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C. P. Chandrasekhar, Jayati Ghosh
and Debamanyu Das

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Abstract

On April 12, 2022, Sri Lanka defaulted on external debt service commitments. Announcing the "pre-emptive default", pending restructuring, the government also announced that it was suspending repayments due in 2022 on its external debt. By May, Sri Lanka was formally in default, becoming the first country in the Asia-Pacific region to default on debt in two decades. There were medium-term factors that underlay the crisis, not least of which was the chronic dependence on foreign finance, especially debt, to cover widening current account deficits that followed the IMF-inspired and dictated embrace of liberalization policies starting in the late 1970s. In recent years, following the global financial crisis and the end of the civil war in 2009, this dependence on external borrowings intensified. There was also a dramatic shift towards bilaterally, besides multilaterally, financed investment projects and increasing reliance on the bond market, partly to meet debt service commitments on accumulated debt. Given this vulnerability, a crisis was precipitated by a collapse in foreign exchange receipts during the Covid pandemic, due to falling exports, near-zero tourist arrivals and reduced remittances and the subsequent spike in the outflow of foreign exchange because of the speculation-induced rise in the prices of fuel and food. This paper details the events which culminated in the Sri Lankan debt crisis, assesses the appropriateness of the official, IMF-prescribed strategy of adjustment and debt restructuring, considers the experience with restructuring thus far, and explores alternatives that would have been, and could still be, less regressive and ensure sustainable development.

JEL Codes: F32-34; F53-54; F 65 and G15

Paying with Austerity: The Debt Crisis and Restructuring in Sri Lanka

1. Introduction

On April 12, 2022, Sri Lanka defaulted on external debt service commitments, when a deadline for making interest payments passed. Announcing the "pre-emptive default", pending restructuring, the government also announced that it was suspending repayments due in 2022 on around $7 billion of its total external debt of more than $50 billion. By May, Sri Lanka was formally in default, becoming the first country in the Asia-Pacific region to default on debt in two decades. Past government profligacy leading to excessive borrowing abroad that had increased the stock and burden of debt payments was only part of the problem. The crisis was precipitated by a collapse in foreign exchange receipts during the pandemic, due to falling exports, near-zero tourist arrivals and reduced remittances and the subsequent spike in the outflow of foreign exchange because of the speculation-induced rise in the prices of fuel and food. These led to sharp declines in the country's foreign exchange reserves and its ability to meet foreign debt service commitments.

There were medium-term factors that underlay the crisis, not least of which was the chronic dependence on foreign finance, especially debt, to cover widening current account deficits that followed the IMF-inspired and dictated embrace of liberalization policies starting in the late 1970s. In recent years, following the global financial crisis and the end of the civil war in 2009, this dependence on external borrowings intensified. There was also a dramatic shift towards bilaterally, besides multilaterally, financed investment projects and increasing reliance on the bond market, partly to meet debt service commitments on accumulated debt. When the pandemic hit, the unsustainable debt levels could not be refinanced or paid back, and a combination of domestic and external factors pushed the country to announce default on its debt.

In this paper, we discuss the events which culminated in the Sri Lankan debt crisis, assess the appropriateness of the official, IMF-prescribed strategy of adjustment and debt restructuring, consider

[1] The authors benefited immensely from discussions with and materials provided by Ahilan Kadirgamar. The benefit of discussions and email correspondence with Charith Gunawardena, Charles Abugre, Dhanusha Gihan Pathirana, Gerald Epstein, James Boyce, Kanchana Ruwanpura, Leonce Ndikumana, Meera Sreenivasan, Nikhil Wilmink, Robert Pollin, Sakuntala Kadirgamar, Sandun Thudugala, and Swasthika Arulingam are also gratefully acknowledged. None of them, however, is responsible for the arguments made and any errors in the paper.

the experience with restructuring thus far, and explore alternatives that would have been, and could still be, less regressive and ensure sustainable development.

2. Anatomy of the crisis

The literature on the Sri Lankan debt crisis attributes it to very different causes. Some of the dominant narratives focus on recent policy errors (Basu 2022), government mismanagement or corruption (Devarajan and Kharas 2022), failure to seriously implement export-oriented neoliberal policies recommended by the IMF (Athukorala 2023), 'predatory lending' by China, or just the obvious fact of excess exposure to high-cost international sovereign bonds (Nicholas and Illanperuma 2023). While some of these arguments are partly true, they do not provide anything near a full explanation. Critiques of these dominant narratives point to the role of structural changes resulting from liberalization policies adopted as part of many rounds of IMF adjustment strategies, and the fall-out of a supply-side push of yield-seeking capital from the North to the South, which accelerated after the 2008 crisis following the adoption in advanced economies of unconventional monetary policies involving easy money and extremely low interest rates.

Most of the mainstream assessments refer to the proximate impact of flawed tax policies that constrained revenues even as government expenditures were registering runaway increases. During 2019, there were several crucial changes in the tax policy, following the promises made by the government during the presidential elections. These included:

i) Abolition of the 2% nation building tax[2] on domestic goods and services, the economic service charge, and the PAYE[3] tax;
ii) Exemption of withholding tax for residents and abolition of capital gains tax; and
iii) Modifications in various tax rates, including:
Reduction of standard corporate income tax rate from 28% to 24%,
Reduction of VAT (other than on financial services) from 15% to 8%,
Reduction of tax rates for sectors such as construction and manufacturing and exemptions for other sectors such as IT and agriculture

[2] Nation building tax was aimed at generating additional revenue to finance infrastructure projects which were affected by the Sri Lankan civil war.
[3] The mandatory PAYE (Pay as you earn) Tax on any employment receipts to any resident or non-resident person was replaced by the optional Advance Personal Income Tax (APIT).

Increase in the threshold for registration for VAT from SLR 3 million per quarter to SLR 75 million per quarter.

These changes aggravated the post-COVID collapse in government revenues. Efforts to correct errors with a surcharge on the super-rich and a couple of other adjustments in the Budget for 2022 were too little too late. The changes resulted in an estimated annual revenue loss of around $2.2 billion starting from 2019 (Ondaatjie 2022), or more than 2 percent of GDP (IMF 2023). These recent fiscal developments are seen as having prodded the government to rely on borrowing from abroad. However, as Figure 1 indicates, government revenues as a percentage of GDP have fallen from the early 1990s, following the adoption of neoliberal strategies and well before the 2019 tax concessions. Despite spending cuts, especially in public spending targeted at the poor, the budget deficit which peaked at 7.2 percent of GDP in 2015, though in decline, stood at 5 per cent of GDP in 2018.

Around that time, the government appeared to have dropped its conservative fiscal stance, to deliver the tax cuts mentioned earlier. The deficit rose sharply to 9 percent of GDP in 2019, before Covid-fuelled factors took it to 10.5 per cent of GDP in 2020 and 11.6 per cent of GDP in 2021 (Figure 1). The primary deficit (which had fallen from a peak of Sri Lankan rupee (SLR) 320 billion in 2015) was transformed into a surplus of SLR 91 million in 2018, but then turned negative again with the deficit rising to SLR 538 million in 2019, SLR 687 million in 2020, and SLR 1 billion in 2021.[4] As a result, government debt increased quite rapidly, from 81.9% of GDP in 2019 to 95.4% in 2020 and 99.5% in 2021 (Figure 2).

That figure, however, was still lower than levels seen in the early 2000s, and below that in many other less developed economies. Importantly, not all debt was external debt, though easy access to and low interest rates on foreign debt encouraged the government to borrow abroad. According to the World Bank's Quarterly Public Sector Debt Database[5], foreign currency denominated debt constituted 51 per cent of Sri Lanka's central government debt at the end of the first quarter of 2023. It was this external debt that became the immediate problem. Further, while the loss of tax revenues could explain the erosion of welfare spending and the rise in total debt, it could not be directly held responsible for the collapse in Sri Lanka's foreign exchange reserves. That was precipitated by a fall in foreign exchange earnings and the increased outflows on account of external debt servicing resulting from the

