Remarks by Mr. K. M. Mahinda Siriwardana, Secretary to the Treasury and the Ministry of Finance, Economic Stabilisation and National Policies at the Joint Press Briefing on the "*Official Announcement of the Government of Japan on the Resumption of Disbursement for Japan Funded Project Portfolio*" held at the General Treasury/Ministry of Finance, Economic Stabilisation and National Policies on 24th July 2024

His Excellency the Ambassador of Japan in Sri Lanka Mr. Mizukoshi Hideaki, Ms. Ide Yuri, Senior Representative of JICA Sri Lanka Office, esteemed media representatives, ladies and gentlemen; Good evening!

Today marks another important milestone on the long and difficult journey of Sri Lanka's economic recovery. A little over 2 years ago, Sri Lanka's economy was in the worst stages of a deep and unprecedented economic crisis. When I assumed office as the Secretary to the Treasury in April 2022, we had around USD 20 million of usable reserves, with upcoming liabilities amounting to several hundred million dollars in the following weeks, and over 4 billion dollars in the subsequent months.

At the time, the government had no option but to announce a temporary moratorium on servicing of selected external debt, including official bilateral debt and external commercial debt. Our external creditors, other than multilateral creditors, were unable to provide Sri Lanka with financial assistance. Our economy was crippled since we did not have foreign currency to purchase even a single shipment of fuel. We could not buy coal or oil to run our power plants and we had power outages of up to 13 hours a day. We did not have foreign currency to buy medicines for hospitals or fertilizer for farmers.

Whilst at times the situation seemed hopeless, we had a plan that we set in motion immediately. We knew that we had to engage with the IMF to restore confidence in the economy and we also had to commence the process of restructuring public debt since the IMF rules do not allow it to lend to countries with unsustainable debt. Amidst the day to day fire fighting for basic economic survival, by May 2022, we commenced a comprehensive macroeconomic reform programme supported by the IMF. Under the EFF program, the Government of Sri Lanka has undergone macroeconomic policy reforms, including fiscal reforms, monetary policy reforms, legislative transformations, anti-corruption initiatives, debt sustainability initiatives, cost recovery pricing models, welfare reforms, and measures to safeguard financial stability. A central pillar of this programme was the restructuring of public debt.

Sri Lanka's debt restructuring was always going to be an extremely complex process. Being a middle income country, Sri Lanka was not eligible for the Common Framework for debt restructuring applicable to Low Income Countries. The Common Framework brought together all official creditors onto a single platform, significantly reducing coordination challenges.

Sri Lanka's debt restructuring entailed several parallel work streams;

1. The Official Creditor Committee (OCC) which comprised members of the Paris Club and India, and was co-chaired by Japan, India, and France.
2. The Exim Bank of China
3. External commercial bond holders
4. Domestic banking consortium of international sovereign bonds
5. Other external commercial creditors: Primarily China Development Bank but also HSBC and ICBC
6. Domestic Creditors: Restructuring of multiple instruments including Treasury bills (CBSL), Treasury bonds, FCBU debt, Sri Lanka Development Bonds, guaranteed SOE debt held by State banks, other commercial banks, the Central Bank, and Superannuation funds.

All of this debt restructuring had to be undertaken in parallel, and Sri Lanka also had to ensure that there was comparability of treatment between all external creditors. Navigating the geopolitics of this process was also challenging, ensuring that Sri Lanka provided fair and equitable treatment to all parties. Sri Lanka was also one of the first countries to restructure debt under the IMF's new debt sustainability framework for middle income countries; the MAC SRDSF.

Once the IMF's debt sustainability analysis was published in March 2023 with the approval of Sri Lanka's EFF programme, the government began technical negotiations with the various creditor groups, supported by our advisors Lazard Freres and Clifford Chance. In fact, this process would have been an impossible challenge if not for the cordial and constructive approach of our key creditors. Japan, along with other Co-chairs India and France, played a crucial role in guiding the Official Creditor Committee of 17 diverse members. In fact, Japan played a crucial role in initiating such a coordination platform, which is greatly valued and appreciated by Sri Lanka. Negotiations with the OCC were always conducted in a solutions oriented manner, with all stakeholders taking a genuine interest in supporting Sri Lanka's efforts to emerge from the crisis.

