



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

Investor Presentation – 23 September 2022



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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



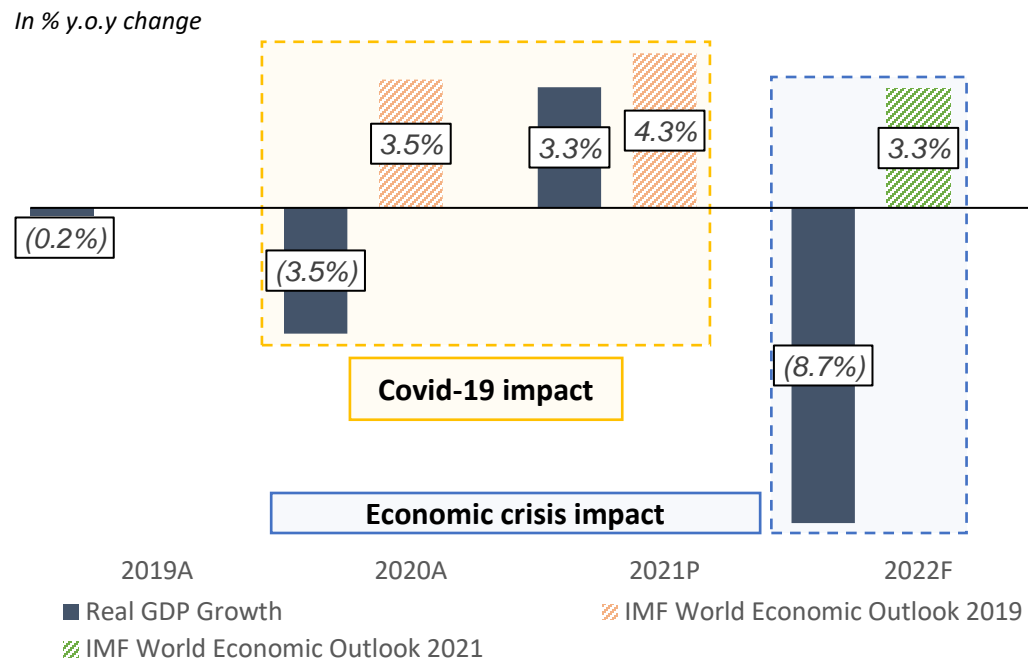
**I. SRI LANKA IS GOING THROUGH A SOCIO-ECONOMIC CRISIS
UNLIKE ANY OTHER IN ITS HISTORY**



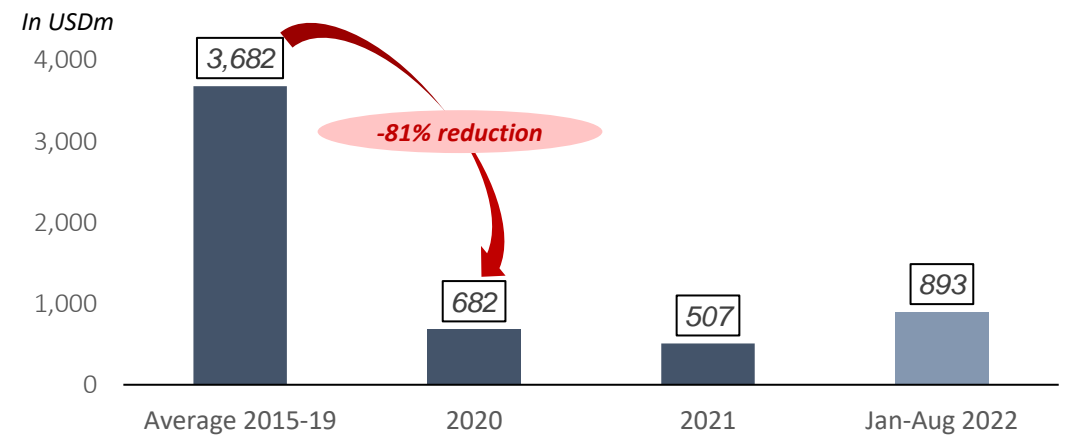
Some past policy mistakes, the global COVID-19 pandemic and the resulting global crisis have stunted Sri Lanka's growth projections, leaving the country exposed to the consequences of the energy and food crisis

The COVID-19 pandemic jeopardized the key engines of the country's economic growth, including domestic demand and the tourism sector, the awaited rebound was further halted by the subsequent energy and food crisis

Yearly Real GDP Growth¹



Earnings from Tourism



- As the COVID-19 pandemic had an immediate impact on travel, Sri Lanka's tourism earnings, a key strength of the country, declined by over 80% in 2020, and have not recovered since

▶ The energy crisis has further exacerbated the difficulties Sri Lanka has been facing since the outbreak of the COVID-19 pandemic and resulting economic shock, hampering the recovery of some key sectors while affecting local production and consumption through record-high energy prices and shortages of basic goods

Sources: Central Bank of Sri Lanka, IMF
 Note: (1) Actual GDP data for 2019, 2020 and 2021 are based on rebased GDP estimates (100=2015)