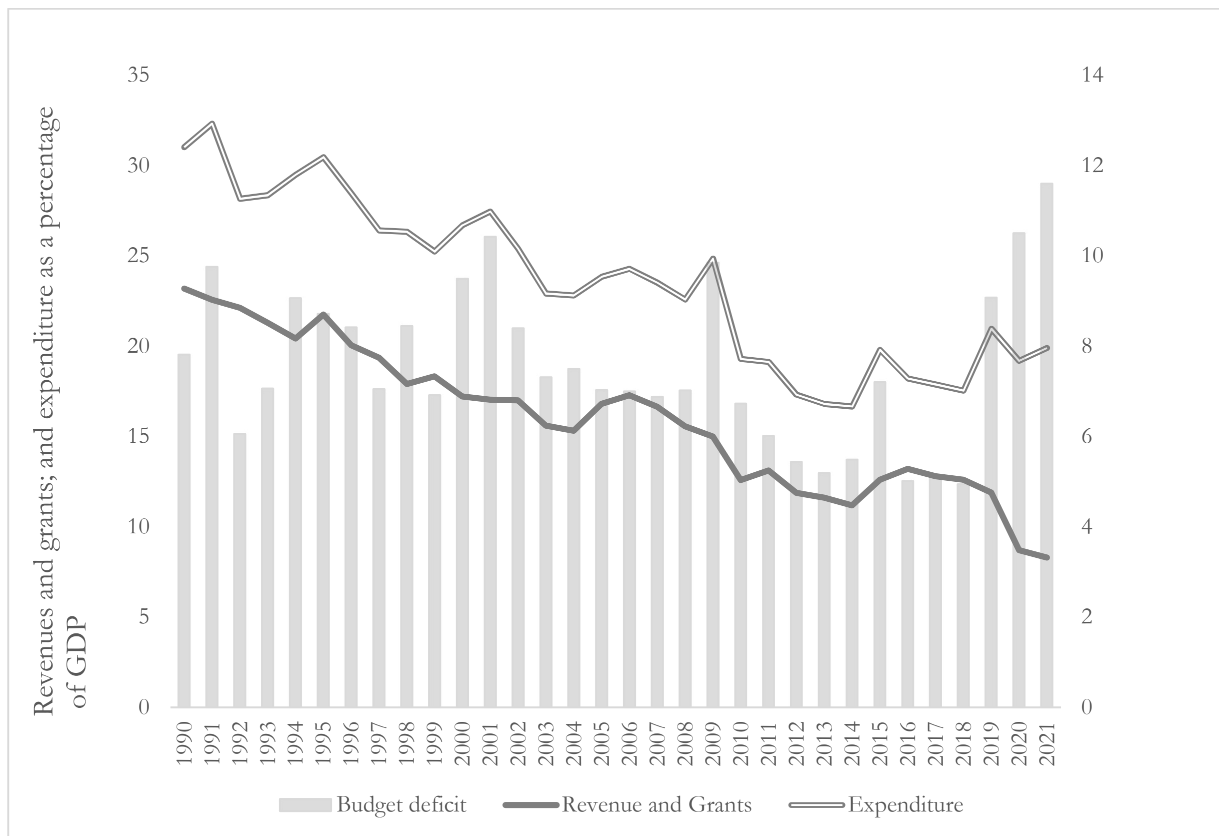
[4] Figures from the Central Bank of Sri Lanka at https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/statistics/sheets/table3.01_20220826.xlsx.

[5] https://www.worldbank.org/en/programs/debt-statistics/qpsd.

decision to borrow abroad rather than domestically. It was that collapse that underlay the external payments crisis. At most it could be argued that the weakening of the tax base partly inspired the downgrading of sovereign credit ratings and led to higher costs and reduced access to external financial markets to roll over and service past debt.

A related argument is that the crisis resulted from loose monetary policies that favoured enhanced government borrowing, including from the central bank. This policy was criticized by both the IMF and the World Bank, which argued for a tighter monetary policy stance along with plans for phasing out the central bank's direct financing of budget deficits.[6] In practice, it was only the latter that could be feasibly realised, so that the recommendation effectively meant the adoption of a more conservative fiscal stance.

Figure 1: Evolution of fiscal indicators and budget deficits in Sri Lanka

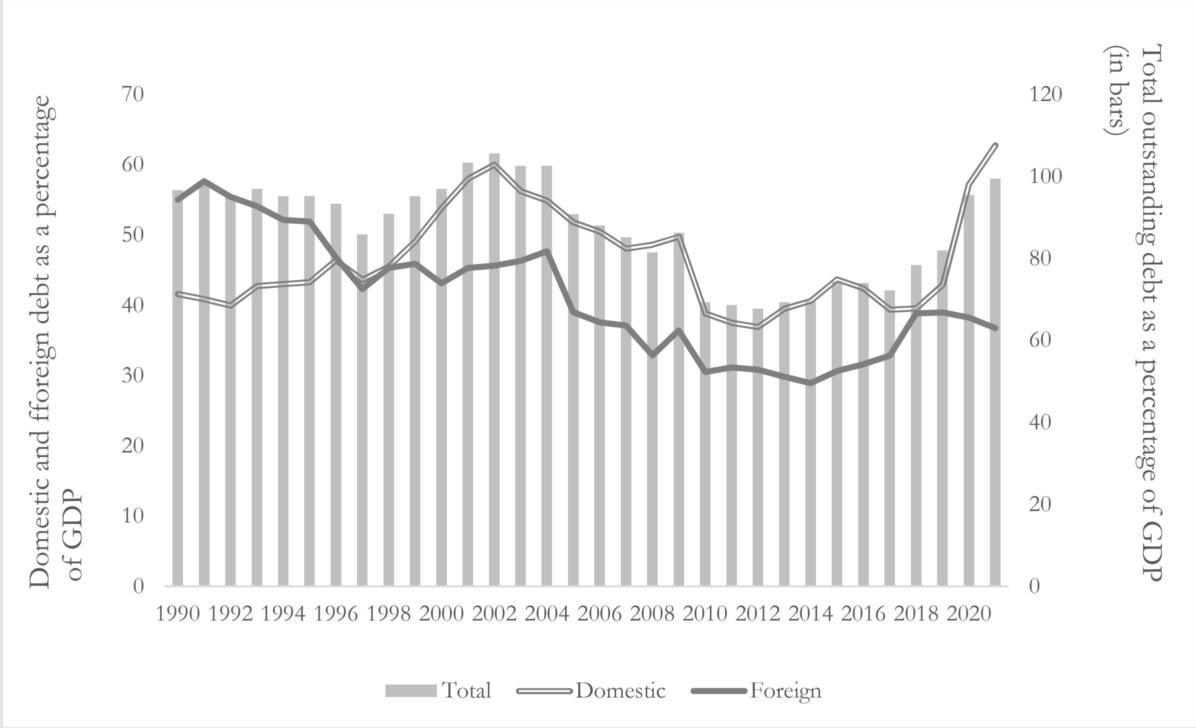


Source: Central Bank of Sri Lanka

[6] https://economynext.com/sri-lanka-debt-unsustainable-should-stop-printing-money-hike-rates-taxes-imf-91073/

Several other government interventions are identified in the mainstream position as aggravating vulnerability and precipitating the crisis in Sri Lanka. For example, a ban on import and use of chemical fertilizers, which led to a drop in yields for several food crops including paddy, further worsening the food insecurity in the country (Jayasinghe and Ghoshal, 2022) and necessitating food imports, has been flagged.

Figure 2: Evolution of outstanding debt



Source: Central Bank of Sri Lanka

The dominant narrative therefore traces the Sri Lankan debt crisis to recent policy failures of the government. This ignores the structural deficiencies and inappropriate medium-term external policies that determined the nature of Sri Lanka's integration with global capitalism. With limited economic diversification, it has for long been an open economy that has found it difficult to earn the foreign exchange needed to finance its imports of goods and services.

A Brief History of External Payments

Immediately after 1948 and till 1956, the Sri Lankan government chose to continue with the export dependent economic structure inherited from the pre-independence era in which production and trade were linked to the colonial agenda and were dominated by three primary products—tea, rubber and

coconut. That policy stance was endorsed by the World Bank which, in 1954 (IBRD 1954), urged the government to adopt an open economy framework, combined with fiscal and monetary prudence and use of exchange rate adjustment to manage the balance of payments. During those years, that policy stance seemed to work for Sri Lanka, as improved export receipts delivered by the primary commodity price boom associated with the Korean War, starting 1949, enhanced government revenues, increased foreign reserves, and resulted in growth without balance of payments difficulties.

But with the end of the Korean War boom, exports turned sluggish, with the dollar value of exports declining at an annual trend rate of 0.72 per cent between 1955 and 1964. Imports, on the other hand, rose at a positive rate of 1.69 per cent per annum. The balance of trade turned negative in 1957 and has remained so ever since.[7] In response, over the period from 1959 to 1976, governments put in place, to varying degrees, import controls involving quantitative restrictions and higher tariffs, to curtail imports and alter the structure of the economy to reduce import dependence and raise exports. However, given the obstacles created by global inequality and by domestic political and economic circumstances, these objectives were only partially realised. The terms of trade facing Sri Lanka fell from 142 in 1962, to 105 in 1964, 88 in 1969 and 58 in 1974.[8] The current account of the balance of payments, which recorded a surplus in all but two years between 1950 and 1956, was thereafter in deficit in all but one year (1965) until 2022. As the reserves accumulated during the Korean War boom were depleted, Sri Lanka faced its first foreign exchange crisis in the mid-1960s. This intensified elite pressure to revert to a less restrictive and open economic regime.

