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Policy Announcement on Sri Lanka's Domestic Debt Optimisation

1. The policy of the Government of Sri Lanka (Government) concerning Sri Lanka's domestic public debt was approved by Parliament of the Democratic Socialist Republic of Sri Lanka by Resolution on 01 July 2023.

2. Sri Lanka has been facing tremendous economic, humanitarian and social challenges with a severe recession amid high inflation, depleted international reserves, an unsustainable public debt, and heightened financial sector vulnerabilities. Accordingly, with a view to restoring macroeconomic stability and public debt sustainability, safeguarding financial stability, and stepping up structural reforms to unlock Sri Lanka's growth potential, the Government entered into a 48-month extended arrangement under the Extended Fund Facility (EFF) of SDR 2.286 billion (about USD 3.0 billion) with the International Monetary Fund (IMF) which was approved by the Executive Board of the IMF on 20 March 2023.

3. The Domestic Debt Optimisation (DDO) is being carried out consistent with the EFF, to contribute to meeting the Debt Sustainability targets agreed upon with the IMF. It is justified by the ambitious nature of these targets, the need to manage Sri Lanka's public debt rollover risks in the future and the imperative of ensuring a fair contribution from all creditors to the resolution of Sri Lanka's debt problem, without however jeopardizing the stability of the domestic financial system.

4. After a careful analysis of the domestic public debt of Sri Lanka, including its composition, terms and conditions, investor concentrations, accounting treatments and of the potential impact of such DDO to the financial system stability by the Sri Lankan authorities, with the assistance of Sri Lanka's debt advisors, the various elements constituting the DDO have been identified as follows, in summary.

- (a) Conversion/exchange of Treasury Bonds that have been issued under the Registered Stock and Securities Ordinance, No. 7 of 1937 (as amended) into new Treasury Bonds to be issued under the said Registered Stock and Securities Ordinance to certain eligible

holders of Treasury Bonds specifically superannuation funds defined as employee trust fund, an approved provident fund or a pension fund, or an approved termination fund within the meaning of the Inland Revenue Act, No. 24 of 2017 (as amended), with a minimum participation requirement of 100 percent of the total face amount of the Treasury Bonds maturing between 2024 and 2032 (inclusive) and not less than 50 percent of the total face amount of the Treasury Bonds maturing in 2023 outstanding on the business date prior to the date of launch of the said conversion/exchange held by such superannuation funds, to avoid incurring a tax rate to 30 percent on the taxable income attributing from Treasury bond investments of such superannuation funds that may be applied from 1 October 2023 onwards. However, the Treasury Bonds maturing on 15 July 2023 will be excluded from the above perimeter.

- (b) Conversion of Treasury Bills that have been issued under the Local Treasury Bills Ordinance, No. 8 of 1923 (as amended) and are held by the Central Bank of Sri Lanka (CBSL) into Treasury Bonds issued under the said Registered Stock and Securities Ordinance.
- (c) Conversion of the provisional advances made by the CBSL to the Government of Sri Lanka to be converted into Treasury Bonds to be issued under the said Registered Stock and Securities Ordinance.
- (d) Exchange of outstanding Sri Lanka Development Bonds (SLDBs) issued under the Foreign Loans Act, No. 29 of 1957 to Treasury Bonds denominated in United States Dollars or Sri Lanka Rupees issued under the said Registered Stock and Securities Ordinance.
- (e) Restructuring of local law foreign currency denominated bank loans of the Government.

5. Questions can be directed to the Superintendent of Public Debt via Email in relation to the Exchange Memorandum for Treasury Bonds at ddo.tbonds@cbsl.lk and the Exchange Memorandum for Sri Lanka Development Bonds at ddo.sldb@cbsl.lk . Any responses to such questions that have general applicability will be promptly posted on the website on the Ministry of Finance, Economic Stabilization and National Policies (<https://www.treasury.gov.lk/web/ddo>).

Ministry of Finance, Economic Stabilization and National Policies
Democratic Socialist Republic of Sri Lanka

4th July 2023