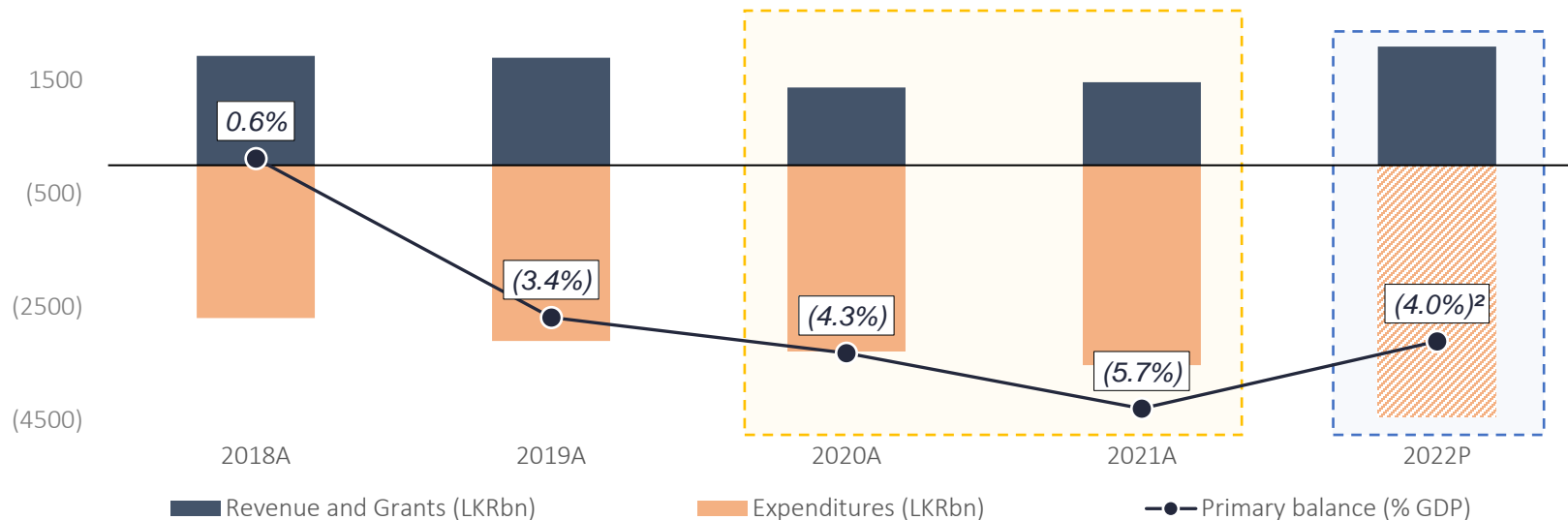


The severe economic downturn, weak Sri Lanka's revenues, rising health expenditure and energy needs led to a worsening of the fiscal situation

While the decline in growth partly led to shrinking revenues, Sri Lanka had to increase spending to safeguard its population from a double pronged health and energy crisis

Primary balance, revenues¹ and expenditures

In LKRbn (Revenue and Expenditures, on left-hand axis) and in % of GDP (Primary balance)



Over 2020 and 2021, Sri Lanka faced increasing expenditure needs, resulting from the need to finance its vaccination program, provide assistance to low-income citizens impacted by lockdowns and the general provision of healthcare facilities and medical equipment

In 2022, the rise in global energy prices has derailed the country's expected recovery and further deteriorated public finances, as the Government had to intervene to protect its citizens from sky-high energy and food prices

► Sri Lanka's primary deficit widened in 2020 on the back of the unprecedented COVID shock and the necessary rise in public health spending. Primary balance is expected to remain in negative territory this year as the Government is obliged to assist its population confront the scarcity of energy resources and food supplies



Sources: Central Bank of Sri Lanka, IMF

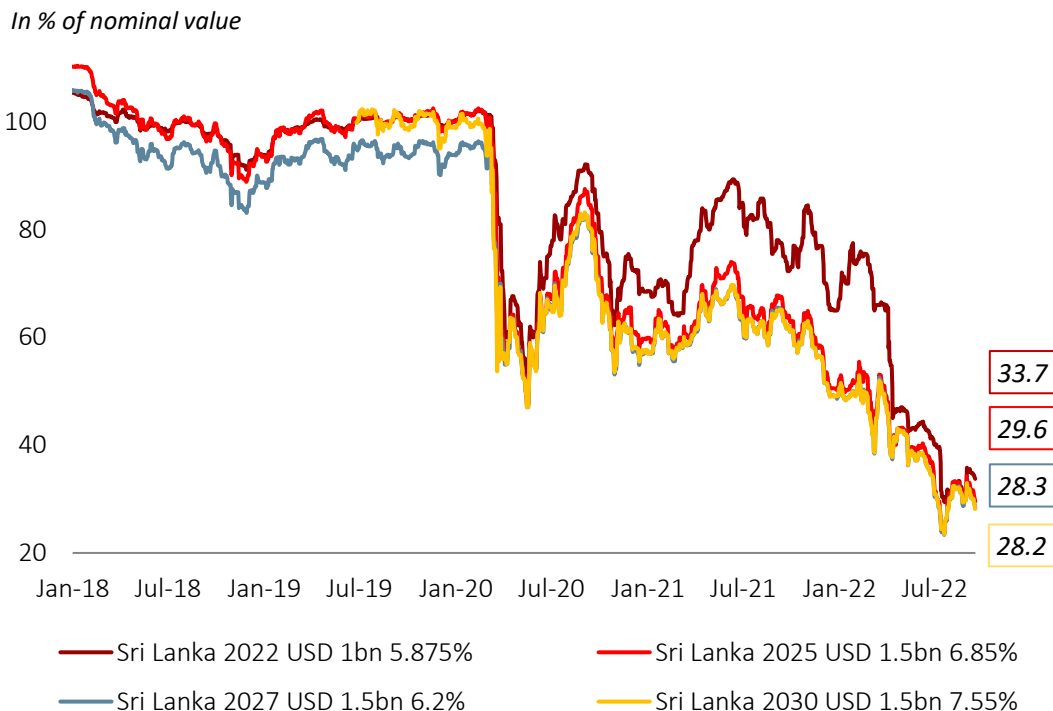
Notes: (1) Including grants, (2) 2022 expected primary balance figure is already reflective of policies committed (or already implemented) as part of the IMF-supported program