It was following this turn that the IMF, which had remained in the shadows, began exploring the possibility of responding positively and "generously" to requests of balance of payments assistance, in return for assurances that the interventionist economic regime would be dismantled. That triggered a transition to a liberal economic order when the United National Party was voted to power in 1977 and a new Constitution with a Presidential form of government was adopted. When IMF support came, it also catalysed additional assistance from the donor community (the Aid Ceylon Group) and, later, inflows from international private finance.

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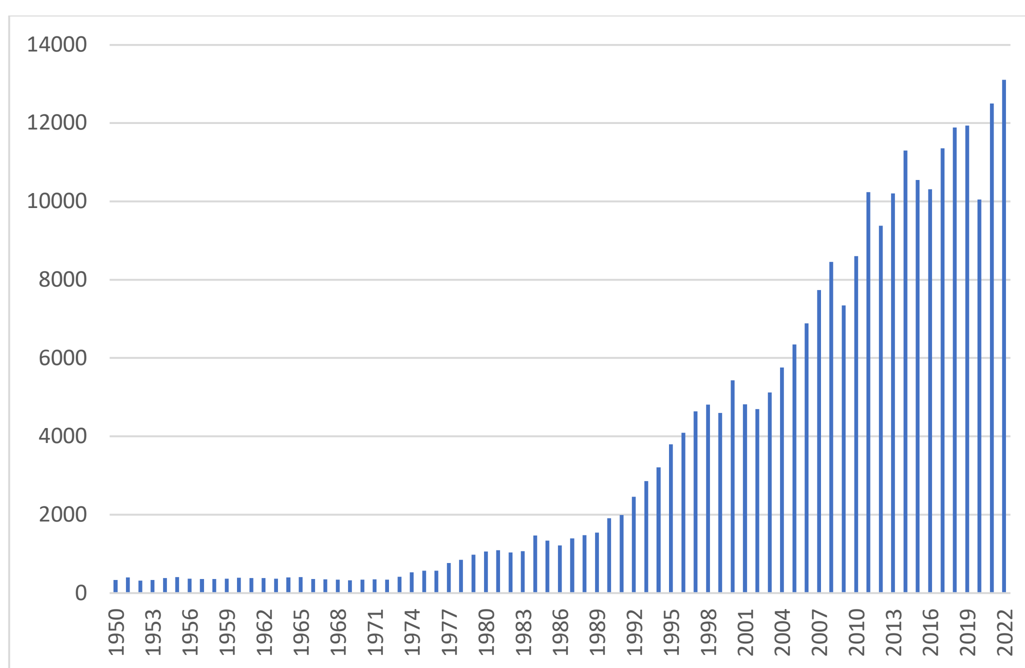
[7] Computed from figures form various issues of the Annual Reports of the Central Bank of Sri Lanka available at https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-reports.

[8] Central Bank of Sri Lanka, "Twenty-Fifth Anniversary Review of the Economy of Sri Lanka: 1950-75", at www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/otherpub/25th_anniversary_review_of_the_economy_of_sri_lanka.pdf.

An open, market-friendly economic policy regime in some form has been in place since then. This did trigger some diversification of exports, away from tea, rubber and coconut to garments, and export growth gained some momentum especially after 1986 (Fig 3). The share of clothing (garments) in merchandise exports rose from 10 per cent in 1980 to 52 per cent in 2000 and has remained between 40 and 50 per cent since (Fig 4). Thus, diversification away from primary product exports was limited largely to garments. Sri Lanka also benefited from exports of services, driven by tourism. After rising gradually between 1975 and 2009 to $1.9 billion, receipts from exports of services spiked after the end of the civil war, rising from to $8.3 billion in 2018, before collapsing to $3 billion in COVID year 2020 (Fig 5). The other major source of foreign exchange receipts was remittances. Net transfers on the current account of the balance of payments rose gradually from $275 million in 1980 to $998 million in 2000, and then sharply to $3.7 billion in 2010 and $6.2 billion in 2020.[9]

Fig 3: Sri Lanka's merchandise exports (US $ million)



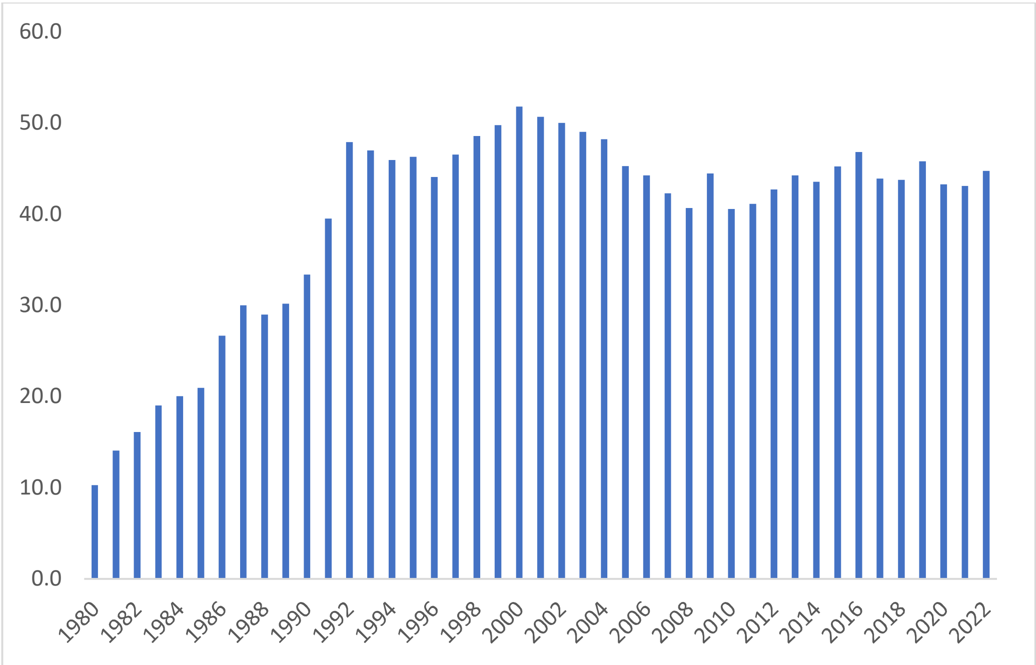
Source: World Trade Organisation, *WTO Stats*.

Despite the post 1970s export revival and the subsequent rise in receipts from tourism and remittances, import increases resulting from trade liberalisation resulted in widening trade and

[9] Figures from Table 4 in Special Statistical Appendix to Central Bank of Sri lanka, *Annual Report 2022*, at chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/annual_report/2022/en/16_S_Appendix.pdf.

current deficits. Persisting balance of payments difficulties were worsened by the difficulties created by long years of civil strife. However, Sri Lanka managed to finance its chronic trade and current account deficits with foreign borrowing, which boosted the limited capital inflows coming from foreign direct investment.

Fig 4: Share of Clothing in Merchandise Exports

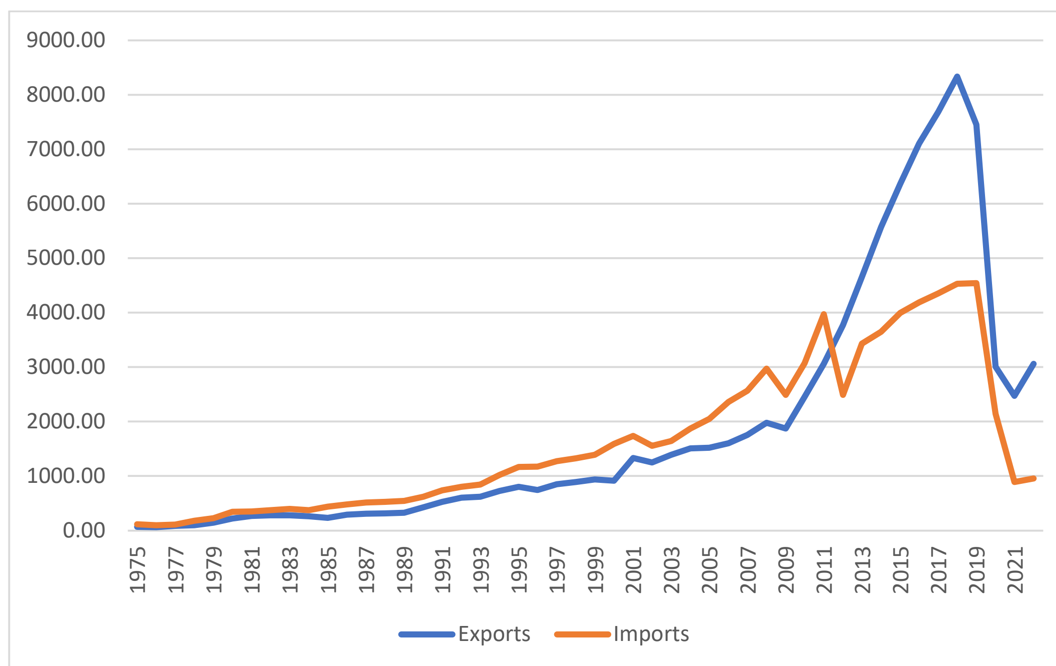


Source: World Trade Organisation, *WTO Stats*.