It was due to this spirit that on the 26th of June 2024, within 15 months of IMF board approval of the Sri Lanka programme, Sri Lanka was able to sign the MoU on the terms of debt restructuring with the Co-chairs of the OCC. At the same time, in Beijing, Sri Lanka signed the Amendment Agreements for debt treatment with the Exim Bank of China. Accordingly, Sri Lanka reached agreement of debt treatment for USD 10 billion worth of official sector debt. The cash flow relief provided through this debt treatment frees up a great degree of fiscal space for Sri Lanka to spend on priority public services such as healthcare and education, instead of debt service in the short term.

This crucial step has now enabled us to reach today's milestone of resumption of disbursement of Yen Loans. This provides Sri Lanka with fresh financing to support critical infrastructure development, and also eases the country's fiscal cash flow pressures, which will help keep domestic interest rates moderate and supportive of economic recovery and growth. The resumption of financing will go a long way towards re-igniting sectors such as construction and supporting numerous jobs and livelihoods, with positive multiplier effects along the way. Most importantly, this is a major signal of confidence in the Sri Lankan economic reform process, which is an important signal and catalyst for other development partners and investors.

With this landmark decision by the government of Japan, the suspended projects, including Bandaranaike International Airport Development Project, Utility projects, health sector improvement project, rural development projects etc., will be resurrected, paving the way for economic and social improvement of the country. The resumption of stalled projects will have major positive impacts on infrastructure development, particularly the BIA project will be a much needed boost to support the growth of tourism, which in turn enhances Sri Lanka's debt service capacity as well. Similarly, the resumption of rural development, health, sanitation, and drinking water related projects will have significant positive impacts on the country's socio-economic development at a time when economic conditions have been challenging for the poor and vulnerable in particular.

I would like to extend my sincere gratitude to Government of Japan and its people on behalf of Government of Sri Lanka for deciding to disburse funds soon after concluding the agreement with the OCC, as the first country to announce the resumption of disbursement after the debt treatment process.

On the debt restructuring process, we still have a few more steps to complete before we can celebrate success. Whilst we have reached agreement on a Joint Working Framework with external commercial bondholders, we are awaiting finalisation of formal assessments of this by the IMF and the OCC. We hope the OCC will continue to take a constructive and positive approach in this assessment of Comparability of Treatment as well.

The Government of Sri Lanka commits to expeditiously conducting negotiations towards the early conclusion of the Exchange of Notes between the Government of Japan and the Government of Sri Lanka for the rescheduling of the current debt portfolio and will continue the collaboration with the Government of Japan to strengthen the existing fruitful bilateral relations and cooperation. I would like to express my gratitude to the H.E., the Ambassador of Japan, and the officials of the Embassy, Mr. Yamada, and the JICA staff for garnering and fostering much-needed cooperation throughout the journey.

Sri Lanka's journey towards full economic recovery is far from over. We have indeed come a long way, supported by our partners like Japan, but this is not a time to be complacent. We must continue with the disciplined economic reforms introduced over the last 2 years and refrain from slipping back into past bad habits. Over the years, Sri Lanka has made the mistake of rolling back reforms as soon as some degree of stability is restored. We can no longer afford to do that, and we certainly cannot expect the international community to help us again if we do not keep our own house in order.

Let me conclude by reflecting on how today is a reminder of how bilateral relations between Japan and Sri Lanka have stood the test of time, amidst various challenges and numerous hardships. Japan stood by Sri Lanka through the most difficult times, and is now stepping up this support as Sri Lanka shifts gears from economic stabilisation to recovery and growth. The relationship between our countries has been built on decades of friendship, trust, and mutual respect. Long may it continue.