Sri Lanka's Public Debt Restructuring:

The Need, Overall Outcome, and Future Policy Direction to ensure Fiscal and Debt Sustainability

Presented by the Secretary to the Treasury Mr. K. M. Mahinda Siriwardana at the Staff Meeting held with the Senior Officials of the General Treasury/ Ministry of Finance, Planning and Economic Development on

01st January 2025.

Preamble

- *This presentation intends to provide key information about the macroeconomic policies implemented since April 2022 to take Sri Lanka out of the deepest, most complex and unprecedented economic crisis in the country's post independence history,* ***with special reference to the public debt restructuring process.***

- *It is expected that this presentation will summarise the* ***key developments related to Sri Lanka's public debt restructuring process.***

- *The presentation also intends to* ***shed some light on the required future policy direction in the context of macroeconomic management to ensure continued fiscal and debt sustainability in the country.***

- ***A separate Note is also provided*** *with details on Sri Lanka's public debt restructuring process.*

Context *(1)*

- Since 2022, Sri Lanka has gone through its deepest and most complex economic crisis since Independence.
- The crisis was triggered by **domestic policy errors,** including excessive **tax cuts** in end 2019, excessive **monetary financing** to control interest rates, attempting to fix the **exchange rate at LKR 203/USD.**
- This was **compounded by exogenous shocks,** including COVID-19 pandemic and the Russia-Ukraine crisis which caused commodity prices to rise.
- Sri Lanka's sovereign **credit rating was downgraded** successively since late 2019.
- Eventually, **capital market access was lost**, and reserves were depleted to repay maturing forex debt and other external liabilities and payment for shipments, including essential items.
- **The assistance of the IMF was not sought on time to resolve the impending serious economic crisis. I personally provided numerous early warnings at the highest level of the Central Bank of Sri Lanka. However, this failure marked a grave policy mistake that shattered the dreams & lives of 22 million of Sri Lankans.**
- By April 2022, usable forex reserves were at near zero levels and as a more prudent measure, **the country had to declare a temporary moratorium (Debt Standstill) on repayment of selected foreign currency debt**, eventually resulting in **sovereign default**.

Context *(2)*

- **The resolution of the crisis required support from the International Monetary Fund (IMF), which was sought with a serious delay (in mid-March 2022).**

Sri Lanka went to the IMF when the country was in an extremely weak position as opposed to seeking early IMF assistance, at least by September 2021, when it had relative strength. As a result, programme negotiation was an extremely tough process.

- A comprehensive macroeconomic reform programme was designed to restore confidence in the economy and to obtain financing for basic survival.
- Sri Lanka also had to restructure its debt in order to **restore debt sustainability** and to obtain **financial support from the IMF.**
- The IMF as a neutral actor sets out the debt sustainability targets, which in turn are based on the IMF's MAC-SRDSF.
- Sri Lanka had to negotiate debt relief from its creditors in order to reach these DSA targets and thereby restore debt sustainability.

Economic Reform Strategy

Sri Lanka's economic reform and recovery strategy is built on 5 pillars.

Macroeconomic Reform Outcomes....*(1)*

The economic reforms based on this strategy has delivered the expected results.

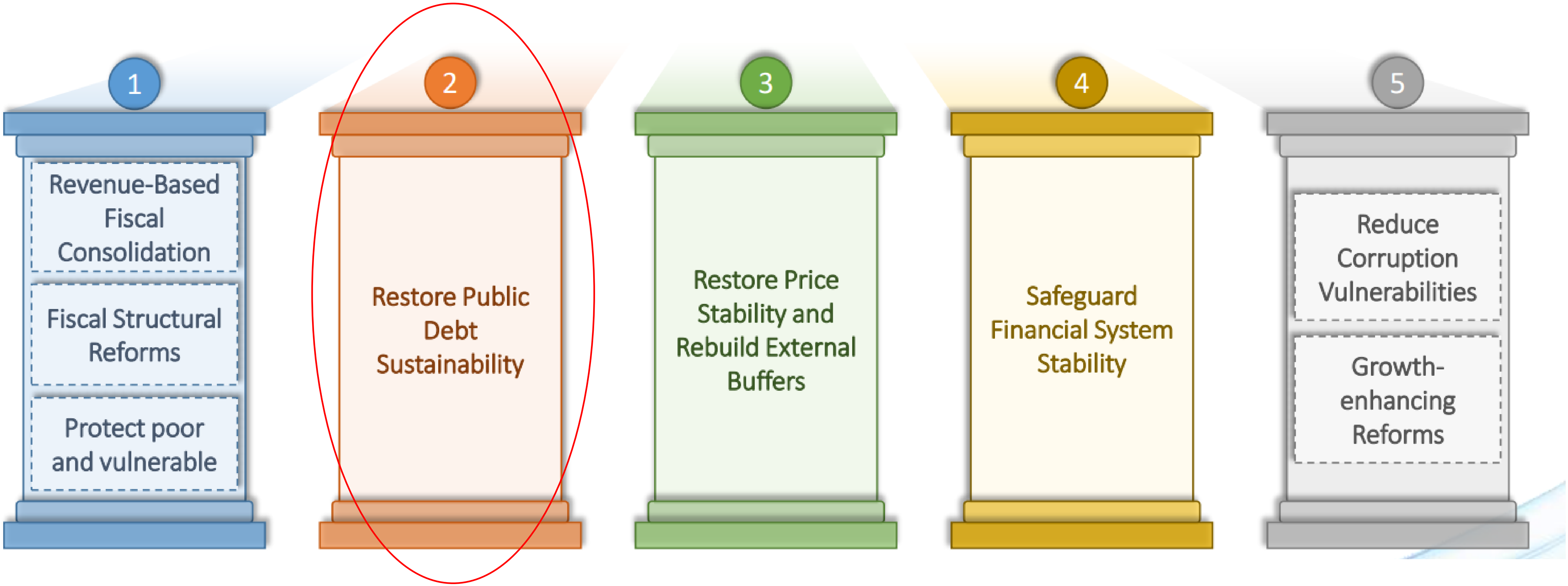
- **Fiscal stability was restored** as a primary budget deficit of 5.7% of GDP (Rs. 1 trillion) in 2021 was converted into a **primary budget surplus** of Rs. 831 billion by end October 2024.
- **Central Bank monetary financing (money printing) has been terminated** since mid-2023 and arrears (above 90 days) have been eliminated.
- **A sizable cash buffer has been created** to ensure effective cashflow management while settling the Overdraft of around Rs. 820 billion with the two state banks that remained by end 2021.
- **Losses in 52 key SOEs in 2022 which amounted to Rs. 775 billion, was converted to a profit of Rs. 456 billion in 2023.**