When the civil war in Sri Lanka ended in 2009, the country inherited this legacy of imbalance on the external front. Since then, exports have remained depressed because of the adverse impact of the global economic crisis. The annual trend rate of growth of the dollar value of exports fell from 11.9 per cent during 1990-99 to 6.3 per cent during 2000-2009 and 3.03 per cent during 2010-19 (Table 1). The exports to GDP ratio, which fell from a peak of 39 per cent at the turn of the century to 20 per cent in 2010, has hovered around that level since. Besides affecting foreign exchange availability, this meant that foreign demand, which was to serve as the principal driver of growth ever since the IMF inspired liberalisation that began as far back as 1977, was no more a reliable stimulus. On the other hand, aspirations generated by the prospect of a peace dividend were high, and the government that had won itself an image of being a powerful stabilising force chose to capitalise on that gain. It launched on a massive public investment spree that drove growth, with image-building, prestige projects, more than one of which was in Hambantota, the home of the then President. But being

substantially in the non-tradable sector, the outputs from these investments did not yield much foreign exchange.

Fig 5: Sri Lanka's Trade in Commercial Services ($ mn)



Source: World Bank data from CEIC Database.

Table 1: Annual Trend Rates of Growth of Exports and Imports (%)

	Exports	Imports
1960-69	-1.69	0.51
1970-79	13.51	15.18
1980-89	4.54	1.64
1990-99	11.87	9.53
2000-09	6.33	9.28
2010-19	3.03	2.93
2010-22	2.47	1.03

Source: Computed using World Bank data from CEIC Database.

External Finance

To finance these projects, the government chose to exploit two new aspects of the global financial

scene. First was the availability of easy and cheap credit, consequent to the low interest rate and quantitative easing policies adopted by advanced country governments in the wake of the global financial crisis of 2008. Having won its battle over strife at home, Sri Lanka had emerged as a potential market for those looking to invest this low-cost capital, especially given the IMF's decision to support the government with a $2.6 billion line of credit in July 2009. The second factor favouring international borrowing was the decision of China to expand its international presence, not least through its ambitious Belt and Road initiative. Sri Lanka, given its location in the Indian Ocean, was a prime candidate for support under that programme.

It was the first of these that provided much of the resources for the Sri Lankan government's external debt-financed investment push. Having tasted success, it decided to exploit the easy money global environment and borrow heavily against ISBs. Between October 2007 and May 2017, Sri Lanka had issued international sovereign bonds (ISBs) to mobilise $10.65 billion over 12 rounds, besides obtaining term loan facilities to the tune of $1.7 billion.[10] With maturity of 5-10 years and interest rates in the 5-8.25 per cent range these were commercial and non-concessional in nature. In addition, during these years, bilateral loans from China too came to play an important role, amounting to around $8 billion. While initially these loans were part of the drive to access cheap foreign capital to finance domestic spending, subsequently such borrowing was necessitated by the need to service past foreign debt. Outflows on account of foreign debt service rose from $416 million in 1994 to $778 million in 2004, and then spiked to $3.6 billion by 2015.[11] Not surprisingly, 44 per cent of the funds mobilised through ISBs was accessed between 2015 and 2017.

Driven by these factors, Sri Lanka became heavily dependent on external debt (Fig 6). The stock of external debt initially rose from just above $1 billion in 1977 to more than $5 billion in 1988, $9 billion in 1998 and $16 billion in 2008. Then, with the surge in external borrowing following the global financial crisis, the stock of external debt rose to $57 billion in 2021. External debt hovered around 50 per cent of GNI during the first half of the 2010s but rose rapidly in the later half to almost 72 per cent in 2020. Debt service payments peaked at $7.4 billion in 2018, and then declined marginally to $4.7 billion in 2021, before collapsing because of default on payments.

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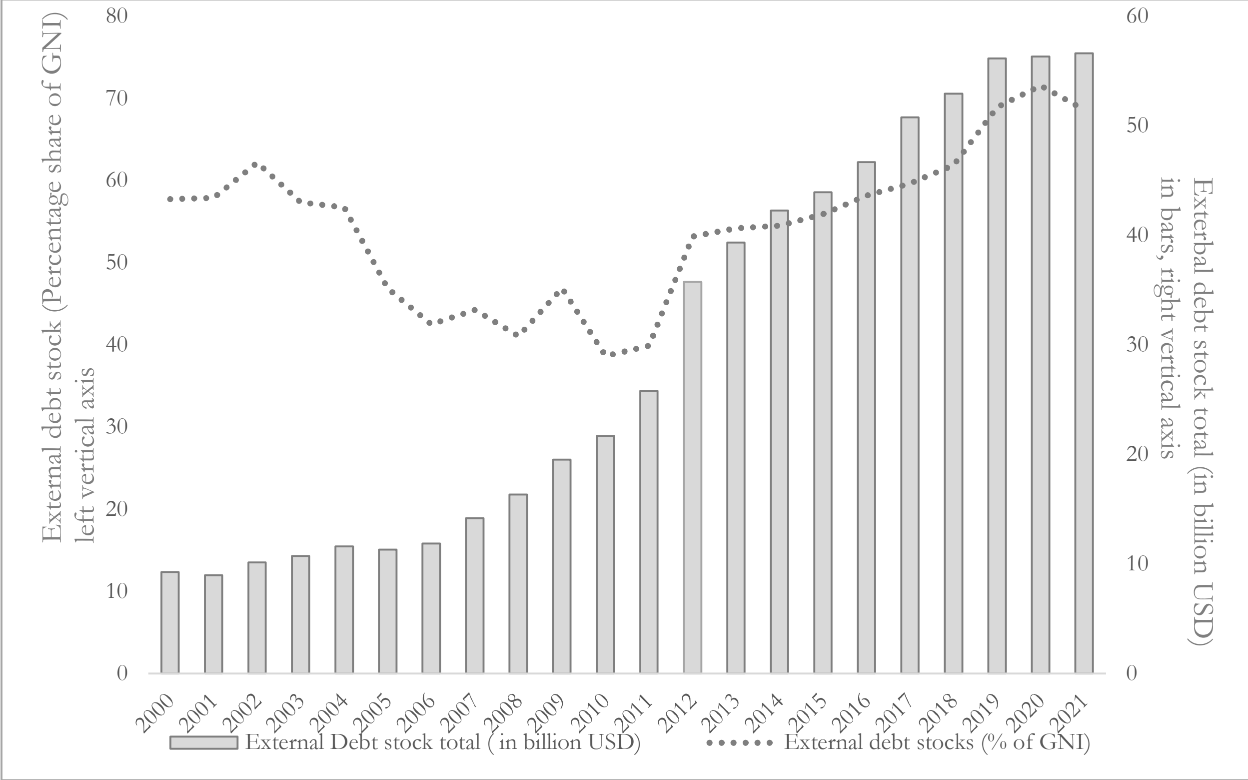
[10] https://www.erd.gov.lk/index.php?option=com_content&view=article&id=51&Itemid=214&lang=en#details-of-sri-lanka-sovereign-bond-issuances
And
https://www.erd.gov.lk/index.php?option=com_content&view=article&id=51&Itemid=214&lang=en#details-of-foreign-currency-term-loan-facilities

[11] Data from World Bank *International Debt Statistics Database.*

These features of Sri Lanka's development trajectory raise the question as to how, with its chronic balance of payments difficulties, it was able in recent times to access large volumes of foreign debt. With hindsight, it appears that this 'favourable' treatment the island economy received from foreign lenders was a consequence of its willingness to embrace a market-friendly, open economy policy regime recommended by the Bretton Woods institutions since its early post-independence years. The financing that these institutions were willing to provide Sri Lanka was read by private capital as evidence of reduced or near-absent risk in lending to the country.

