GFN/GDP indicators are not presented on the same scale

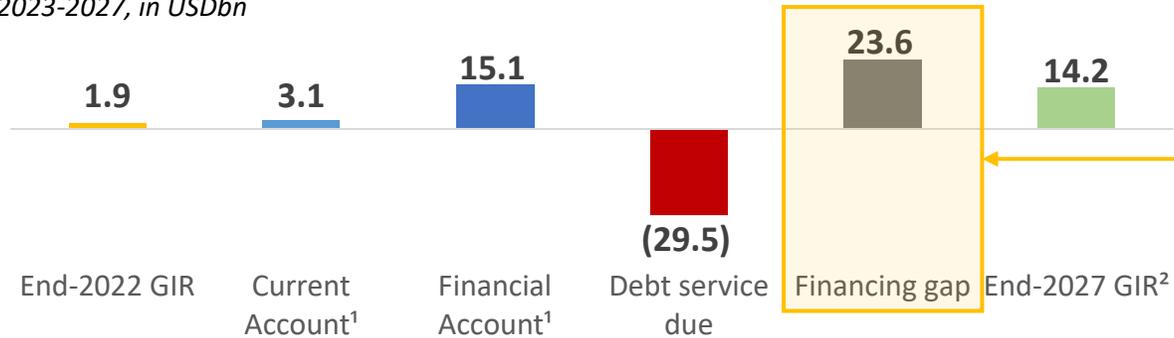


Sri Lanka is also facing a very significant external financing gap over the next years

To ensure that it can credibly rebuild its buffers, Sri Lanka will have to cover its external financing gap over the program period, through new external funding and an external debt service relief

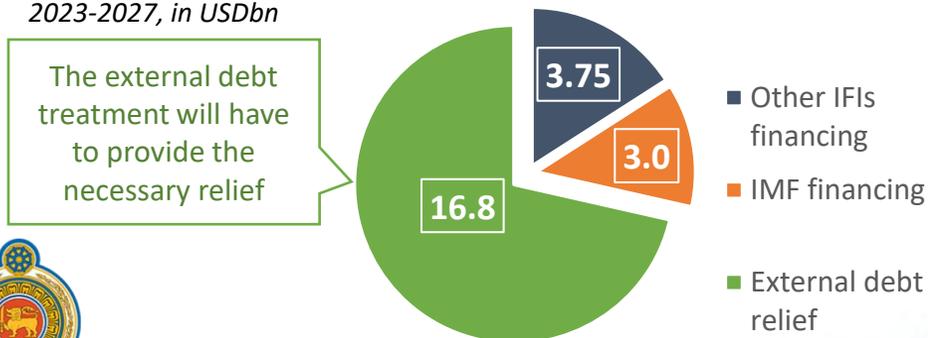
1 Calibrating the external financing gap...

2023-2027, in USDbn



2 ... to be bridged through (i) USD 16.8bn in external debt service reduction and (ii) USD 6.75bn in new multilateral funding

2023-2027, in USDbn



The external debt treatment will have to provide the necessary relief

Sizing the efforts in the 2023-2027 external debt service

PPG contractual external debt service incl. full arrears clearance (USD 2.8bn), 2023-2027, in USDbn

Existing debt	27.6	
Multilateral creditors	5.7	Excluded from the debt treatment perimeter
Bilateral creditors	7.1	Excluded from the debt treatment perimeter
Paris Club ("PC")	2.4	→ USD 7.6bn
China	3.0	
India	1.6	
Other Non-Paris Club	0.2	
Private creditors	14.8	Included in the debt treatment perimeter ⁴
ISBs	12.1	
CDB commercial loans	2.7	
Others	0.0	
New debt³	1.9	
Total	29.5	c. 75% debt service reduction