Macroeconomic Reform Outcomes….*(2)*

- **Price stability was restored as inflation declined** from 70% in 2022 to a deflation of -1.7% as of December 2024.
- **External buffers have been rebuilt as foreign exchange reserves have reached USD 6.5 billion** (including PBOC swap) as of end November 2024
- **Financial system stability has been secured.**
- **Social security networks were strengthened** through Aswesuma and **expenditure on Social Safety Nets has increased by over 3 fold** compared to the pre-crisis period (2019).
- **Governance was strengthened** with the passage of key legislation, including the Public Financial Management Act, Anti-Corruption Act, and drafting of the Proceeds of Crime Bill.
- **Economic growth has recovered** with Q3 2024 GDP growing by 5.5%.

Restoring Public Debt Sustainability

The key remaining task was the restoration of public debt sustainability through a comprehensive restructuring of public debt.



Debt Sustainability Assessment (DSA) Targets

	2022 Status		Target
Public Debt to GDP	128 % of GDP	2032	Below 95 % of GDP
Gross Financing Needs (GFN)	34.6 % of GDP	2027-32	Below 13 % of GDP *(Annual Average)*
Foreign Debt Servicing	9.4 % of GDP	2027-32	Below 4.5 % of GDP *(Annual Ceiling)*

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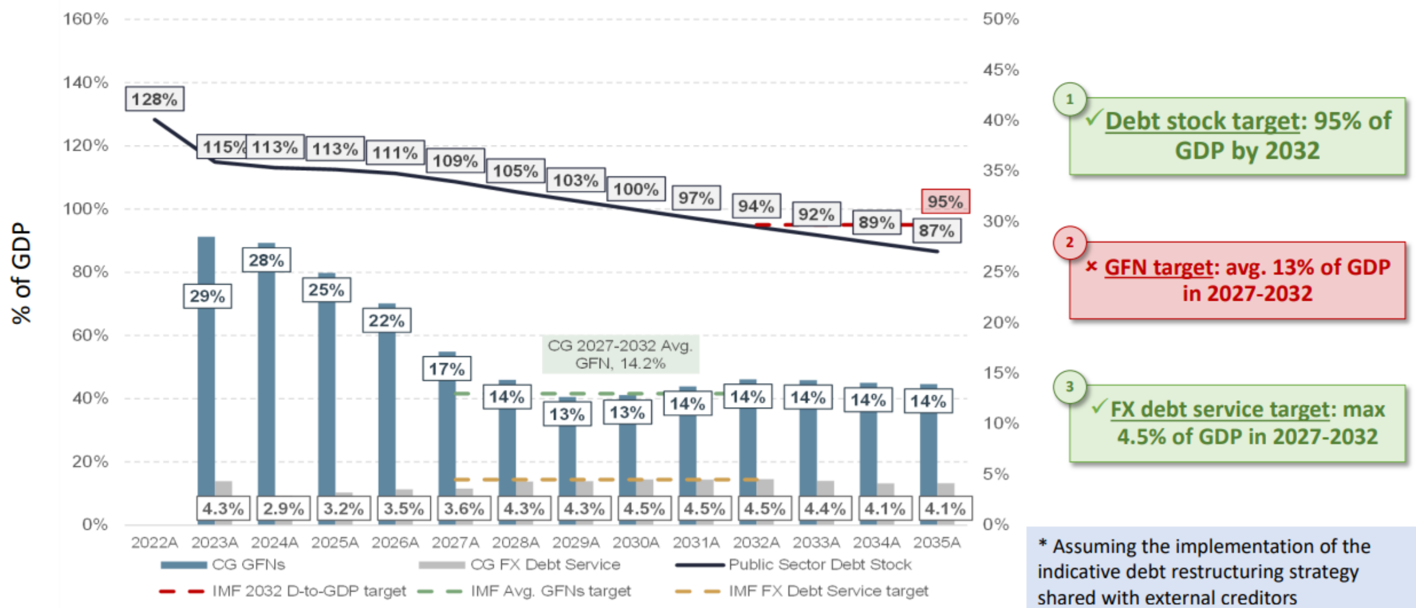
External Financing Gap	Debt service reduction during 2022-27 should close external financing gaps of USD 16.9 bn

Domestic Debt Optimisation (DDO)

- The expected external debt restructuring was sufficient to meet the required reduction in public debt stock and forex debt service flows, but not the required reduction of Gross Financing Needs (GFN).

Envisaged relief from External Debt (EDR) Restructuring to achieve the DSA targets*...



* Assuming the implementation of the indicative debt restructuring strategy shared with external creditors

Therefore, some **treatment of Domestic debt** was required in order to meet the Gross Financing Needs (GFN) target in the DSA.

The perimeter of domestic debt treatment required a careful balance between ensuring **financial sector stability**, **funding flows for the government,** and **sufficient debt relief to meet the GFN target.**

Contribution to Reduction of GFN

- **The required reduction in GFN to meet the DSA target was 4.1% of GDP.**

Sector	Contribution to GFN reduction (% of GDP)	Instruments
External Debt Restructuring	2.6% of GDP	Official bilateral debt, international sovereign bonds, other external commercial debt
Central Bank of Sri Lanka and other banks, including state owned banks	1% of GDP	Treasury Bills held by CBSL Provisional Advances of CBSL Sri Lanka Development Bonds FCBU Debt
Superannuation Funds including Employee Provident Fund	0.5% of GDP	Treasury Bonds held by provident funds

- In addition to the above, the state banks also contributed through the restructuring of CPC loans amounting to USD 2.43 billion.
- Therefore, the **banking sector (including CBSL) made the largest contribution to the debt relief** provided by domestic creditors in the DDO.