Figure 6: Evolution of external debt stocks over years

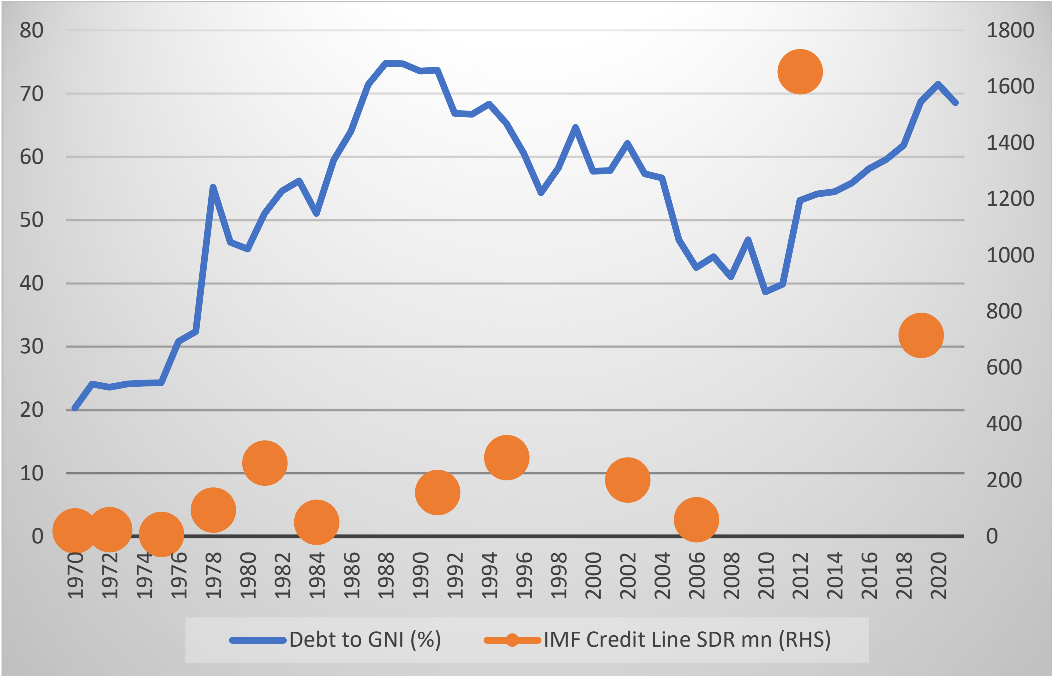


Source: World Bank, International Debt statistics

Foreign borrowing of significant magnitude could be sustained especially because of the credibility that consecutive Extended Fund Facility and Standby IMF lending arrangements gave the government. There have been 17 of them since independence. Figure 7 tracks the relationship between overall borrowing and IMF arrangements. The ratio of Sri Lanka's gross external debt stock to gross national income, which rose from 31 per cent in 1976 to 75 per cent in 1990, fell to 40 per cent in

2011 and then rose again to 69 per cent in 2019.[12] The first spike in external borrowing coincided with several agreements with the IMF between 1971 and 1981, totalling more than SDR450 million. The second spike, which saw the Sri Lankan government relying on the issue of international sovereign bonds (ISBs) to attract debt capital, was also accompanied by two major IMF agreements for a total of SDR 2.4 billion in 2012 and 2019. During this period, the ratio of long term ISBs to total debt rose from 10 per cent to 27.5 per cent (Fig 8). It was only when it became obvious that IMF assistance was unlikely to help Sri Lanka escape the debt trap, that borrowing through ISBs fell as a ratio of external borrowing, though short-term borrowing from multiple other sources continued.

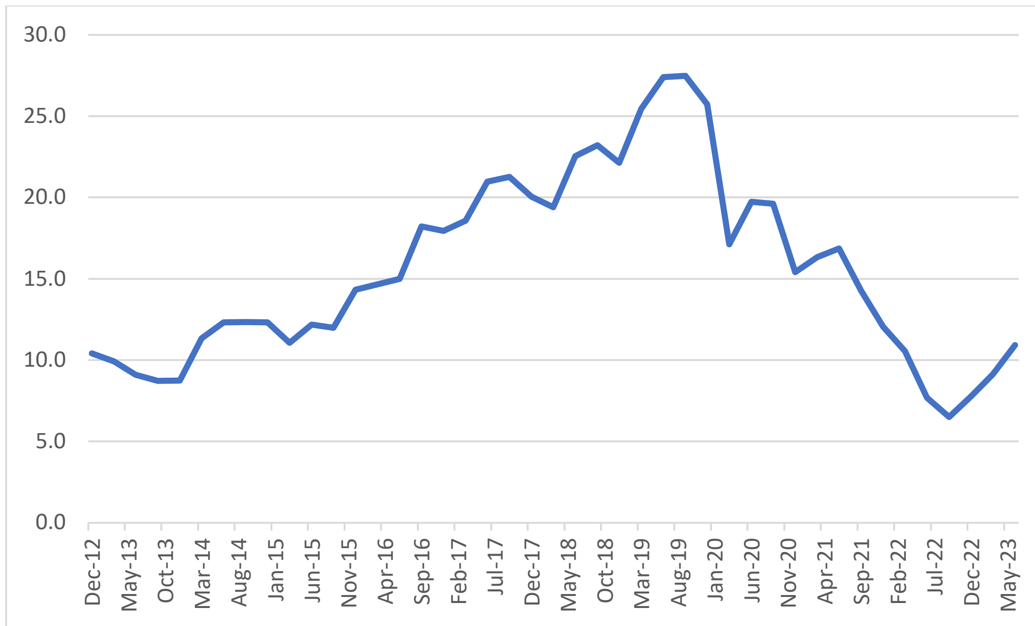
Fig 7: Gross Debt to GNI (%)and IMF Borrowing (SDR mn)



Source: World Bank *World Debt Statistics* and IMF at https://www.imf.org/external/np/fin/tad/extarr2.aspx?memberKey1=895&date1key=2018-09-30.

[12] Figures from World Bank,

Fig 8: Ratio of Long Term International Sovereign Bonds to Total Debt (%)



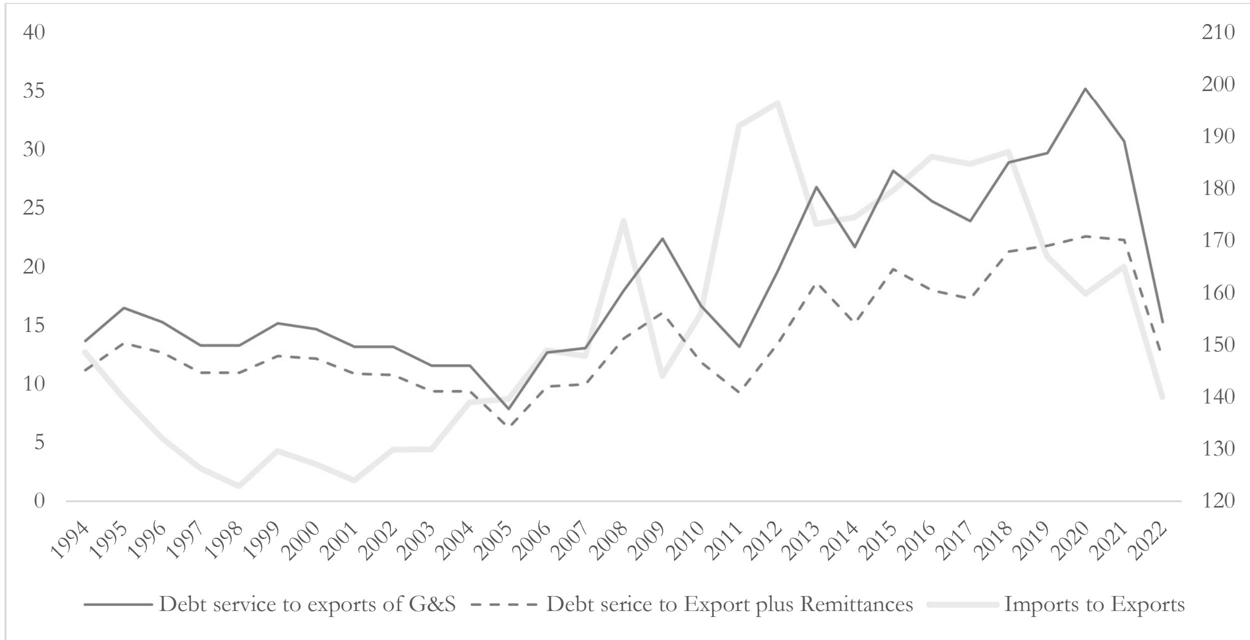
Source: Computed using figures from CBSL at
https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/statistics/sheets/table2.12_20230927_e.xlsx

Given this background, the mainstream attempt to attribute Sri Lanka's problems to excess borrowing from China, which accounts for only around 13 per cent of total debt, is surprising. The real culprits in terms of lending without due diligence are the IMF and, prodded on by it, private international finance. That was the poison pill that Sri Lanka was fed to play the role of neoliberal poster boy in South Asia.