Source: IMF

Notes: (1) Non-Interest Current Account and Financial Account Flows (incl. Project Loans disbursements), (2) As per its IMF program, Sri Lanka has to rebuild its gross international reserves to about 100 percent of the ARA metric by end-2027 (which corresponds to 6.0 months import cover) (3) New FX debt assumed to be disbursed from IFIs and for Project Loans during 2023-2027, (4) Debt service on Emergency Assistance Credit Lines (included under bilateral creditors) will be excluded from the debt treatment

The contemplated debt treatment should enable Sri Lanka to reach DSA targets reflected in the IMF framework

The country's DSA targets were carefully calibrated to allow the country to restore debt sustainability, a key anchor of the country's recovery

	What are the objectives of the targets?	How are the targets calibrated by the IMF?
1 Debt stock target: 95% of GDP by 2032	To ensure debt reduction and high probability of debt stabilization	<ul style="list-style-type: none"> The debt stock target is calibrated to ensure a high probability of debt stabilization, even under macro-fiscal shocks similar to those observed in the past 10 years
2 GFN target¹: avg. 13% of GDP in 2027-32	To keep rollover risk manageable	<ul style="list-style-type: none"> The GFN target is calibrated to ensure that the financing burden on the domestic banking sector is manageable under macro-fiscal and refinancing shocks (e.g., tightening of financing costs) similar to the ones observed in the past 10 years
3 FX debt service target¹: max 4.5% of GDP in 2027-32	To avoid post-program Balance of Payments pressures from FX debt service	<ul style="list-style-type: none"> FX debt service target is calibrated based on the country's ability to generate and sustain FX earnings (exports, remittances, terms of trade volatility), as well as the country's historical levels of FX borrowing

▶ Targets are set under the IMF's new SRDSF framework, and ensure public debt's return to sustainability territories



Sources: IMF

Note: (1) While the GFN and FX debt service targets only pertain to 2027-2032 period, the indicators both have to be on a downward trend between 2032 and 2035

Sri Lanka is therefore requesting a significant effort from its foreign currency creditors

The effort required from private and bilateral creditors will contribute to meeting DSA targets and to bridging the external financing gap¹ – that will also be reduced by the financing provided by multilateral institutions

Considered for debt treatment
(USD 30.8bn, 68% of FX debt)

**Central Government and Guaranteed SOEs Foreign
Currency Debt (USD 45.5bn²)**

**Considered for exclusion of debt
treatment perimeter**
(USD 14.7bn, 32% of FX debt)

Creditors	Debt type	Amount ²
Official bilateral creditors 34% of the FX treatment perimeter	<ul style="list-style-type: none"> Bilateral official loans ECA-backed commercial loans 	USD 10.6bn
Private creditors 66% of the FX restructuring perimeter	<ul style="list-style-type: none"> International bonds Commercial loans (Foreign Law) Commercial loans (Local Law) Sri Lanka Development Bonds (Local Law) 	USD 20.3bn

Debt type	Rationale for exclusion	Amount ²
Multilateral creditors	<ul style="list-style-type: none"> Institutions with preferred creditor status and multilateral funding basis Multilateral institutions will provide new financing during the program period 	USD 11.5bn
Emergency assistance credit lines	<ul style="list-style-type: none"> Loans extended during the crisis and aimed at addressing basic needs imports (food, fuel, essential medicine, ...) 	USD 0.8bn
Bilateral Swap Lines	<ul style="list-style-type: none"> Specific nature of swap lines (i.e., monetary policy instruments) 	USD 2.0bn
CPC and CEB FX Payables	<ul style="list-style-type: none"> Treated on an ad hoc basis (cleared over 10 years³) 	USD 0.3bn



Notes: (1) Only Foreign Law Debts are accounted for in the external debt service reduction calculations, (2) As at end 2022 (3) Reflective of the latest IMF DSA assumption (with a 2.0% interest rate)