Burden Sharing in the DDO

- In spite of these facts, **a false narrative was spread** that the entire burden of domestic debt optimisation was placed on the EPF.
- Debt relief provided by superannuation funds is primarily through maturity extension.
- There is also a step-down coupon in line with the expected lower interest rate path. There was **no capital haircut on superannuation funds**.
- Until 2026, the coupon received by superannuation funds is 12% - whereas at present, secondary market **bond yields are well below 12%.**
- **More importantly, what is relevant is the real return.** At present, inflation is in negative territory, providing a **real return of over 12%** to the EPF.
- Going forward, inflation by law (CBSL Act) must be maintained at 5%, ensuring a real return of at least 4% when the coupon steps down to 9% beyond 2026.
- There have been suggestions for the **EPF to also receive a state contingent element** comparable to international bondholders. However, if such a SCDI is considered, other creditors would expect the EPF to agree to a comparable upfront debt relief and also accept a symmetrical adjustment mechanism similar to bondholders. This would result in losses to the EPF.

External Creditor Universe

Creditor	Outstanding Debt (USD Billion)
Official Creditor Committee (co-chaired by Japan, India, France)	5.8
Exim Bank of China	4.2
Other Official Creditors (Kuwait, Saudi Arabia, Iran, Pakistan)	0.3
International Sovereign Bonds	14.2 (including past due interest)
of which: International Holders (Ad-Hoc Group)	~ 40%
Local Bank Consortium	~ 12%
China Development Bank	3.3
Other Commercial Creditors	0.2

Official Sector External Debt Restructuring

- Sri Lanka negotiated restructuring of official debt with the 17 members of the **Official Creditor Committee** (the OCC - co-chaired by Japan, India, and France), and the **Exim Bank of China.**
- Official creditors provide debt relief through **maturity extensions**, capital **grace periods**, and **interest rate** reductions. **Face value haircuts are not provided.**
- **Following over a year of negotiations**, **the MoU with the OCC and debt treatment agreement with the Exim Bank of China was signed on 24th June 2024.**
- Accordingly, Sri Lanka received capital grace periods until 2028, reduced interest, and progressive amortisation with final repayments in 2043. **This provided Sri Lanka with significant debt relief.**

ISB Restructuring: Evolution of MLBs *(1)*

- Sri Lanka sent the initial indicative restructuring terms to the Ad-Hoc Group (AHG) of Bondholders (representing around 40% of ISB holdings) in May 2023.
- The AHG took the view that the IMF's baseline macroeconomic projection was overly pessimistic. For eg., **IMF baseline GDP for 2023 was USD 75.3 bn but the actual outcome was USD 84.4 bn**. For 2024 the IMF baseline GDP was USD 76 bn – in reality it will exceed USD 90 bn.
- The AHG's view was that in reality, Sri Lanka's USD GDP will be higher than projected by the IMF, and thereby the DSA targets to restore debt sustainability could in their opinion be reached with a lower level of debt relief.
- For example, with a higher than anticipated USD GDP figure, the denominator in the public debt/GDP would be higher, thereby enabling the DSA target to be reached with a smaller downward adjustment to outstanding debt (the numerator).
- **The AHG's proposed Macro-Linked Bonds (MLBs) was a structure whereby if Sri Lanka's actual GDP exceeded the IMF baseline, the resultant gain would be shared between Sri Lanka and the creditors.**

ISB Restructuring: Evolution of MLBs *(2)*

- **Sri Lanka preferred a plain vanilla instrument** and **until March 2024, resisted the use of MLBs, instead sharing several alternative structures including a detachable Value Recovery Instrument. This resulted in a deadlock in progress of restructuring the ISBs as the AHG would only negotiate based on MLBs.**
- By March 2024, it became necessary to reach a compromise since:
  i. **Progress in ISB restructuring was necessary to move forward with the overall debt restructuring process and to cure the payment default situation**.
  ii. **Sri Lanka faced litigation by Hamilton Reserve Bank**, and was at risk of adverse judgment in case of a lack of demonstrable progress in ISB restructuring.
  iii. **Material participation risks in the bond exchange would require an exchange proposal that was acceptable to a super-majority of bondholders.**
- During the next 6 months, **Sri Lanka negotiated with the AHG to ensure a more balanced risk sharing in the MLBs and to ensure that Sri Lanka's debt sustainability would be assured.**
- Sri Lanka's objective was to ensure that within the MLBs, the increase in GDP would allow the generation of additional revenues exceeding the increase in debt service arising from the trigger of upside adjustments on MLBs.
- **By October 2024, the IMF was able to confirm that the MLB structure did indeed enable Sri Lanka to restore debt sustainability.**

Improvement in Debt Relief Through Negotiations

- Once discussions began based on the MLB structure, **Sri Lanka focused on ensuring maximum debt relief and risk mitigation within the MLB structure.**

	October MLB Proposal (NGDP USD Bn)	Principal Haircut	March/April Negotiations (NGDP USD Bn)	Principal Haircut	June Joint Working Framework (NGDP USD Bn)	Principal Haircut	September Agreement in Principal (NGDP USD Bn)	Principal Haircut
Upside Scenario	98.9	2%	96.3	7%	N/A	N/A	N/A	
Threshold 1	93	2%	93.9	10%	100	15%	107	16%
Threshold 2	89.5	5%	90.1	13%	96	15%	99	16%
Threshold 3	86.1	16%	86.3	22%	92	20%	94	19%
IMF Baseline	83.1	26%	84.2	28%	88.6	28%	88.6	27%
Threshold -1	N/A	N/A	80.5	42%	86.7	35%	86.7	30%
Threshold -2	N/A	N/A	77.6	55%	84.7	40%	84.7	39%
Note: NGDP Refers to average Nominal GDP in USD terms during the period 2025-2027								

- To illustrate, hypothetically if average GDP during 2025-2027 was USD 93 bn, as per the original October 2023 MLB structure the principal haircut would have been just 2%.
- During the March 2024 restricted negotiations the principal haircut for average GDP at USD 93bn was increased to 13% and in the June Joint Working Framework this principal haircut was further increased to 20%.
- As per the final agreement (September AiP), the principal haircut at an average GDP of USD 93bn increased to 27%.
- Accordingly, the debt relief was negotiated to ensure the IMF debt sustainability assessment and OCC Comparability of Treatment assessment would be met, thereby providing Sri Lanka confidence that debt sustainability is restored.