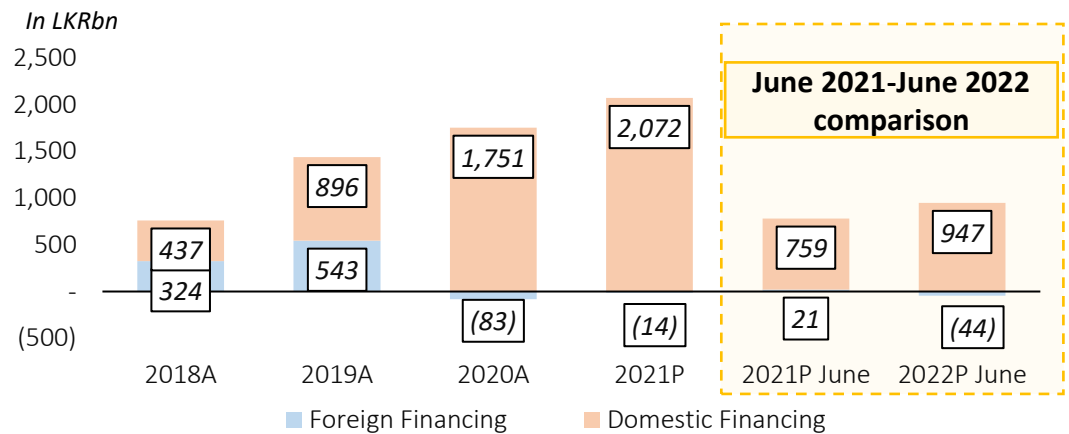
Amidst adverse external funding conditions, Sri Lanka had to rely on domestic financing

As the COVID-19 induced global economic downturn led to a significant fall in the price of Sri Lanka's International Sovereign Bonds ("ISBs") and to the loss of international market access, the Government had to rely mostly on domestic financing

Price evolution of Sri Lanka's selected ISBs



Sri Lanka's Government foreign versus domestic financing¹



CBSL net credit to Government²

Outstanding amount, in LKRbn

	As at end			
	2018	2019	2020	2021
Outstanding amount	473.1	363.5	870.3	2,095.5



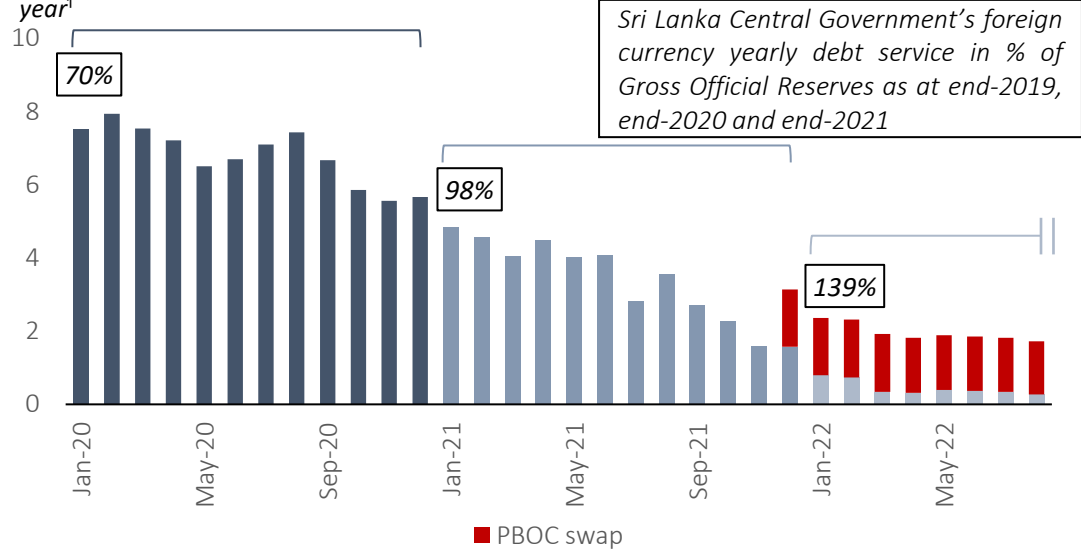
Sources: Central Bank of Sri Lanka, Ministry of Finance, Economic Stabilization and National Policies, Bloomberg
 Note: (1) The chart shows net foreign and net domestic financing, (2) The chart shows outstanding stock figures as at year end

Consequently, foreign reserves were depleted to preserve citizens' access to basic needs and to service foreign debt obligations

As the energy crisis reinforced the need for foreign currency to finance fundamental imports, the scarcity of available funding sources triggered the depletion of foreign reserves and the collapse of the Sri Lankan Rupee, hence fueling rising inflation

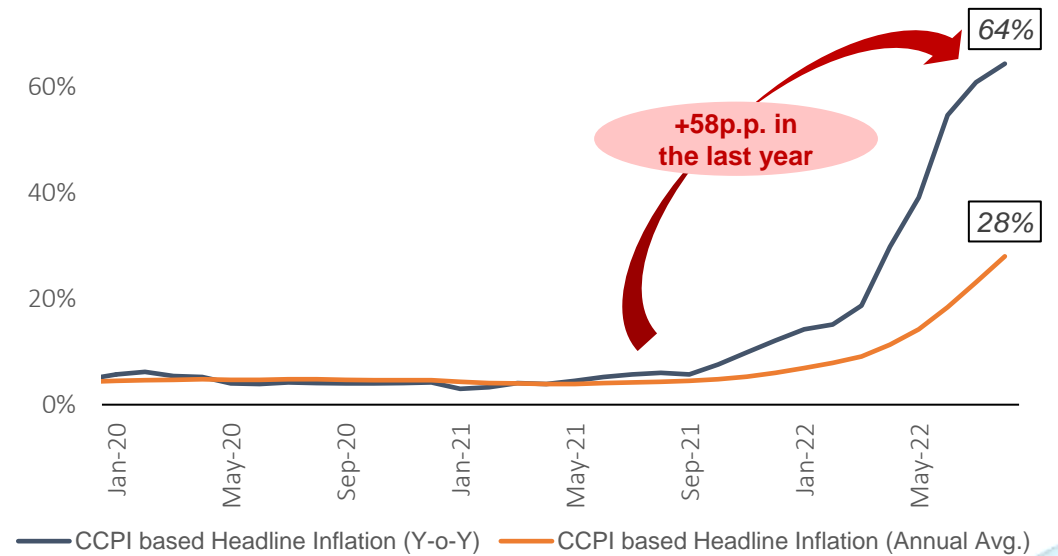
Foreign exchange reserves and debt service payments

Foreign exchange reserves in USDm, yearly FX debt service in % of reserves as at end of previous year¹



CCPI Inflation

In y-o-y change and in annual average



▶ The decline in foreign reserves hampered Sri Lanka's ability to mitigate the effects of the crisis through the subsidization of imports, whilst its currency was steadily losing value on the back of ever-increasing inflation – leading to adverse conditions for all Sri Lankan people, in particular the poor and vulnerable