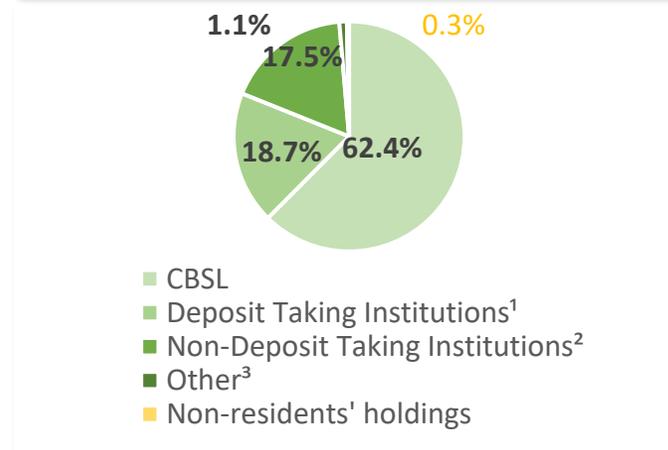
Local currency creditors' participation in a domestic debt optimization will also help reaching the DSA targets

The authorities are exploring options for a domestic debt operation aimed at liquidity relief while preserving financial stability to avoid further eroding Sri Lanka's repayment capacity

Overview of Central Government Local Currency Debt : LKR 13,189bn (USD 36.3bn)⁴

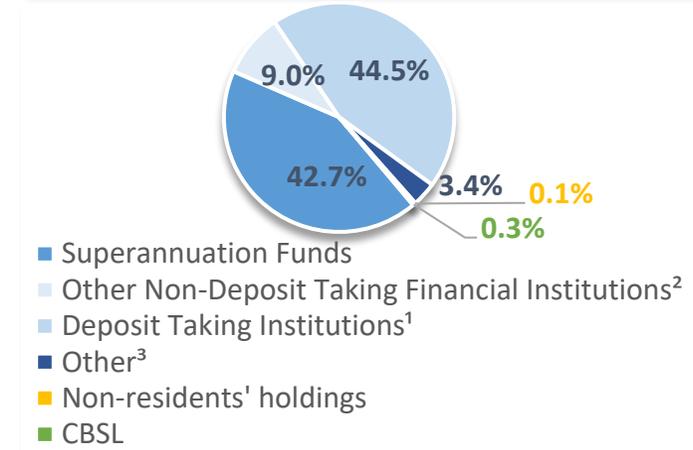
Debt category	Amount
T-Bills	LKR 4,126bn (USD 11.4bn)
T-Bonds	LKR 8,722bn (USD 24.0bn)
Other Loans⁵	LKR 104bn (USD 0.3bn)
CBSL advances⁶	LKR 236bn (USD 0.6bn)

Overview of T-Bills holders



Only T-Bills held by the CBSL will be considered for treatment to create some fiscal space

Overview of T-Bonds holders



A voluntary domestic debt optimization operation without coercion is envisaged
Sri Lankan government and its advisors will initiate consultations with major T-Bonds holders to gauge options and constraints

▶ The DDO will help reduce the efforts required from external creditors to restore debt sustainability but taking into account financial stability objectives

Notes: (1) Including Licensed Commercial Banks, Licensed Specialized Banks and Registered Finance Companies, (2) Including superannuation funds (if not specified elsewhere), corporations, insurance companies, government institutions, funds and SOEs, local individuals and others (e.g., societies, clubs, associations), (3) Including Treasury securities used for repurchase transaction allocations, (4) As at end 2022, (5) Commercial loans in local currency and banks' overdraft, (6) CBSL advances are reimbursed at a 0% interest rate



III. CREDITOR ENGAGEMENT



Update on engagement with official creditors



What has been achieved

- ✓ Shared data and responded to queries received from all creditors
- ✓ Organized three official creditor meetings to share information related to the ongoing process and the IMF macro-framework
- ✓ Engaged further with official creditors bilaterally
- ✓ Secured IMF-compliant financing assurances from all official creditors