Final MLB Structure

Adjustment scenarios for Macro-Linked Bonds			
	*2025-2027 Average USD Nominal GDP vs. IMF baseline Average USD Nominal GDP**	**Control Variable** (real GDP cumulative growth in %, 2024-2027)	
		Observed cumulative growth greater than 11.5%	**Observed cumulative growth lower than 11.5%**
Higher upside threshold	**X ≥ USD 107.0bn**	**Adjustment activated**	**No adjustment activated**
Intermediate upside threshold	**USD 99.0bn ≤ X < USD 107.0bn**	**Adjustment activated**	**No adjustment activated**
Lower upside threshold	**USD 94.0bn ≤ X < USD 99.0bn**	**Adjustment activated**	**No adjustment activated**
IMF baseline	**USD 88.6bn ≤ X < USD 94.0bn**	**No adjustment**	
Higher downside threshold	**USD 86.7bn ≤ X < 88.6bn**	**No adjustment activated**	**Adjustment activated**
Lower downside threshold	**X ≤ USD 86.7bn**	**No adjustment activated**	**Adjustment activated**

**Where X is Sri Lanka's 2025-2027 Average USD Nominal GDP and IMF baseline Average USD Nominal GDP is USD 88.6bn, as per the IMF-supported Program Second Review Macro framework*

The introduction of a **"control variable"** ensured that the upside thresholds would only be triggered if real GDP growth had occurred as opposed to NGDP growth due to currency appreciation. This ensures that **higher payouts are more closely linked to Sri Lanka's debt service capacity**, or in other words the country's ability to pay.

Results of the Exchange Offer

The Exchange Offer enables the exchange of 98% of the original outstanding securities into the new instruments

« Old » Series	Outstanding Amount (USDm)	Consent to the exchange *(% of out.)*	Amount exchanged *(% of out.)*
April 2023	1,250	98.2%	**100%**
March 2024	1,000	97.2%	**100%**
June 2024	500	99.6%	**100%**
May 2027	1,500	97.0%	**100%**
April 2028	1,250	99.0%	**100%**
March 2029	1,400	98.6%	**100%**
March 2030	1,500	99.1%	**100%**
March 2025	650	96.5%	**100%**
November 2025	1,500	98.4%	**100%**
July 2026	1,000	99.2%	**100%**
July 2022	1,000	73.1%	**73.1%**
Past Due Interest (PDI)	1,678	-	-
Total (incl. PDI)	**14,228**	**-**	**-**

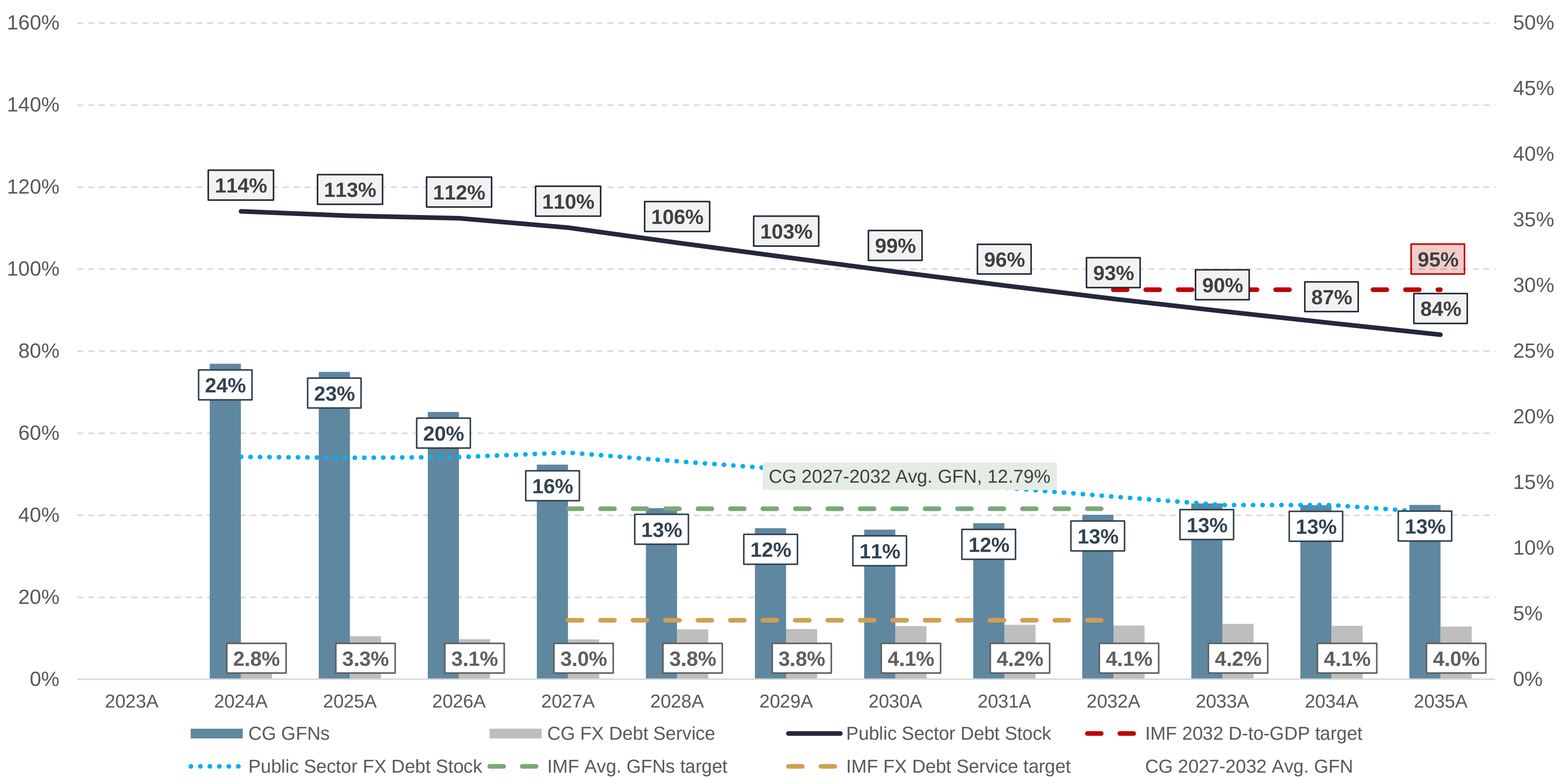
Type	« New » Series	Outstanding Amount (USDm)
"Global Option"	Macro-Linked Bonds 2030	1,087
	Macro-Linked Bonds 2033	2,132
	Macro-Linked Bonds 2036	999
	Macro-Linked Bonds 2038	1,999
	Governance-Linked Bonds	1,440
"Local Option"	USD-Step-up Bonds	1,126
	Local LKR Bonds	LKR 155,729m
PDI Bonds		1,648
Total (USD)[1]		**USD 10,431m**
Total (LKR)[1]		**LKR 155,729m**

[1]Excluding Exchange fee of approximately USD 215m

For comparison, Ghana had participation of 98.6% and Zambia over 96% in their recent bond exchanges executed in 2024.