Source: Central Bank of Sri Lanka

Note: (1) The debt service showcased is the Central Government foreign currency debt service for the entire year as percentage of Gross Official Reserves as at end-2019, end-2020 and end-2021 respectively. 2022 Central Government foreign currency debt service is calculated at end-2021

II. FOLLOWING THE CRISIS, SRI LANKA HAS EMBARKED ON AN ACTION PLAN TO ADDRESS THE DIFFICULTIES IT FACES



As its economic crisis worsened, Sri Lanka had to declare a moratorium on its external public debt

As FX debt service payments became unfeasible in view of dire shortfalls in basic needs, the Authorities announced on 12 April 2022 an Interim Debt Policy to address this situation, whereby Sri Lanka suspended the servicing of affected external public debt obligations

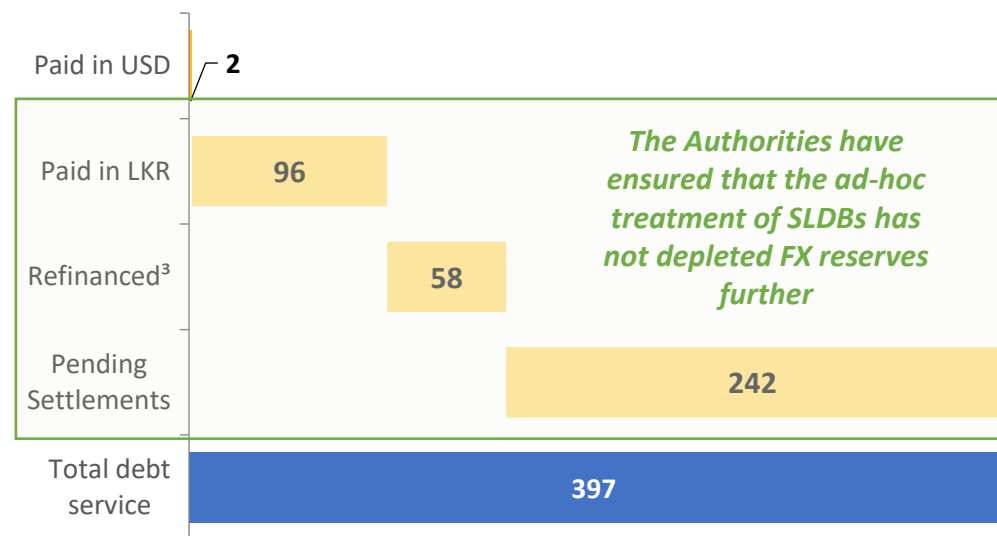
USD amounts safeguarded by the Interim Debt Policy

In USDm, from 12 April 2022 to 30 June 2022

Category of debt	Type of debt	Safeguarded amounts		Total ²		
		Interest	Principal	USDm	% of FX reserves ⁴	% of import of essential goods ⁵
		USDm	USDm	USDm		
Local Law	CG	25	217	242	13.3%	5.5%
Foreign Law	CG	290	185	476	26.2%	10.8%
	SOEs ¹	3	38	41	2.3%	0.9%
TOTAL		319	440	759	41.8%	17.3%

Focus on SLDBs' treatment during the Interim Debt Policy

In USDm, Debt service on SLDBs, 12 April 2022 – 30 June 2022



► The Interim Debt Policy allowed to alleviate external liquidity pressure, giving some time for the country to engage with the IMF



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

Notes: (1) Guaranteed SOEs' debt, (2) All saving figures displayed are indicative and subject to changes further to the ongoing reconciliation exercise, (3) Maturities were extended through a refinancing of the outstanding instruments (4) Gross Official Reserves as at end July 2022 (USD 1,817m), including the swap from PBOC, (5) Jan-July 2022 total Import of essential goods was equivalent to USD 4.4bn

Even faced with a complicated outlook, Sri Lanka took immediate measures to achieve a certain degree of normalcy with support from international partners ...

Immediately after the announcement on the moratorium, the Government and the Central Bank took the necessary steps to contain the economic impact of the foreign exchange crisis and assist the population, while obtaining some fundamental help from key partners



The Government and the Central Bank did not hesitate to undertake key measures to come to the aid of the local population, including energy and living costs reductions:

- The Government implemented measures to alleviate pressure on the most vulnerable citizens, including imposing price ceilings on essential food items, smoothing out the distribution of limited fuel stocks, cancelling farmer loans and distributing cash grants to the poor and vulnerable
- The Central Bank reacted swiftly to rising prices, hiking the key policy rates by 700bps in the April monetary policy meeting followed by a further tightening of 100bps in July 2022



Sri Lanka received key financial and humanitarian aid from international partners, including (but not limited to):

- Immediate financial aid in the form of fuel lifelines to the Government, and swap lines signed with the Central Bank
- Loans, grants and humanitarian assistance focused on food, fuel and fertilizer provision, originating from key partners





▶ **Even in a highly complicated outlook, the authorities were able to react quickly by announcing and implementing key fiscal reforms while reaching out to key partners for immediate and urgent help**




... and simultaneously adopted a first batch of fiscal reforms that will be complemented by new measures implemented towards the 2023 budget

The Government took courageous measures to restore public finance sustainability, relying on a balanced mix between revenue enhancement, expenditure rationalization and measures minimizing fiscal risks from SOEs


Revenue-enhancement

-  Increasing tax rates (Personal Income Tax (PIT), Corporate Income Tax (CIT), Value Added Tax (VAT), Telecommunication Levy and Betting and Gaming Levy)
-  Broadening tax bases (PIT and VAT)
-  Removing tax exemptions (CIT, VAT)
-  Increasing tax compliance through strengthening tax administration

Expenditure-rationalization

-  Better targeted allocation of resources focusing on the most vulnerable segments of the economy

Minimizing fiscal risks from SOEs

-  e.g., cost-recovery based pricing for fuel and electricity (significant increases already implemented)



Showing their commitment to reform, the Authorities achieved a Staff-Level Agreement (“SLA”) with the IMF in record time