The Crisis

The adverse consequences of accelerated foreign borrowing for the balance of payments are visible in Figure 9 which records the sharp rise in the ratios of debt service to exports and debt service to exports and remittance receipts. Meanwhile, rising imports and indifferent export performance were resulting in a sharp rise in the ratio of import expenditures to export receipts. This proved completely unsustainable after the COVID-19 pandemic damaged tourism earnings and export revenues. Foreign exchange reserves and import capacity collapsed. And, finally, the speculation-induced rise in the price of imported fuel and food tipped the balance. Between January 2020 and mid-March reserves fell by as much as 70 per cent to around $2.4 billion.

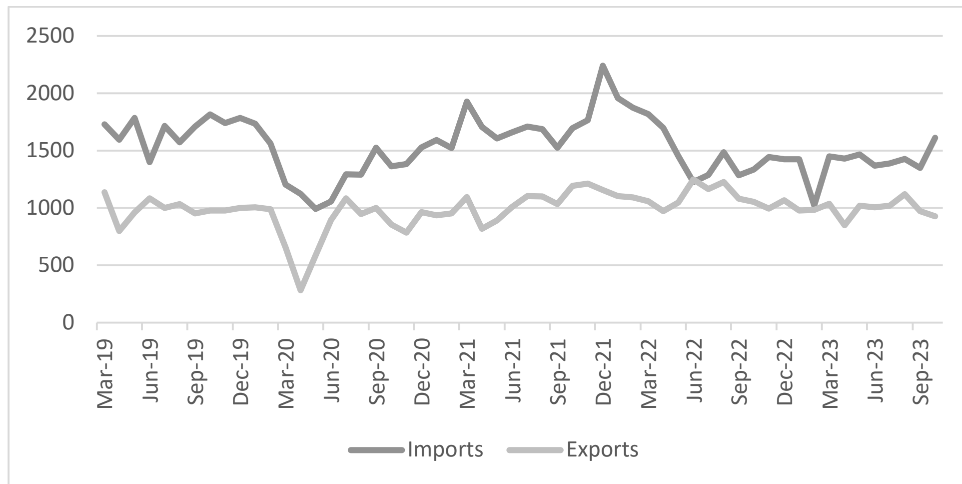
Fig 9: Foreign Outflows as a Ratio to Exports (%)



Source: CBSL statistics collated in CEIC Database

Fig 10 tracks the movements of trade from the year preceding the pandemic. Over this period foreign exchange receipts from exports were flat, excepting for April-May when trade collapsed. Imports, on the other hand were volatile, rising quite sharply in the course of the gradual recovery from the pandemic, and especially after the speculation-induced spike in food and fuel prices following the war in Ukraine.

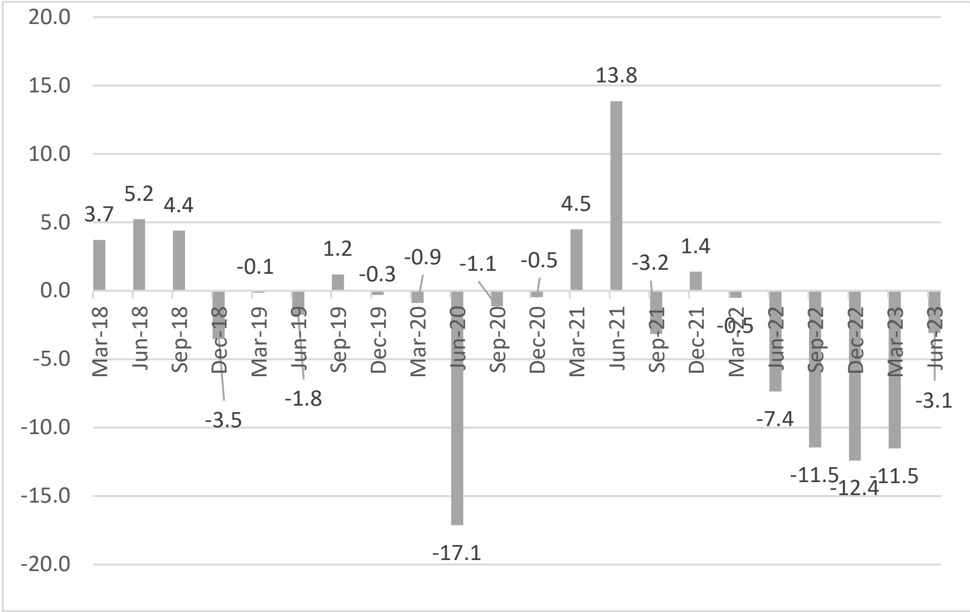
Figure 10: Trade Trends ($ million)



Source: Central Banks of Sri Lanka (From CEIC Database)

What is striking is the collapse of imports with the emergence of foreign exchange scarcity in the run up to the debt default in April 2022. In an economy dependent on imports for inputs and final consumption, this was a factor that immediately triggered both recession and inflation. Figure 11 illustrates how an economy that was struggling to recover from the pandemic, experienced a collapse in GDP growth starting from the second quarter of 2022, with massive contraction of growth in the subsequent three quarters. The contraction resulting from the balance of payments crisis was worsened by government-imposed austerity.

Figure 11: Y-o-Y GDP Growth Rates (%)



Source: Department of Census and Statistics, Sri Lanka (From CEIC Database)

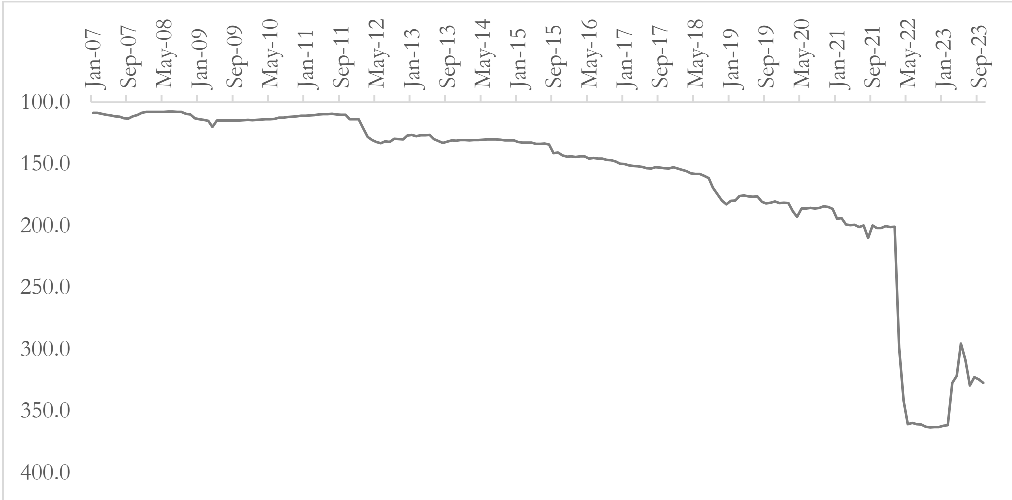
A collateral trend that compounded the crisis was a sharp depreciation of the Sri Lankan rupee (Fig 12). At the end of the first week of March the central bank, which had been avoiding a devaluation and sought to maintain the official exchange rate at 200 rupees to the dollar for months, gave in and devalued the currency by 15 per cent. Even that level proved to be unsustainable, and the rupee was soon allowed to float, setting off a fall to the 300 rupees to the dollar mark by end March. The depreciating currency also worsened the foreign reserves position, because exporters held back on repatriating proceeds and Sri Lankan workers abroad avoided official channels for remitting funds back home, to benefit from the much better 'black market' conversion rates they got when using informal circuits. Meanwhile, the government privileged repaying foreign lenders over diverting foreign exchange to finance imports to alleviate shortages. In January 2022, when the Central Bank of

Sri Lanka (CBSL) announced that it was allocating $500 billion for a debt repayment instalment, some of the country's leading economists urged the CBSL to default and divert that foreign exchange to access crucial imports.