Debt Sustainability Targets in the IMF Baseline Scenario

- ISBs debt service taking into account the latest results after expiration of the Exchange Offer on 12 December 2024 and under the IMF baseline scenario, as per the second review of the IMF-supported program – Considering Governance-Linked Bonds coupon adjustment is triggered in 2028
- Considering latest debt treatment agreed with China Development Bank

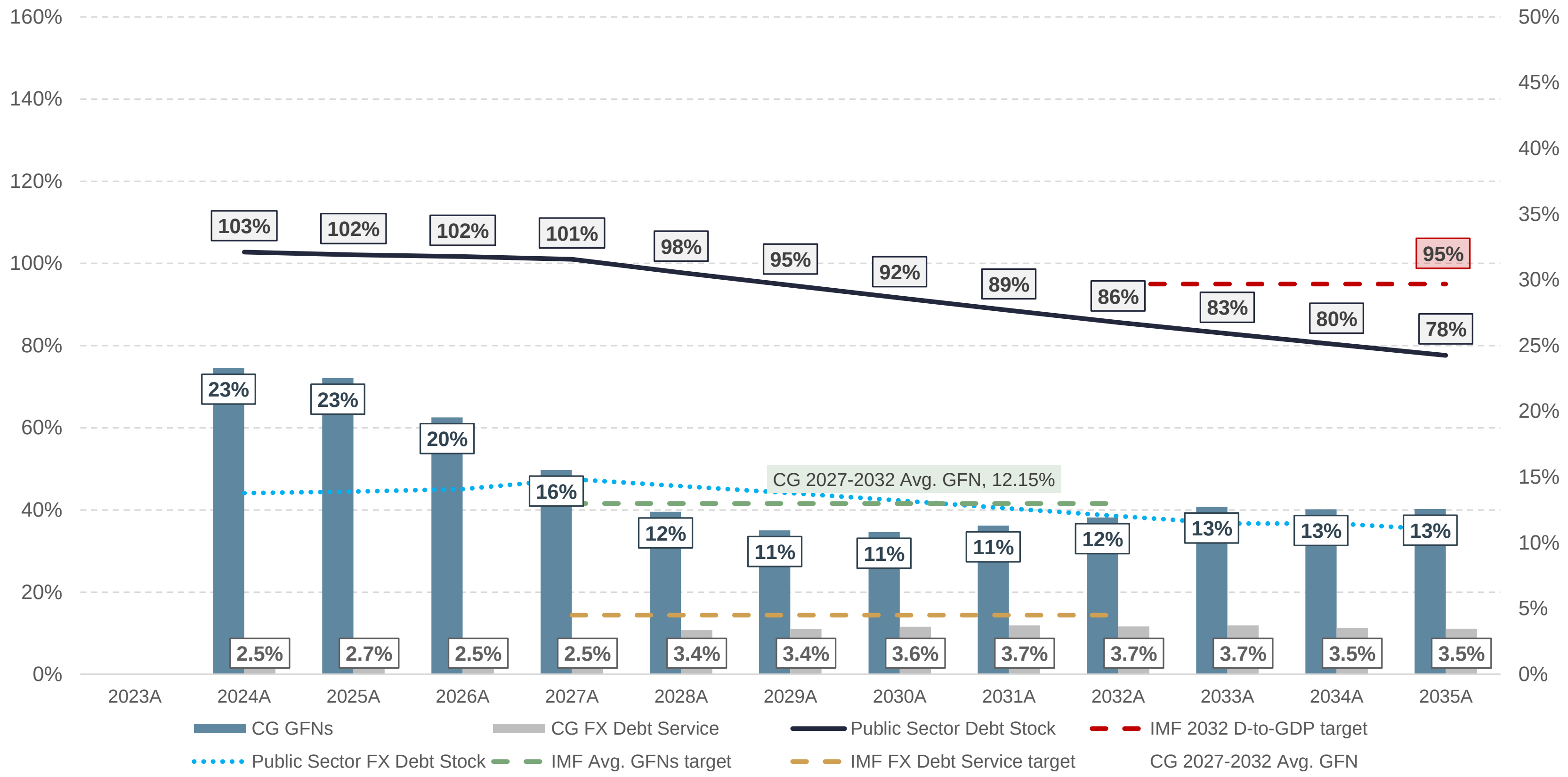


Under the IMF Baseline scenario, the DSA targets are comfortably met and Sri Lanka continues on an increasingly sustainable debt trajectory.

FX debt service in particular is well contained compared to the past.

Debt Sustainability Targets in the Highest MLB Payout Threshold

- Macro-Linked Bonds debt service taking into account the latest results after expiration of the Exchange Offer on 12 December 2024 and under the highest upside scenario, assuming (i) real GDP growth of 4.0% in 2024 (compared to the IMF assumption of 2.0%) and (ii) appreciated LKR per USD FX rate – Considering Governance-Linked Bonds coupon adjustment is triggered in 2028
- Considering latest debt treatment agreed with China Development Bank



Even under the highest MLB payout threshold, the DSA targets are comfortably met since **the increase in GDP in the higher scenarios exceed the increase in debt service**.

Whilst this is an illustrative scenario with strong assumptions on GDP and FX path, **it captures the essence of the MLB outcome.**

This is a purely illustrative scenario with assumptions on FX path and real GDP growth that would trigger the highest MLB payouts.