The SLA provides a clear roadmap in terms of policy implementation and will serve as an anchor for the economic recovery



On September 1st, after months of negotiations and in a major step towards addressing the country’s ongoing crisis, the Sri Lankan Authorities reached a Staff-level Agreement with the IMF Staff on a set of comprehensive economic policies supported by a 4-year US\$2.9 billion Extended Fund Facility



The objectives of the contemplated IMF program are:

- An ambitious primarily revenue-based fiscal consolidation, accompanied by fiscal institutional reforms and cost-recovery based energy pricing, aimed at restoring fiscal sustainability and strengthening fiscal discipline
- A stronger social safety net to protect the most vulnerable
- A public debt management strategy aimed at restoring public debt sustainability
- A multipronged strategy to restore price stability and rebuild international reserves under greater exchange rate flexibility
- Commitment to greater central bank independence and to phase out monetary financing
- Policies to safeguard financial system stability
- Focused reforms to address governance and corruption vulnerabilities
- Broader structural reforms to unlock Sri Lanka’s growth potential

▶ **The agreement is subject to the approval of the IMF management and its Executive Board, after the timely implementation by the Authorities of a set of Prior Actions and the provision by official creditors of assurances to assist Sri Lanka in restoring public debt sustainability**

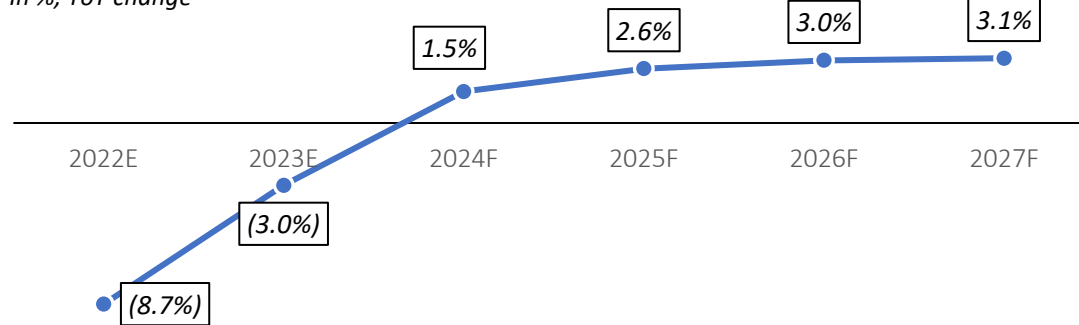


Showing their commitment to reform, the Authorities achieved a Staff-Level Agreement with the IMF in record time (Cont'd)

The focus of the IMF program will be to restore macroeconomic stability and public debt sustainability, while safeguarding financial system stability, protecting the vulnerable, and stepping up structural reforms to address corruption vulnerabilities and unlock Sri Lanka's growth potential

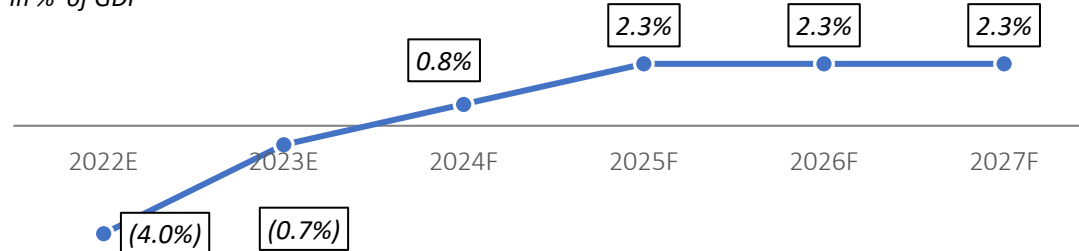
Real Growth Trajectory

In %, YoY change



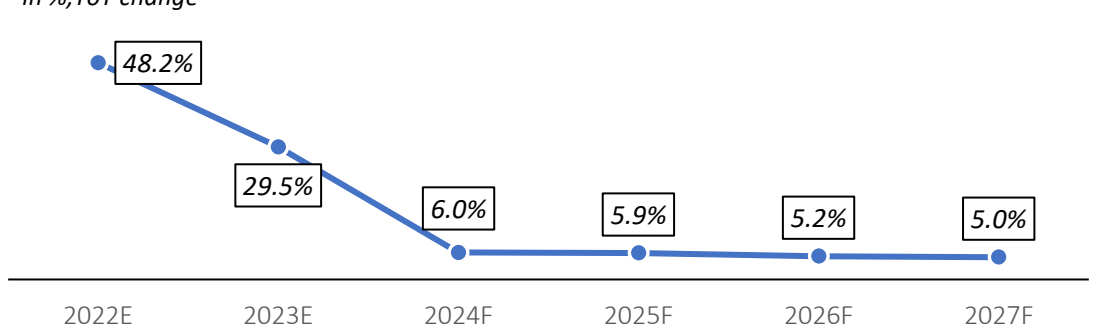
Primary Balance

In % of GDP



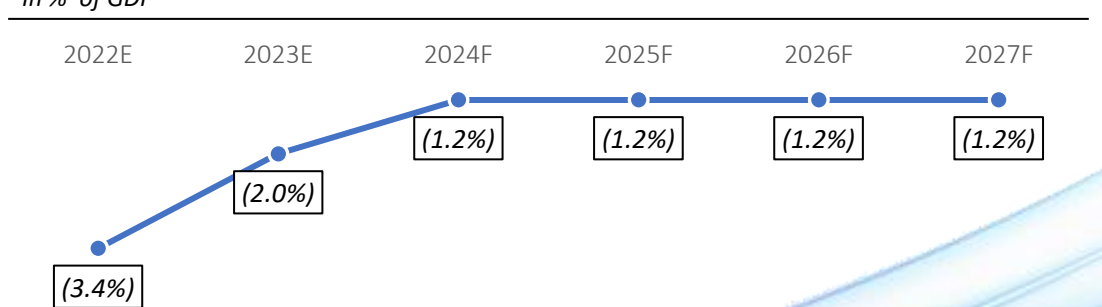
Inflation¹ Path

In %, YoY change



Current Account

In % of GDP



Sources: Ministry of Finance, Economic Stabilization and National Policies, Central Bank of Sri Lanka
Note: (1) Average



