DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

("Sri Lanka" or the "Republic")

Q&As FOLLOWING THE AUTHORITIES' MARCH 2023 INVESTOR PRESENTATION

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The Investor Presentation gathered 414 registered attendees and enabled the Sri Lankan Authorities (the "Authorities" or "we") to provide an update on the ongoing process and the next steps related to the engagement with the IMF and the Republic's creditors. Following the presentation by the Governor of the Central Bank of Sri Lanka ("CBSL") and the Secretary to the Treasury and Ministry of Finance, attendees were invited to raise questions.

In line with the commitment for transparency undertaken by the Authorities, this Q&A document intends to provide responses to all relevant questions raised by participants during the virtual Investor Presentation held by the Authorities on Thursday 30 March 2023, including those which could not be addressed live by the Authorities and their advisors.

Questions raised during the interactive session have been organized and summarized by topics so as to facilitate the provision of answers.

The presentation itself can be found here.

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CONTENTS

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Answers provided by topic

1. IMF Program: Macro-framework and recent macro-trends
Questions raised related to foreseen reforms, actual revenue collection figures and the foreseen FX rate path
The IMF program targets restoring the country’s fiscal sustainability through a well calibrated revenue-based fiscal consolidation plan. Sri Lankan authorities are also committed to implement growth-enhancing structural reforms that will allow Sri Lanka to unlock its full growth potential. Such reforms will aim to improve the country’s competitiveness and to catalyse foreign investments, which should lay the foundation of a sustainable long-term growth. Overall, the authorities’ prompt policy responses and the swift implementation of the IMF program’s prior actions have already contributed to relative improvements of the country’s fiscal situation: preliminary data suggested improved fiscal performance in the first three months of 2023 relative to 2022. The IMF macro-framework also foresees a real depreciation of the Sri Lankan Rupee over the medium term, which will help restore an external current account surplus (non-interest) as the country should benefit from increased export competitiveness, a necessary step toward rebuilding reserves. The real exchange rate path, like all other forecasts included in the IMF macro- framework, will be reassessed during each IMF Program review.

2. External Debt Restructuring
Questions raised related to the envisaged treatment of Sri Lanka's external creditors
As indicated in the Investor Presentation (see slide 18), the authorities have started to engage with their external creditors and envisage to finalize the debt restructuring exercise by September 2023. Such engagement will be conducted in good faith and on a transparent basis, with the objective of finding a debt treatment agreement that is in line with the comparability of treatment principle and compliant with the IMF DSA targets. The authorities are open to considering any kind of provisions that should help reaching a mutually acceptable agreement while remaining compatible with the debt sustainability targets. This may include contingent mechanisms and/or green/blue components if they abide by these principles. The authorities are confident that all creditors will act in a collaborative manner and help Sri Lanka restore macroeconomic stability and fiscal sustainability. It is however premature to provide indications on the restructuring parameters or on the NPV relief that will be requested from all creditors. As indicated in the IP, the domestic debt optimization operation is (notably) aiming to reduce the efforts that will be asked from foreign currency creditors by alleviating the short and medium-term liquidity constraints faced by the Government. The outcome of the DDO will therefore size the overall effort required from FX creditors to meet DSA targets underpinning the IMF macro-framework.

3. Domestic Debt Optimization Operation

Questions raised related to the perimeter of the domestic debt optimization operation and its impact on the domestic financial sector

In addition to the ambitious fiscal consolidation plan committed by the authorities under the EFF program, debt sustainability will be restored through a comprehensive debt treatment, that will include a domestic debt optimization operation. The latter will be conducted with the objective to provide liquidity relief to the government while safeguarding financial stability and the soundness of the domestic financial sector as well as the domestic economy, more broadly.

The envisaged domestic debt optimization operation will involve (i) T-Bills held by the CBSL and (ii) T-Bonds (in the context of a voluntary exchange operation). Only T-Bills held by the CBSL (equivalent to 62.4% of total outstanding T-Bills) will be considered for treatment to create some fiscal space – all other T-Bills are excluded from the envisaged operation. All T-Bonds may be considered for participation in a voluntary domestic debt optimization operation, provided that it can be designed to minimize impact on banks and preserve financial stability. The impact on the domestic financial sector is therefore being carefully assessed by the authorities.

In particular, the process of voluntary debt optimization operation with respect to T-Bonds will be developed through consultations held by the Sri Lankan government and its advisors with major T-Bonds holders, aimed at gauging different options and understanding the constraints of each holder.

Overall, the contemplated debt treatment solution will enable the authorities to reach the DSA targets set by the IMF, including the GFN and FX debt service targets. The combination of these targets limits the room of GFNs that can be allocated to both foreign currency and local currency creditors. The contemplated debt treatment will also foresee a fair burden sharing between both types of creditors.

4. State-Owned Enterprises

Questions related to the envisaged process with respect to Sri Lanka's SOEs

First, it is worth noting that the majority of CPC's government-guaranteed debt has already been transferred to the government's balance sheet. In addition, as part of its IMF program commitments, Sri Lanka is devising a comprehensive strategy to restructure the balance sheets of some key SOEs, notably CPC, CEB, RDA and Sri Lankan Airlines (this strategy needs to receive cabinet approval by June 2023). The precise timelines and restructuring modalities will be outlined in the government's strategy.

The restructuring of Sri Lankan Airlines' balance sheet will encompass its entire stock of debt (incl. its government guaranteed international bond). The modalities remain yet to be determined but will be made public in due course.

All these structural measures will enable Sri Lanka to strengthen the governance of its SOEs and to make them financially viable, hence alleviating their weight on public finances.

In addition, the authorities are exploring potential divestment opportunities of several SOEs, the proceeds of which are highly uncertain and therefore not accounted for in the IMF macro-fiscal framework. New developments in that area, if they were to materialize in the medium-term, would be reflected in the macro-framework at the appropriate time (in the context of IMF program's reviews).

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