<u>Sri Lanka takes a 5-day break to reorient its internal debts</u>

On June 29th, the CBSL arrived at a decision to re-evaluate its internal debt by declaring a 5-day break for promptly readjusting its internal debts. The decision is also meant to appease its foreign creditors as Sri Lanka is seriously considering its responsibilities well. This comes in after it received extra funding of $700 million from the World Bank for adjusting its welfare schemes in addition to the $3 billion it received earlier from the IMF. The final estimates of Lankan public debt now stand at $84 billion (covers 130% of GDP) of which foreign liabilities are $41 billion (63% of GDP) and domestic liabilities are $42.1 billion (65% of GDP).

The core focus of this decision remains on revamping T-bills and T-bonds which are managed by CBSL followed by redesigning the various superannuation funds that lie in Government control i.e., including Provident and Trust funds. At present, pension plan T-bonds will be replaced by bonds with a maturity period between 2027 – 2038. The coupon rates are gradually lowered from 12% (in 2025) to 9% (whenever the maturity period lasts). Pension plans that are willing to take part will only be subject to a 14% tax rate while opposers of the proposal face a 30% tax rate. Debt obligations of the CBSL will see the highest readjustments with its T-bills being remoulded to T-bonds attaining full growth between 2029 – 2038.

Commercial banks will be unaffected by the decision given that the banking sector has already been burdened with rising NPAs and soaring taxes. Therefore, this decision encompassed the idea of preventing bank runs. The Sri Lankan president had confirmed the same during the latest press meeting wherein his government reassured that the deposits of 5 crore households are safe and the present readjustments in the financial sector will not affect them. Current IMF projections indicate that Sri Lanka’s economic growth would be shriveled by 3% (for 2023) and bounce back partially by 1.5% (in 2024). The IMF also stated that in September, a review will be held on how Sri Lanka has managed its debt obligations before deciding the next course of action.

<u>GLOSSARY</u>

CBSL – Central Bank of Sri Lanka
IMF – International Monetary Fund
GDP – Gross Domestic Product
T-bills – Treasury bills
T-bonds – Treasury bonds
NPAs – Nonperforming assets

A superannuation fund’ is also called ***<u>Pension fund/plan</u>***.