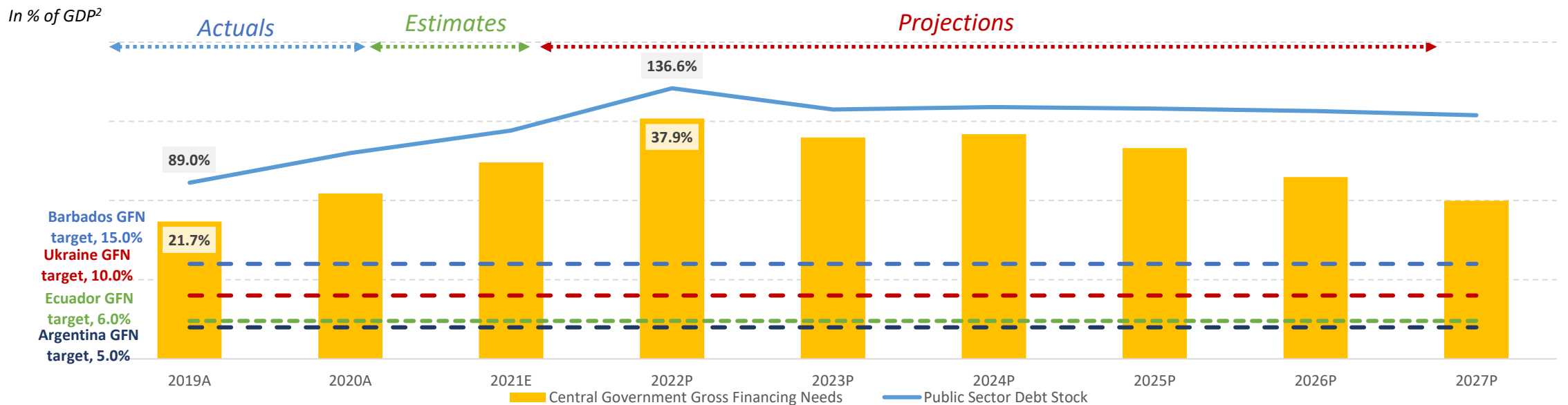
III. RESTORING PUBLIC DEBT SUSTAINABILITY REQUIRES AN UPFRONT COMPREHENSIVE DEBT TREATMENT



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

In the absence of an upfront comprehensive debt treatment, Sri Lanka's public debt is set to remain at unsustainable levels in the coming years

Sri Lanka's public debt indicators in the absence of an upfront comprehensive debt treatment¹



- ▶ Projections presented above assume that the macro-fiscal framework and underlying policy package agreed with the IMF are implemented, and that Sri Lanka benefits from financial support from development partners as contemplated under the IMF program
- ▶ It is therefore a « theoretical » exercise designed to illustrate the relief to be delivered by the expected comprehensive upfront debt treatment and should be seen as optimistic. Absent such debt treatment, none of the above assumptions should materialize, leading to a far worse macro-fiscal framework and therefore further deteriorated debt trajectory

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 financing and in which the remaining financing gap is financed with an illustrative 10% interest rate debt instrument), (2) CG Debt/GDP and CG GFN/GDP indicators are not presented on the same scale



Sri Lanka's Public Debt is multifaceted ...

As at End-June 2022, Public Debt¹ stood at 122% of GDP, of which 70% of GDP is denominated in foreign currency, from a public debt level of 115% of GDP as at end-December 2021, out of which 54% of GDP were denominated in foreign currency

<i>In USDbn equiv.</i>	Foreign Currency	Local Currency	Total	
	Total	Total	USDbn	% of GDP ²
Central Government Debt	37.9	32.4	70.3	106.1%
Multilateral	9.6		9.6	14.5%
Bilateral	9.5		9.5	14.4%
Private³	18.8	31.8	50.5	76.3%
Bonded	14.5	30.9	45.4	68.6%
Non-bonded	4.2	0.9	5.1	7.7%
CBSL advances		0.6	0.6	0.9%
Guaranteed SOEs Debt	5.5	1.6	7.1	10.7%
Multilateral	0.5		0.5	0.7%
Bilateral	0.4		0.4	0.5%
Commercial (incl. SOE debt)⁵	4.6	1.6	6.3	9.4%
Central Bank of Sri Lanka Debt	3.2	-	3.2	4.8%
Multilateral	1.1		1.1	1.7%
Bilateral⁴	2.0		2.0	3.1%
TOTAL	46.6	34.0	80.5	121.6%













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

Notes: (1) The debt stock showcased reflects the DSA coverage currently contemplated by the Authorities, (2) Assuming a 2022 nominal GDP of LKR 23.84trn, (3) Includes ECA-backed facilities, (4) Bilateral swap lines with the People's Bank of China, Reserve Bank of India and the Bank of Bangladesh, (5) SOEs' FX payables benefiting from a state guarantee are assumed to be constant between end 2021 and end June 2022

... including with a wide range of bilateral creditors ...

Central Government and Guaranteed SOEs' external public debt has a broad variety of bilateral creditors, for USD 13.8bn in overall bilateral debt – USD 9.9bn in direct exposure and USD 4.2bn in indirect exposure

As at End-June 2022, in USDm	Direct Exposure	Indirect Exposure ²	Total	
	Total	Total	USDm	in % of Total ¹
Total Bilateral and ECA-Backed debt¹ (1+2)	9,868	4,208	14,075	100.0%
1. Paris Club Members	3,820	960	4,780	34.0%
Japan	2,741		2,741	19.5%
France	207	204	411	2.9%
Korea		337	337	2.4%
Austria	312		312	2.2%
Germany	202		202	1.4%
UK		198	198	1.4%
USA	132		132	0.9%
Spain	0	106	106	0.8%
Hungary	76	19	95	0.7%
Netherlands		61	61	0.4%
Russia	47		47	0.3%
Sweden	41		41	0.3%
Denmark	35		35	0.3%
Australia	8	24	31	0.2%
Canada	19		19	0.1%
Belgium		11	11	0.1%
2. Non-Paris Club Members	6,048	3,248	9,296	66.0%
China	4,076	3,248	7,324	52.0%
India	1,683		1,683	12.0%
Saudi Arabia	138		138	1.0%
Kuwait	98		98	0.7%
Iran	49		49	0.3%
Pakistan	3		3	0.0%