Illustrative DSA Targets Under the Agreed Debt Treatment

DSA Target	Actual Performance in 2022	Illustrative Outcome under IMF Baseline Scenario in 2032	Illustrative Outcome under highest payout threshold in 2032*
Public Debt to GDP Ratio	128%	93%	86%
Gross Financing Needs to GDP Ratio	34.6%	13%	12%
Foreign Debt Service to GDP Ratio	9.4%	4.1%	3.7%

Note: **Illustrative outcome under the highest payout scenario assumes real GDP growth of 4% in 2024, and in line with IMF baseline real GDP growth in subsequent years. Forex path is assumed to be more appreciated than IMF baseline, such that the nominal GDP triggers for the highest upside threshold are met. Governance-Linked Bonds coupon adjustment is assumed to be activated in 2028 onwards.*

Governance Linked Bond *(1)*

- **The Governance Linked Bond (GLB) is an instrument which provides Sri Lanka with a slightly lower coupon** (interest payment) if agreed criteria related to governance are met by Sri Lanka.
- **According to the initial proposal by bondholders, the GLB would have a 50 basis point coupon reduction** from the time of measurement (H2 2028) until maturity in 2035 if the selected governance linked triggers are fulfilled.
- The initial design proposed by bondholders was not accepted by Sri Lanka (and the IMF) due to certain design flaws. Sri Lanka's counterproposal amended the qualitative trigger to ensure that both triggers reflect the major factors behind the cause of the economic crisis; which was weak fiscal policy management.
- **The coupon reduction was also increased to a 75 basis point reduction** as per Sri Lanka's final proposal, which was accepted.

Governance Linked Bond *(2)*

1. ***Quantitative Indicator*: T**otal revenue to GDP above 15.3% in 2026 and 15.4% in 2027
2. ***Qualitative Indicator*:** Fiscal Strategy Statement (FSS) as required in the Public Financial Management Act is published in 2026 and 2027.

Bond	Capital (USD mn)	Coupon 2024-2027	Coupon 2028-2032	Coupon 2032-2035	Final maturity
Vanilla Bond	1,422	3.60%	5.10%	9.25%	2035
Vanilla Bond when structured as a GLB*	1,422	3.60%	4.35%*	8.50%	2035

**Coupon adjustment will be effective on 30 November 2028 (onwards) if both indicators are met. Therefore, the interest due in June 2028 will be paid at the original coupon rate (5.10%).*

Debt Relief from ISB Restructuring

- **Debt relief from restructuring is calculated by the combined cash flow relief provided through maturity extension, coupon (interest) reduction, principal haircut and capital grace period.**
- The ISB restructuring provides Sri Lanka with:
    - **Upfront debt stock reduction of USD 3.0 bn which can increase to USD 4.3 bn in case of economic downturn or reduce to USD 1.8 bn in case of economic over-performance (compared to IMB baseline)**
    - **USD 9.6 billion debt service payments reduction** during the 4-year IMF program period
    - **33% reduction in the coupon rate** of Sri Lanka's Bonds to 4.3%
    - **Extension of the average maturity profile of around 6 years**
- In sum, as of the settlement date of the ISBs exchange, bondholders would be consenting to a **Net Present Value (NPV) concession of 40%** in the IMF baseline scenario and in the **highest MLB threshold, the NPV concession would be 33%** when the standard commercial market discount factor of 11% is applied.

Other Creditors

- Sri Lanka concluded the restructuring and required settlements of China Development Bank (CDB) liabilities on 24th December 2024.
- Accordingly, all large outstanding external debt has been successfully restructured.
- The remaining smaller commercial debts (HSBC/ICBC etc.) are in advanced stages of finalisation.
- Restructuring agreements with smaller bilateral creditors outside of the OCC (Kuwait, Saudi Arabia, Iran, Pakistan) are also being finalised.
- Beyond the central government debt, the USD 175 mn bond issued by Sri Lankan Airlines is also expected to be restructured.

Credit Rating Upgrades: Fitch….*(1)*

- Immediately following the successful execution of the bond exchange on 20th December 2024, **Fitch Ratings upgraded Sri Lanka's foreign currency credit rating** (IDR) to CCC+ from RD (Restricted Default).
- Some extracts from the Fitch statement:
  - *"Sri Lanka's foreign-currency debt restructuring offers* ***substantial upfront debt repayment relief****, with no foreign-currency bond maturities until 2029. The first amortisation on the macro-linked bonds, which* ***have low coupon rates until 2032****, starts from 2029."*
  - *"The restructuring under Fitch's baseline assumptions lowers general government* ***debt/GDP to about 90% by 2028****, while Fitch forecasts the interest/revenue ratio to decline to 42%, still well above the 'CCC' median of 16%. This is, however, a* ***large drop from the 67% in 2021****, prior to the sovereign default."*

Credit Rating Upgrades: Fitch….(2)

- Whilst Sri Lanka’s issuer rating was upgraded by Fitch, other recent sovereign debt restructurings Zambia and Ghana have not yet received a long-term foreign currency issuer rating upgrade as at end 2024.

Fitch Credit Rating	Zambia	Ghana	Sri Lanka
B+			
B			
B-			
CCC+			
CCC			
CCC-			
CC			
C			
RD			
D			