The crisis that followed necessarily triggered measures to curb imports. For a country dependent on imports for a range of manufactured capital and consumption goods, the clampdown resulted in limited supplies of imported fuel with long queues of harried motorists at gas stations; power outages; hospitals running out of stocks of critical drugs; shortages of milk, food and cooking gas; suspension of examinations at educational institutions because of non-availability of paper to print question papers; and newspapers dropping print editions because of lack of newsprint. The fall in agricultural production that followed the earlier ban on chemical fertiliser and pesticide imports to save foreign exchange only increased dependence on imported supplies. These outcomes fed into one another, aggravating the situation.

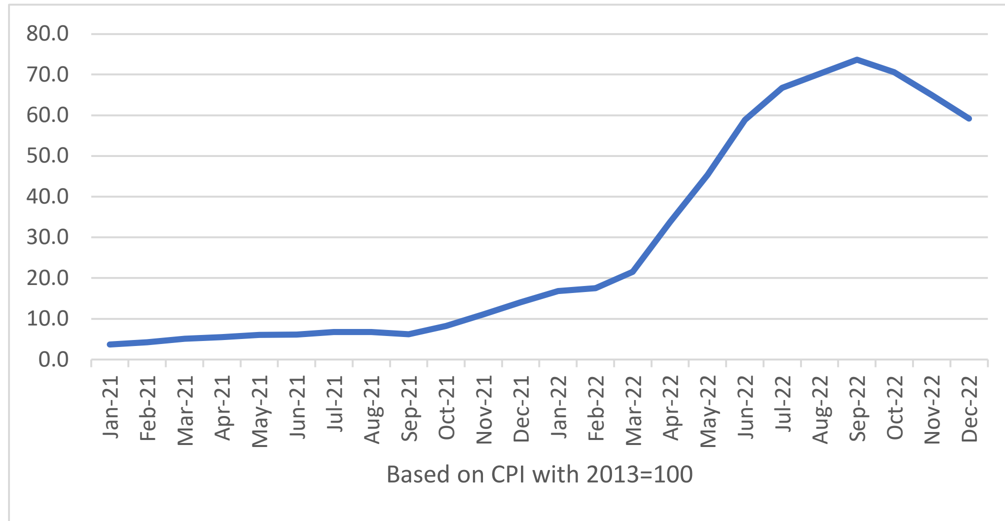
The recession was accompanied by inflation, triggered by both the shortages that resulted from the foreign exchange crunch and the pass-through effect of the depreciation of the Sri Lankan rupee. The year-on-year monthly inflation rate spiked from an already high 17.5 per cent in February 2022 to a peak of 73.7 per cent in September 2022, before beginning to show any signs of moderating (Fig 13). In the context of this recessionary and inflationary environment, a government desperate to win IMF financing support had begun introducing austerity measures that worsened the conditions of a beleaguered population.

Fig 12 : Sri Lankan Rupee to the Dollar



Source: CBSL statistics collated in CEIC Database

Fig 13: Year-on-year inflation rates (%)



Source: Computed using Department of Census and Statistics Data collated by CEIC.

Austerity

Though difficult to separate in practice, the triggers for debilitating austerity in Sri Lanka can be traced to three sets of factors: (i) the impact of the balance of payments crisis itself; (ii) the impact of the measures adopted to appease the IMF and get it to sanction a $2.9 billion Extended Fund Facility (EFF) loan; and (iii) the measures adopted after the release of first instalment of the loan to meet IMF targets and get it to release the second instalment.

With agricultural production falling and cultivation turning non-viable, industrial units operating at less than full capacity because of lack of demand and/or restricted access to crucial inputs, and tourist arrivals low for two years now, the economic crisis was deep. Initially the mass protests (*aragalaya*) that paralysed the government that had precipitated the crisis and led to its removal, foreclosed any effort to address the crisis. But once the discredited regime managed in mid-July to put in place an alternative administration under Ranil Wickremesinghe (backed by a majority of parliamentarians from the party of ousted leader Gotabaya Rajapaksa) and use the army to supress the protests, an effort to win support from the IMF began. The expectation clearly was that this would facilitate the much-needed restructuring of bilateral, multilateral and private external debt, even if on humiliating terms. The immediate problem, given the protests, was to address inflation in the prices of transport and food. There were signs that the government was leaning on monetary policy, with the central bank having

raised borrowing costs by 950 basis points earlier in the year. These fixed the Standing Deposit Facility Rate (SDFR) of the Central Bank at 14.50 per cent and the Standing Lending Facility Rate (SLFR) at 15.50 per cent, despite the adverse implications that could have for a contracting economy.[13]

In a further indication that appeasing the IMF and global financial markets through 'fiscal consolidation' was on top of the agenda, at the end of August the government announced that it would increase the value-added tax to 15 per cent from 12 per cent starting September 1. The amended budget made further changes:

Revised the budget deficit target to 9.8% from 8.8%

Projected an increase in revenue to 15% of GDP in 2025, and targeted a primary deficit of 2% of GDP

Promised increased payouts to the poor and farm debt write-offs to support those hit hard by the ongoing crisis.

Planned for a reduction in the debt-to-GDP ratio to 100%

Most of these were only projections or promises. But they were enough to reach a staff level agreement with the IMF for a $2.9 billion loan. The programme that went with the loan included standard IMF based policy prescriptions of fiscal discipline, and reforms in taxation and banking, which would result in slow growth, increasing inequality, and reduction in social protection spending. These measures included:

- Raising fiscal revenue to support fiscal consolidation, with a considerable reliance on VAT increases (despite lip service to more progressive income and corporate taxation), to reach a primary surplus of 2.3 percent of GDP by 2025.
- Energy reforms involving cost-recovery based pricing for fuel and electricity to "minimize fiscal risks arising from state-owned enterprises".
- Increasing social spending and improving the coverage and targeting of social safety net programs (though the programme provides for only 0.6 per cent of GDP for social protection, as compared with 4.5 per cent for debt servicing (Kadirgamar 2023a)).

[13] https://www.bloomberg.com/news/articles/2022-07-29/sri-lanka-inflation-climbs-to-60-8-as-dollar-crunch-persists

- Restoring price stability through data-driven monetary policy action, fiscal consolidation, phasing out monetary financing, and ensuring stronger central bank autonomy that allow pursuing a flexible inflation targeting regime.
- Rebuilding foreign reserves through restoring a market-determined and flexible exchange rate
- Passing a Revised Banking Act to safeguard financial stability by ensuring a healthy and adequately capitalized banking system, and by upgrading financial sector safety nets and regulatory standards (IMF, Press release number 22/295).

The first post crisis budget presented by the Wickremesinghe government in November 2022 targeted an increase in revenue collection of 63 per cent relative to the previous year, while projecting spending increases of 31 per cent so as to reduce the fiscal deficit from 9.8 per cent to 7.9 per cent.

It doesn't take much to decipher that such measures while worsening the recession, would be regressive in a context of inflation and involve reduction of even limited social protection measures. Inflation was inevitable given price increases for fuel and electricity that ensure cost recovery, in a context where international prices were rising and the domestic currency was depreciating (Gunawardena and Kadirgamar 2022). This was aggravated by a shift to a market determined exchange rate that set off further depreciation of the currency, increasing the rupee costs of imports and the local currency burden associated with servicing external debt. There was little likelihood that despite all this 'sacrifice', objectives such as debt reduction and debt sustainability would be realised, especially as export receipts could not revive under such domestic and global market conditions. The "stabilization" in the form of reduction in the inflation rate in 2023 came at the cost of working people, who have experienced significant declines in their real incomes.

Indeed, there were further attacks on working people and small enterprises. In October 2023, while the Sri Lankan government was still awaiting IMF Board approval for the release of the second tranche of the EFF loan, and while it was preparing its Budget for 2024, it announced an 18 per cent hike in electricity tariffs, on top of the 66 per cent increase implemented in February 2023 and 75 per cent in August 2022. According to Energy Minister Kanchana Wijesekera: "Due to IMF conditions, the state-owned Ceylon Electricity Board is no longer able to rely on treasury funds as it did in the past. Hence these price hikes are necessary for the CEB to avoid incurring losses."[14] As a result of the increase,

[14] https://asia.nikkei.com/Spotlight/Sri-Lanka-crisis/Sri-Lanka-leans-on-IMF-and-China-as-crucial-budget-test-looms#.

according to the Board, over 500,000 customers who failed to pay their bills were disconnected from the power grid between August 2022 and October 2023.[15]

Fiscal policy became even more regressive. At the end of October, the government also announced a hike in the Value Added Tax from 15 to 18 per cent starting January 1, 2024. New tax proposals also included imposition of new taxes on all goods and services that are not currently subsumed under the VAT regime. These increases have been justified on the grounds that the 51 per cent increase in revenues over the first nine months of 2021 relative to the corresponding month of the previous was proving insufficient, being absorbed by public sector salaries, welfare payments and other recurrent expenditure.[16] The dependence on a combination of tariff increases and indirect taxes to 'reform' the fisc, made the whole exercise extremely regressive, heaping new burdens on an already devastated population.

