FLASH NOTE

Sri Lanka Reaches Deal on Debt Restructuring with Bilateral Creditors

AMBEON SECURITIES

Key highlights

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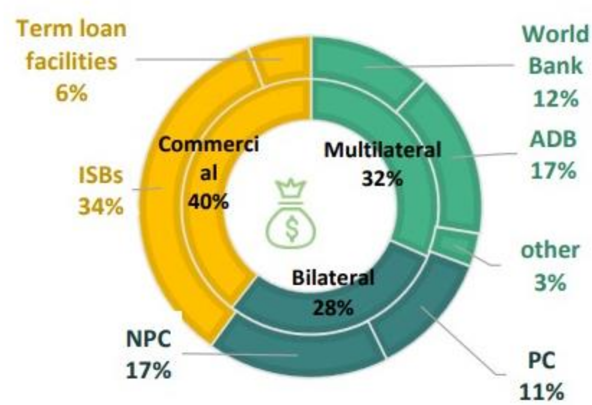
Sri Lanka has reached a final agreement with its official bilateral creditors, including France, India, Japan, and China's Exim Bank, securing debt restructuring deals worth $10 billion. President Ranil Wickremesinghe announced that the country can now delay debt payments to foreign nations until 2028. Furthermore, Sri Lanka will be able to repay all the loans on concessional terms, with an extended period until 2043. However, negotiations with dollar bondholders and the finalization of debt restructuring talks with the China Development Bank are still pending.

Debt amounts restructured

On Wednesday in Paris, Sri Lankan officials signed a memorandum of understanding to restructure $5.8 billion of debt, finalizing an initial agreement made late last year with a group of official creditors led by France, India, and Japan. Additionally, on the same day, local authorities reached a final agreement with China's Exim Bank for the debt treatment of $4.2 billion.

Composition of Government External Debt – March 2024



Debt Payment Extension

Sri Lanka can now delay the payment of debt to foreign countries until 2028, President Ranil Wickremesinghe said in an address to the nation. The country will subsequently repay loans on concessional terms until 2043.

Implications

Successful restructuring and improved debt sustainability are likely to positively influence Sri Lanka's sovereign credit rating upgrade. Credit rating agencies typically view effective debt restructuring and adherence to IMF programs favorably, as these steps demonstrate a commitment to financial stability and fiscal responsibility. With improved fiscal stability and the resumption of projects, Sri Lanka may see renewed confidence from foreign investors and trading partners, leading to increased foreign direct investment (FDI) and trade.

The deal reduces the annual debt service requirement from about 9.2% of GDP in 2022 to less than 4.5% between 2027 and 2032, providing fiscal breathing room for the government.

The deferment of bilateral loan installment payments until 2028 and repayment on concessional terms until 2043 eases immediate fiscal pressure, allowing the government to allocate more resources to essential services and development projects.

To meet IMF conditions, the government has increased taxes and electricity bills, which has been unpopular but necessary to increase revenue. These measures should help improve fiscal discipline and reduce the fiscal deficit over time. The deal is expected to support resuming halted projects such as highways, light railways, and airport developments.

With stabilized foreign exchange reserves and resumed bilateral transactions, the supply of essential goods like food, medicine, and fuel should become more reliable, reducing public dissatisfaction and economic hardship. The agreement signals to international markets and investors that Sri Lanka is making concrete progress in addressing its debt crisis, which can enhance investor confidence and potentially lead to better borrowing terms in the future

Source: Bloomberg, US News, Press releases

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