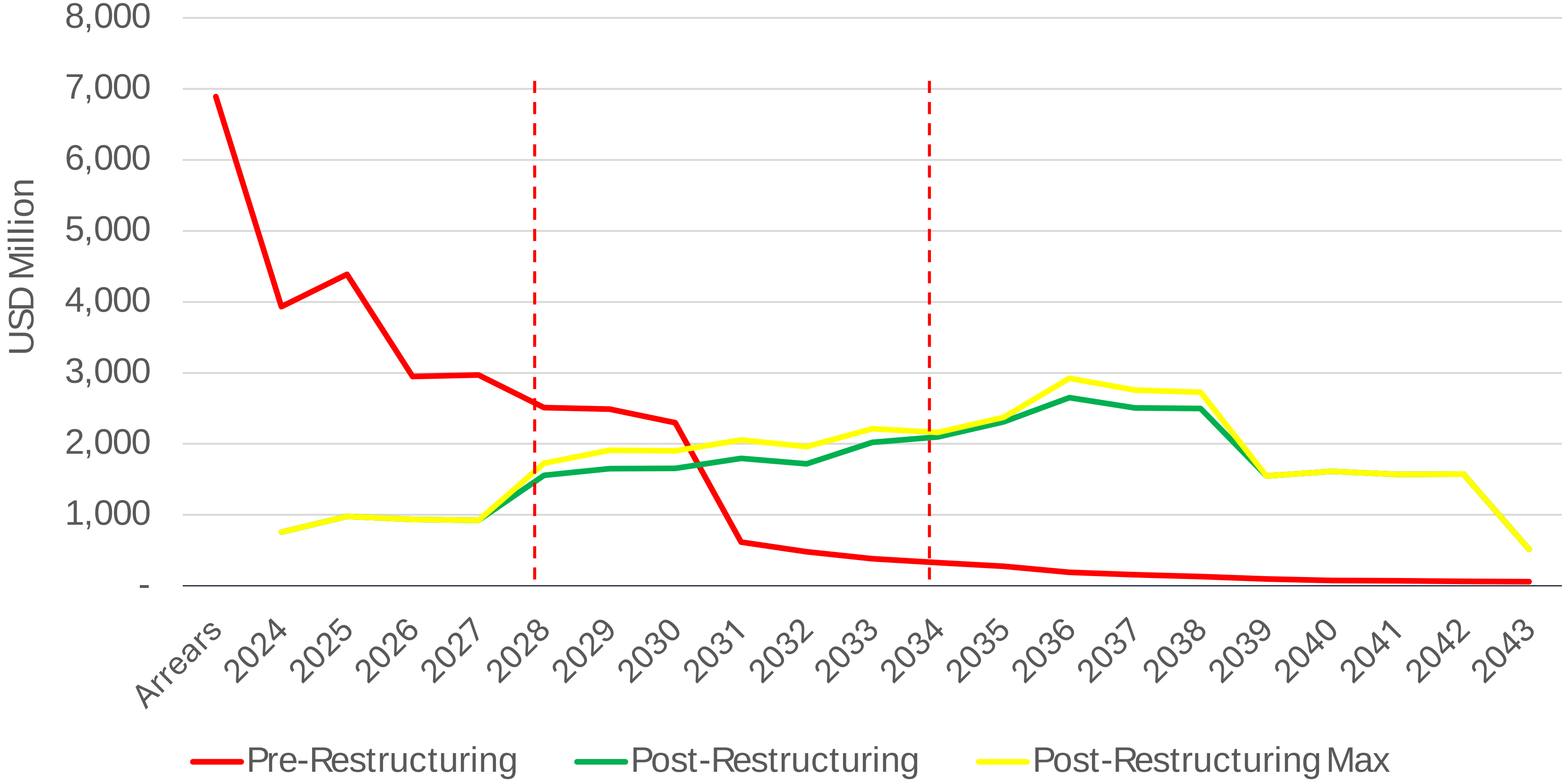
Credit Rating Upgrades: Moody's

- Moody's rating agency also upgraded Sri Lanka's credit rating on 23rd December 2024 to Caa1 from Ca. This is the highest long term foreign currency issuer rating upgrade among Moody's recent upgrades from sovereign default in 2024.

Moody's Credit Rating	Zambia	Ghana	Sri Lanka
B1			
B2			
B3			
Caa1			
Caa2			
Caa3			
Ca			
C			

Sri Lanka External Debt Service Outflow

(*Excluding Multilateral Debt; i.e. IMF, World Bank and ADB etc.)*



- **Sri Lanka must use the next ten years to build up its external and fiscal buffers to meet future debt service obligations.**
- The IMF supported reform programme is designed, such that by end 2028, Sri Lanka's **government revenue to GDP would reach 15.4%** and **Gross International Reserves would have reached USD 15.1 bn.**
- **If these targets are maintained, Sri Lanka will be able to meet its post restructuring debt obligations with a degree of comfort.**

*Note: **<u>This includes</u>** Sri Lanka's **external debt service** (capital and interest) from official **<u>bilateral</u> debt** and **all <u>external commercial debt</u>** (ISBs (actual flows post-Expiration of Exchange offer on 12 Dec. 2024 – considering GLB coupon adjustment activated), CDB (agreed debt treatment), other). **<u>Multilateral debt (IMF, World Bank, ADB etc.) service is excluded.</u>** **Average multilateral debt service 2025-2029 is approximately USD 1.3 bn per annum in gross terms.***

***<u>Post-Restructuring</u>** refers to debt service under the IMF baseline scenario, assuming no refinancing of existing debt.*

***<u>Post-Restructuring Max</u>** refers to debt service under the highest MLB repayment threshold, assuming no refinancing of existing debt.*