Next steps with official creditors

- Engage with official creditors through data sharing and Q&As to ensure that they have all the necessary information
- Establish the required debt discussion channels (with the degree of coordination decided by official creditors)
- Reach agreements that are in line with IMF DSA targets and comparability of treatment principle
- Ensure the legal implementation of agreements reached with all official creditors

▶ The achievement of the IMF Board Approval allows Sri Lanka to accelerate and intensify engagements with all categories of creditors



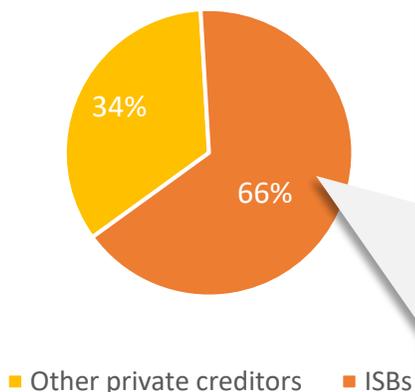
Ongoing process with private creditors

ISBs holders have organized around two committees

ISBs account for a significant share of PPG FX commercial debt

In % of total commercial FX denominated public debt, excluding ECA-backed debt and SOEs' payables and including arrears, as at end-2022

Total: USD 20.3bn



- ISBs international bondholders have formed an ad-hoc creditor committee
- The group is said to represent **more than 55% of ISBs** non-domestic holdings¹



- A consortium of local private banks holding ISBs has formed another group
- The group has reported holdings **in around USD 1.5bn** across all series of ISBs¹ (**around 12%** of outstanding ISBs)



Next steps with private creditors

- Engage on a technical basis with bondholder committees' advisors and other private creditors to ensure further sharing of information and data, under NDAs
- Establish the required restructuring discussion channels with all private creditors and their advisors
- Reach agreements with private creditors and their advisors that are (i) compliant with the IMF DSA targets and (ii) comparable across different creditor categories
- Ensure the legal implementation of the agreements reached with all parties

▶ The achievement of the IMF Board Approval allows Sri Lanka to accelerate and intensify engagements with all categories of creditors



Source: Central Bank of Sri Lanka

Note: (1) Holdings estimation provided by two bondholder committees

Key principles and update on the creditor engagement



- ▶ SL authorities will engage with all their creditors in respect of the above principles
- ▶ In addition, the authorities commit not to resume debt service to any creditor (included in the debt treatment perimeter) unless a debt treatment agreement is reached, in line with IMF program and the comparability of treatment principle



Targeted timeline for the Debt Restructuring Process

ACTION PLAN		March	April	May	June	July	August	Sept.
IMF	1. Key milestones with respect to the IMF							
	Board Approval	✓						
	1st Program Review							
CREDITOR ENGAGEMENT	2. Engagement with domestic creditors							
	Assessment of the domestic debt optimization operation							
	Implementation phase							
	3. Engagement with external creditors (both official and private)							
	Technical discussions with creditors							
	Negotiation phase							
	Implementation phase							

▶ SL authorities envisage to finalize the domestic debt optimization operation by May 2023, and the external debt restructuring exercise by September 2023



Contact Information

- The Sri Lankan Authorities thank all creditors and attendees of this presentation for their kind attention
- If creditors are interested in obtaining more information and engaging in discussions with the Government, please contact Sri Lanka's Financial Advisors Lazard and Legal Advisor Clifford Chance at the email addresses Lk.investors@lazard.com and srilanka@cliffordchance.com for any request or other inquiry they may have
- Creditors wishing to contact the International Bondholder Committee can do so at the following e-mail address: sri.lan.bondholders@rothschildandco.com and WCSriLankaBondholderGroup@whitecase.com
- Creditors wishing to contact the Local Bondholder Committee can do so at the following e-mail address: SIN-ProjectSriLanka@bakermckenzie.com and bcs1@newstatepartners.com
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