Top 10 creditors (95.70% of total)		
		in % of Total ¹
	1. China	52.0%
	2. Japan	19.5%
	3. India	12.0%
	4. France	2.9%
	5. Korea	2.4%
	6. Austria	2.2%
	7. Germany	1.4%
	8. UK	1.4%
	9. Saudi Arabia	1.0%
	10. USA	0.9%

Note: (1) Central Government and Guaranteed SOEs external bilateral debt (includes ECA-backed debt, includes arrears as at end-June 2022), (2) Indirect exposure includes only ECA-backed debt

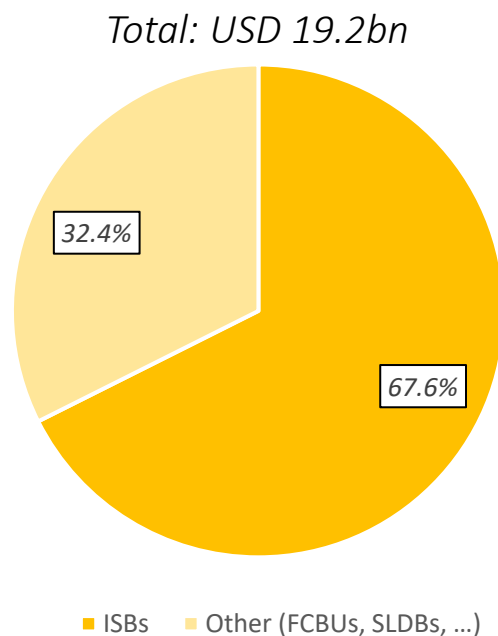


... and with private creditors concentrated in International Sovereign Bonds

Bondholders of Sri Lanka's International Sovereign Bonds have organized themselves around two main creditor committees

ISBs stand for a significant share of PPG FX commercial debt

In % of total commercial FX denominated public debt, excluding ECA-backed debt, as at end-June 2022



- ISBs international bondholders have formed an ad-hoc creditor committee
- The group comprises close to 100 members and is led by a steering committee of around 10 members
- The group represents more than 55% of ISBs non-domestic holdings
- The group is advised by Rothschild and White & Case



- A group of local private banks holding ISBs have formed a group
- The group has holdings in excess of US\$ 1 billion across all series of ISBs
- The group comprises 8 local banks and is led by a steering committee
- The group is advised by Baker & Mackenzie



Key principles and update on the creditor engagement



Where do we stand in the engagement with creditors?

Official creditors

- ✓ Initiated engagement with official creditors, including the largest bilateral creditors and the Paris Club
- ✓ Provided updates on the ongoing process, including a post-SLA process update
- ✓ Encouraged bilateral creditors to regroup in an *ad-hoc* coordination platform

Private creditors

- ✓ Initiated engagement with appointed advisors of the international and local committees of sovereign bondholders
- ✓ Published a creditor update presentation, disclosing publicly debt data and information on the process

▶ IMF SLA allows Sri Lanka to accelerate and intensify engagement with all categories of creditors



IV. NEXT STEPS AND LOGISTICS



Financing assurances from bilateral creditors are required as a pre-requisite to the IMF Board adoption of the Program

The IMF does not lend to countries whose debt is deemed unsustainable, requiring Sri Lanka to undertake an upfront comprehensive debt treatment. In practice, this requires financing assurances to be given by the bilateral creditors, resulting in a sufficient level of comfort to the IMF that bilateral creditors will support Sri Lanka's efforts to restore public debt sustainability

What are financing assurances?

FOR PUBLIC CREDITORS

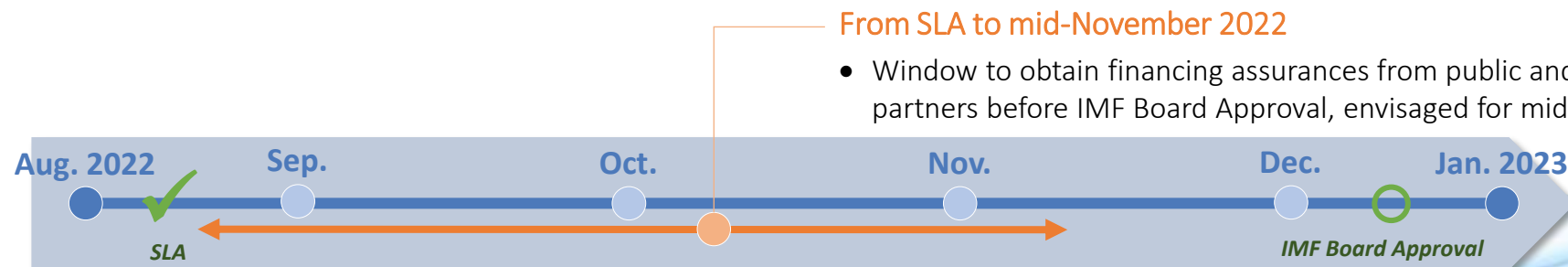
Bilateral financing assurances are a **commitment from official bilateral creditors to grant Sri Lanka a debt treatment** compatible with the macroeconomic framework and debt sustainability constraints underpinning the contemplated IMF program.

They are the flagship step to the IMF being able to move forward with a program for Sri Lanka

What does it mean for private creditors?