Continued Reform Progress is Essential

Sri Lanka: Selected Economic Indicators 2021–2029

	2021	2022	2023	2024	2025	2026	2027	2028	2029
			Prel.	Projections					
GDP and inflation (in percent)									
Real GDP	4.2	-7.3	-2.3	2.0	2.7	3.0	3.1	3.1	3.1
Inflation (average) 1/	6.0	45.2	17.4	7.0	5.8	5.4	5.2	5.1	5.0
Inflation (end-of-period) 1/	12.1	54.5	4.0	6.9	5.5	5.4	5.2	5.1	5.0
GDP Deflator growth	8.0	47.5	17.5	9.8	6.9	5.4	5.2	5.1	5.0
Nominal GDP growth	12.6	36.6	14.8	11.9	9.8	8.5	8.5	8.3	8.3
Savings and investment (in percent of GDP)									
National savings	33.0	27.6	33.9	32.5	31.0	31.3	31.9	31.8	31.8
Government	-7.3	-6.4	-6.0	-3.4	-1.0	-0.1	0.3	0.7	0.7
Private	40.4	34.0	39.9	35.9	31.9	31.4	31.6	31.1	31.0
National investment	36.7	28.6	30.8	32.1	32.1	32.4	32.8	32.7	32.6
Government	7.4	5.5	3.7	5.0	5.1	5.2	5.1	5.2	5.2
Private	29.4	23.1	27.1	27.1	27.0	27.3	27.7	27.5	27.4
Savings-Investment balance	-3.7	-1.0	3.1	0.5	-1.1	-1.2	-0.9	-0.9	-0.8
Government	-14.7	-11.9	-9.6	-8.4	-6.0	-5.3	-4.8	-4.5	-4.4
Private	11.0	10.9	12.8	8.8	4.9	4.1	3.9	3.6	3.6
Public finance (in percent of GDP)									
Revenue and grants	8.3	8.4	11.1	13.6	15.1	15.3	15.4	15.4	15.4
Expenditure	20.0	18.6	19.4	20.9	20.3	19.9	19.5	19.2	19.2
Primary balance	-5.7	-3.7	0.6	1.0	2.3	2.3	2.3	2.3	2.3
Central government balance	-11.7	-10.2	-8.3	-7.3	-5.2	-4.6	-4.1	-3.8	-3.8
Central government gross financing needs	31.0	34.1	27.8	24.9	23.7	20.5	16.6	13.1	11.9
Central government debt	102.7	115.9	109.8	108.8	108.4	108.3	106.6	103.2	100.1
Public debt 2/	114.8	126.3	115.7	114.2	113.1	112.5	110.2	106.5	103.1
Money and credit (percent change, end of period)									
Reserve money	35.4	3.3	-1.5	18.8	11.0	8.5	8.5	8.3	8.3
Broad money	13.2	15.5	7.3	14.9	10.4	8.5	8.5	8.3	8.3
Domestic credit	19.5	18.8	-1.2	9.3	3.6	2.5	2.3	2.4	6.7
Credit to private sector	13.1	6.4	-0.8	7.2	9.2	9.3	9.5	9.4	9.3
Credit to private sector (adjusted for inflation)	7.2	-38.8	-18.2	0.2	3.4	4.0	4.3	4.3	4.3
Credit to central government and public corporations	26.5	31.1	-1.6	11.0	-0.9	-3.4	-4.7	-5.5	3.2
Balance of Payments (in millions of U.S. dollars)									
Exports	12,499	13,106	11,911	12,913	13,624	14,261	14,903	15,591	16,384
Imports	-20,638	-18,291	-16,811	-20,059	-22,565	-23,706	-24,362	-25,255	-26,363
Current account balance	-3,285	-744	2,644	412	-926	-1,031	-804	-819	-840
Current account balance (in percent of GDP)	-3.7	-1.0	3.1	0.5	-1.1	-1.2	-0.9	-0.9	-0.8
Current account balance net of interest (in percent of GDP)	-2.1	0.1	4.3	2.8	1.3	1.1	1.5	1.6	1.5
Export value growth (percent)	24.4	4.9	-9.1	8.4	5.5	4.7	4.5	4.6	5.1
Import value growth (percent)	28.5	-11.4	-8.1	19.3	12.5	5.1	2.8	3.7	4.4
Gross official reserves (end of period)									
In millions of U.S. dollars	3,139	1,898	4,387	5,605	7,174	9,262	13,466	15,105	15,286
In months of prospective imports of goods & services	2.0	1.2	2.4	2.7	3.3	4.1	5.8	6.2	6.3
In percent of ARA composite metric	24.7	16.3	37.8	47.9	58.6	73.1	100.2	108.7	108.5

It is important to remember that **creditors are in no way obliged** to provide Sri Lanka with debt relief.

Sri Lanka requested debt relief to provide **sufficient time and space to implement macroeconomic reforms** to **rebuild fiscal and external buffers.**

The IMF supported programme is designed to **restore fiscal, monetary, and external stability**. Sri Lanka has thus far over-performed many of the expected macroeconomic outcomes.

This table indicates that **as long as Sri Lanka adheres to the reform path**, by 2028, **Sri Lanka will have the required buffers** to comfortably meet the post-restructuring debt service obligations as payments gradually increase.

Necessity to Shift to Outward Growth Strategy

- In order to ensure continued growth of external buffers, it is essential that economic growth is driven by **non-debt creating inflows,** such as export of goods, export of services, and foreign direct investments (FDI).
- Expand access to export markets through **strategic trade agreements** enabling integration with **global value chains.**
- Improve supply capacity by **addressing impediments to factor markets**: land, labour, and capital.
- **Digitisation** of the economy to enhance productivity.
- Focus should be on **productive, globally competitive, tradable sectors** – regardless of whether that sector is in agriculture, manufacturing, or services.
- **Institutional reforms** are needed in areas such as investment facilitation and promotion, trade negotiation, and productivity enhancement.
- **Improved governance with strong institutions, whilst addressing corruption vulnerabilities, is essential to complement this envisaged development.**

Concluding Remarks….*(1)*

- Sri Lanka's debt restructuring enables the country to restore debt sustainability as assessed by the IMF and the **uplifting of credit ratings** above Restricted Default.
- Whilst there were concerns raised regarding potential risks inherent in the MLB structure, the final negotiated outcomes mitigate these risks to the greatest extent possible.
- **The overall restructuring provides Sri Lanka with significant debt relief and fiscal space.**
  - **It is up to Sri Lanka to ensure that it adheres to basic macro-economic disciplines that would enable it to sustain revenue targets and foreign exchange reserve targets.**
- **As long as Sri Lanka maintains such macroeconomic discipline, the debt relief provided by the restructuring will ensure debt sustainability.**

This requires extremely cautious and prudent management of the macroeconomy, going forward, without resorting to ad-hoc policies and making serious policy mistakes as experienced during the end 2019/early 2022 period, which ultimately led the entire 22 million of people to suffer for generations.

Concluding Remarks….*(2)*

- It is essential that Sri Lanka develops a **broad political consensus on the macro-economic policy framework**. This should incorporate both fiscal discipline and sound monetary management.
- In the recent past, we have seen the initial signs of **de-politicisation of macroeconomic management** – and it is important that this persists.
- Such a consensus is supported by a robust legal framework comprising the **Public Financial Management Act, the Central Bank of Sri Lanka Act, and the Public Debt Management Act**.
  - **The fiscal rules (primary expenditure limit of 13% of GDP and defined primary balance target in the Fiscal Strategy Statement (FSS) are key anchors of fiscal stability.**
- **Collectively, this legislative and institutional framework can help Sri Lanka prevent another 2022 style crisis in the future.**
- **However, laws and institutions alone are insufficient**, since this fundamental change also requires a **change in mindset at a broader societal level**.
  - **The public itself must demand and expect governments to deliver macroeconomic discipline**.

Thank you.