GFSN and SRI LANKA
Sri Lanka’s debt level remain higher, and the accumulation became steeper in recent years

- Sri Lanka had episodes of higher Debt to GDP ratios of over 100% (1988-89 – riots & terrorist insurgencies, 2001-04 – severe drought & terrorist insurgencies)
- During the past, the Government had to incur substantial costs in terms of current and capital expenditure due to terrorist insurgencies. This has resulted accumulated budget deficits over the time
- Similarly in 2020, Debt to GDP increased to 101% and Budget Deficit increased to 11.1% due to the impact of COVID-19 pandemic and negative repercussions of Easter Sunday attack - Debt to GDP in 2021 appears to increase even higher
Foreign debt is mainly USD denominated with higher amount of commercial debt

- Nearly 42% of external debt is sourced from commercial sources and majority of the borrowings are denominated in USD
- With the country’s graduation to lower middle-income status, availability of foreign grants and concessional loans has reduced. Therefore, requirement to raise external commercial borrowing has increased to meet orderly policy priorities
Commercial borrowing has been a major source of financing since 2007.

Target: To maintain outstanding ISB balance at around 10% of the GDP, by end 2023.
Post Covid-19 Rating Actions....

Fitch Ratings

Moody's Ratings

S&P Global Ratings
ISB Yield Curve for the Period 31.12.2019 – 23.03.2022
More than USD 3 billion loss in workers’ remittances …

Source: Central Bank of Sri Lanka
More than USD 10 billion loss of Earnings from Tourism …..
The Central Bank’s holdings of government securities remain elevated...

Central Bank Holdings of Government Securities (Face Value)

Central Bank (net) purchases of Government Securities:
Since 18 Aug 2021: Rs. 369.8 bn
Since 1 Jan 2022: Rs. 127.2 bn

Outstanding Stock of T-bills

2019: Rs. 897.7 bn

End 2019
CBSL Holdings 2.9%
All Others 97.1%

As at 14 March 2022:
CBSL Holdings 61.8%
All Others 38.2%

As at 14 Mar 2022: Rs. 2,499.0 bn
In recent times Sri Lanka’s Debt Dynamics severely affected by multitude of Challenges

- Markets uncertainty due to COVID-19 pandemic made circumstances
- Widened budget deficit due to
  - Hikes in the pandemic related expenditure of the Government
  - Decline in Tax revenue as a result of Tax concessions granted
  - Nearly zero Non-Tax revenue
- Access to international capital markets become restrictive due to unfavourable rating actions, higher ISB secondaries
- Shift of international investor preference of to safe haven investments
- Sharp decline in foreign investments in G-Sec
- Reduction in foreign remittances, income from tourism
- Declined external reserves and pressure on external debt service obligations
Financial firepower
The global financial safety net has expanded significantly and become more multi-layered, providing stronger protection from crises.
(trillions of USD)

Sources: M. Perks, Y. Rao, J. Shin, and K. Tokuoka (2021); US Federal Reserve website; RFA annual reports and press releases; and IMF staff calculations. For details see IMF Special Series note on COVID-19 “The Global Financial Safety Net during the COVID–19 Crisis: an Interim Stock–Take.” Note: Since the safety net is comprised of different currencies, its USD value fluctuates with exchange rate changes.
GFSN and Sri Lanka...

- The SDR allocation by IMF - equivalent to US dollars 787 million
  - Received in August 2021 – Later than expected
    - Had we received it towards beginning of the pandemic, some of the downside risks could have been averted

- SAARC Currency SWAP – USD 400 million

- All the other foreign financing arrangements made by Sri Lanka, though not adequate to bridge the gap, have been bi-lateral in nature

- Most advanced GFSN are not accessible to, Sri Lanka and probably to most emerging market economies and other developing countries
THANK YOU........!