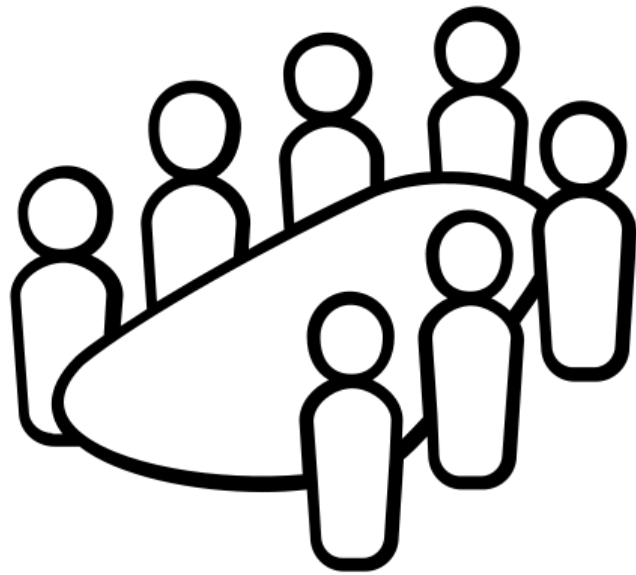
Private financing assurances are considered as obtained by the IMF once Sri Lanka is making a "good faith" effort to reach a collaborative agreement with its private creditors, defined as:

- Engaging in early dialogue
- Sharing relevant information on a timely basis
- Giving creditors the early opportunity to provide input in the framework underpinning the debt restructuring



Authorities are currently promoting the formation of an ad-hoc bilateral creditor coordination platform

To expedite the process of obtaining financing assurances from official bilateral creditors, the authorities of Sri Lanka encourage the formation of a unique ad-hoc coordination platform for all bilateral creditors



The most effective way to obtain the financing assurances quickly is the **creation of an ad-hoc bilateral creditor coordination platform** allowing the **official bilateral creditors to give their financing assurances to the IMF collectively after having debated among themselves**, with the IMF and the Government of Sri Lanka on the general contours of the debt treatment required to support the restoration of debt sustainability

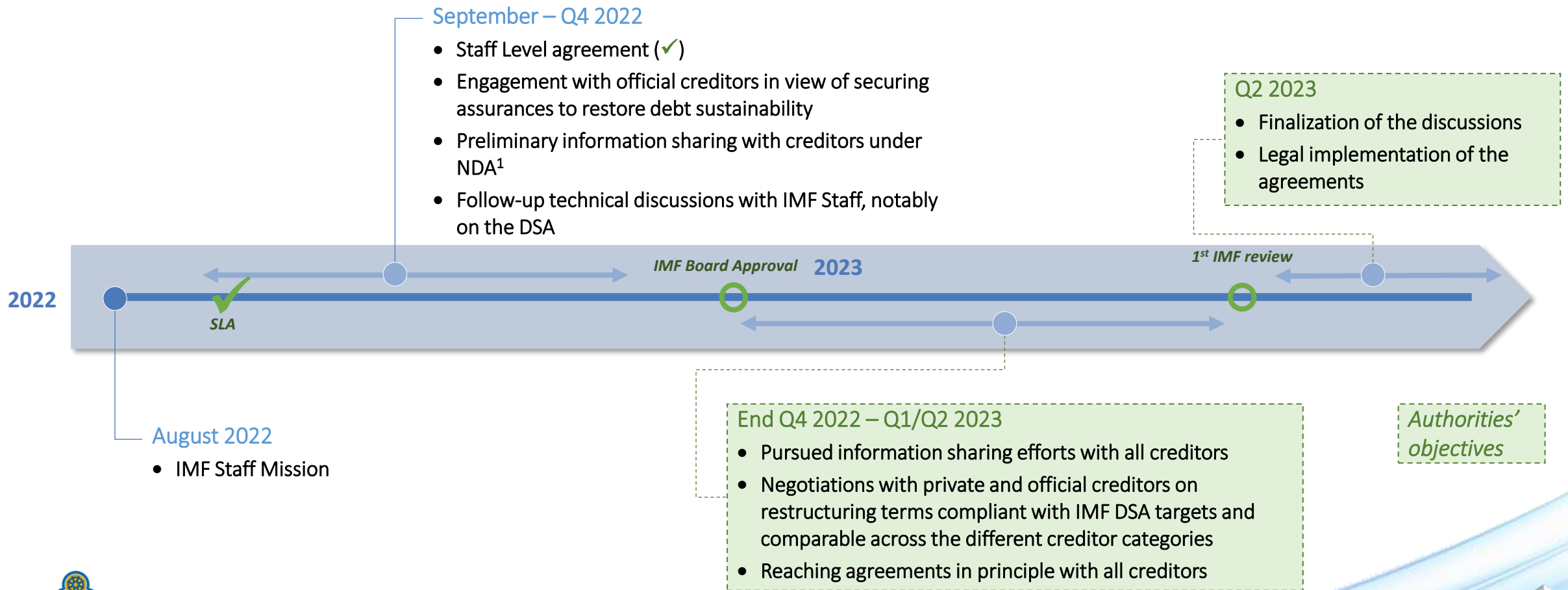
Benefits of such structure include:

- ✓ Deliver financing assurances and validate the IMF program through a **fast-track solution**, allowing Sri Lanka's economy to recover
- ✓ Position all **bilateral creditors on an equal footing** for accessing relevant information
- ✓ **Enable a suitable forum** for the negotiation of the bilateral debt restructuring
- ✓ Offer a forum for **discussions on emergency credit lines** amongst creditors themselves
- ✓ Increase trust and build an **environment for constructive discussions**

▶ The creation of an *ad-hoc* bilateral creditor coordination platform would offer a direct mean of communication to all bilateral creditors, expediting Sri Lanka's obtention of required financing assurances from bilateral creditors



Expected timeline for the Debt Restructuring Process



Source: Ministry of Finance, Economic Stabilization and National Policies

Note: (1) Information and data could be shared to private creditors prior to IMF Board Approval but only under Non-Disclosure Agreements (“NDA”)



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 Frères 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: srilan.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
- This presentation and the follow up Q&A document, including answers to questions raised in writing following this webcast, will be posted on the Ministry of Finance, Economic Stabilization and National Policies' website
- We invite all bondholders to participate in the identification exercise to be launched shortly in cooperation with Morrow Sodali
 - Visit the following website <https://projects.morrowsodali.com/srilanka> or contact the following email dstdisclosures@investor.morrowsodali.com to participate in the identification exercise