Based on these and other measures, the Budget for 2024 optimistically projects tax revenue to rise to 3.82 trillion Sri Lankan rupees, from 2.6 trillion in the previous year. The combination of increased imposts and optimistic projections are needed to keep the deficit under control, after offering some limited sops to vocal sections of the population, with an eye to elections that must be held before September 2024. Government employees are to be provided an additional 10,000 rupees cost-of-living allowances, and public pension recipients are to be partly compensated as well. Overall budgeted expenditure has been set at 6.98 trillion rupees, or nearly 33% higher than 2023, with 450 billion rupees allocated for bank recapitalization. In the event, the budget deficit is set at 2.85 trillion rupees or 9.1 per cent of GDP, up from a revised estimate of 8.5 per cent for 2023. In an unconvincing nod to the IMF's requirement of a primary surplus of 2.3 per cent of GDP in 2032, the budget sets the primary account deficit in 2024 at 0.6 per cent of GDP, marginally lower than an estimated 0.7 per in 2023.[17] Meanwhile in late November 2024, Sri Lanka's central bank lowered interest rates by one percentage point (after having increased them by 10.5 percentage points between April 2022 and March 2023 and then reduced them by 4.5 percentage points in June and July 2023), in another desperate attempt to support growth. None of this will either do much to the debt problem or be adequate for the IMF.[18] And the impact on growth is likely to be minimal.

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[15] https://asia.nikkei.com/Spotlight/Sri-Lanka-crisis/Bankrupt-Sri-Lanka-s-poor-face-life-in-darkness-as-price-of-IMF-bailout.

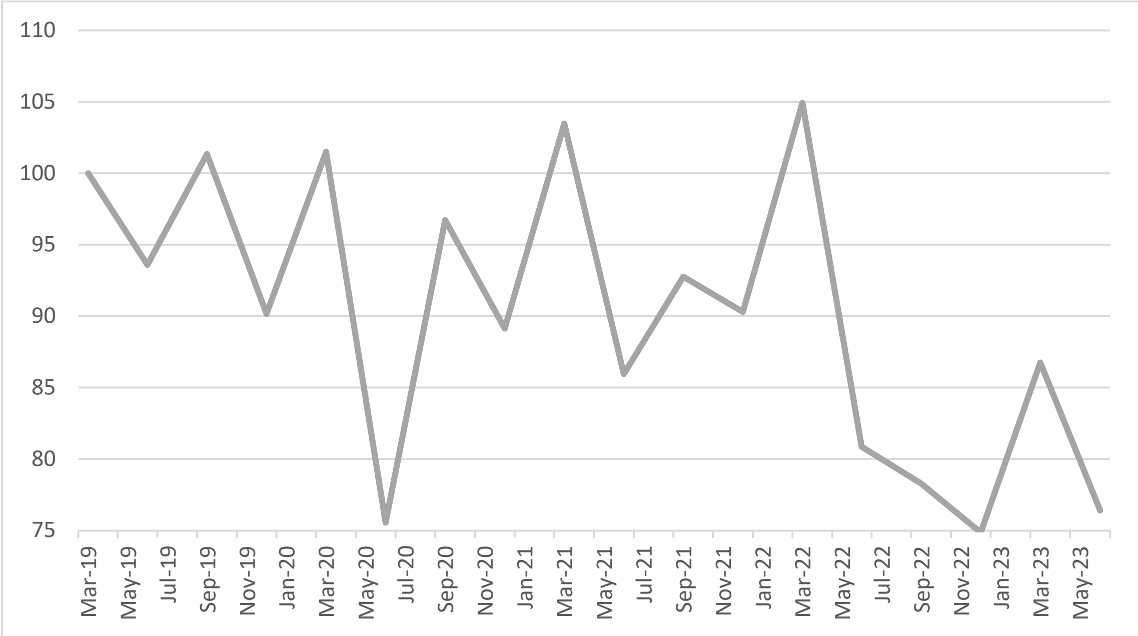
[16] https://asia.nikkei.com/Economy/Sri-Lanka-approves-VAT-hike-to-18-in-push-for-IMF-targets.

[17] https://asia.nikkei.com/Economy/Sri-Lanka-s-2024-budget-sets-ambitious-revenue-deficit-targets.

[18] https://asia.nikkei.com/Spotlight/Sri-Lanka-crisis/Sri-Lanka-central-bank-cuts-policy-rates-to-boost-growth.

The severity of the austerity comes through from the trend in the index of final consumption expenditure in constant prices (Figure 14). Consumption expenditure collapsed after the default, to levels touched during the worst period of the pandemic. That squeeze in real consumption was also the result of the sharp spike in year-on-year monthly inflation rates (Gunawardena and Kadirgamar 2022). The shortages resulting from foreign exchange scarcity, the depreciation of the Sri Lankan currency and movements in global prices influenced this trend, with inflation tapering off once debt service payments were halted and Sri Lanka obtained some access to foreign exchange from partner countries and then the IMF and World Bank. Clearly, the "resolution" of the foreign exchange crisis was being sought in induced and imposed austerity.

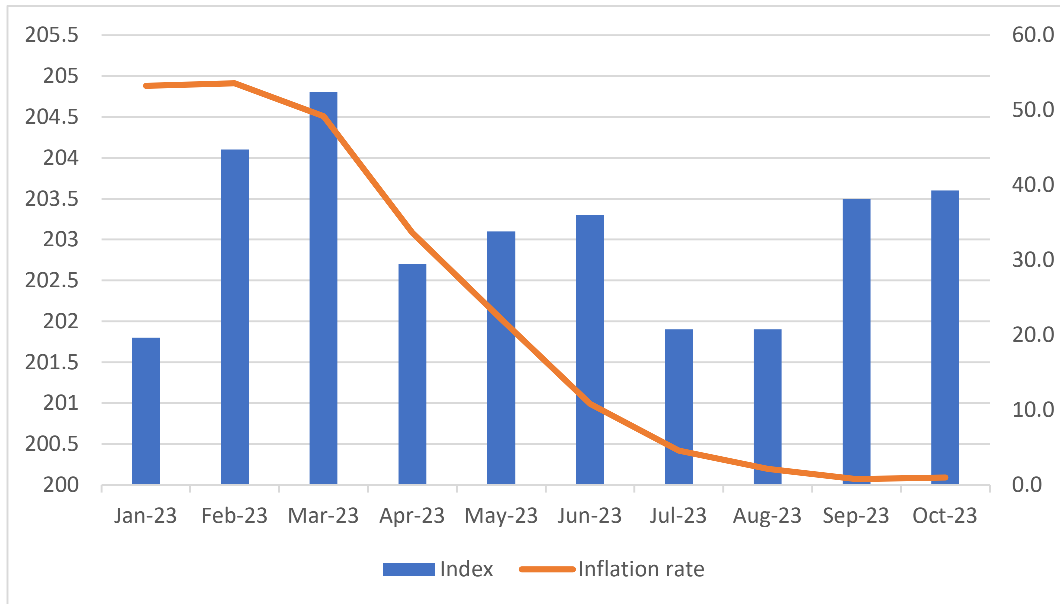
Figure 14: Index of Final Consumption Expenditure of Households



Source: Computed Using Figures from Department of Census and Statistics, Sri Lanka (From CEIC Database)

The government was by mid-2023 claiming that inflation had been brought under control. But as Fig 15 makes clear, while the rate of inflation was down, the price level or value of the index was in October 2023 close to the peak levels it touched in March 2023.

Fig 15: CPI (2021 = 100) and Year-on-year inflation rates (%)



Source: Computed using Department of Census and Statistics Data collated by CEIC.

The debt restructuring conundrum

Post default, the Sri Lankan government, having relied on temporary support from its neighbours China and India, was keen on arriving at an agreement with the IMF as a prelude to restructuring as much of its external debt as possible. That took a long time to realise, with a staff level agreement in September 2022 and board approval almost a year after default in March 2023. The agreement provided for a loan of $2.9 billion over 48 months, with one immediate and eight staggered disbursements of around $330 million each. That was expected to facilitate debt restructuring negotiations and offer some support in the interim.

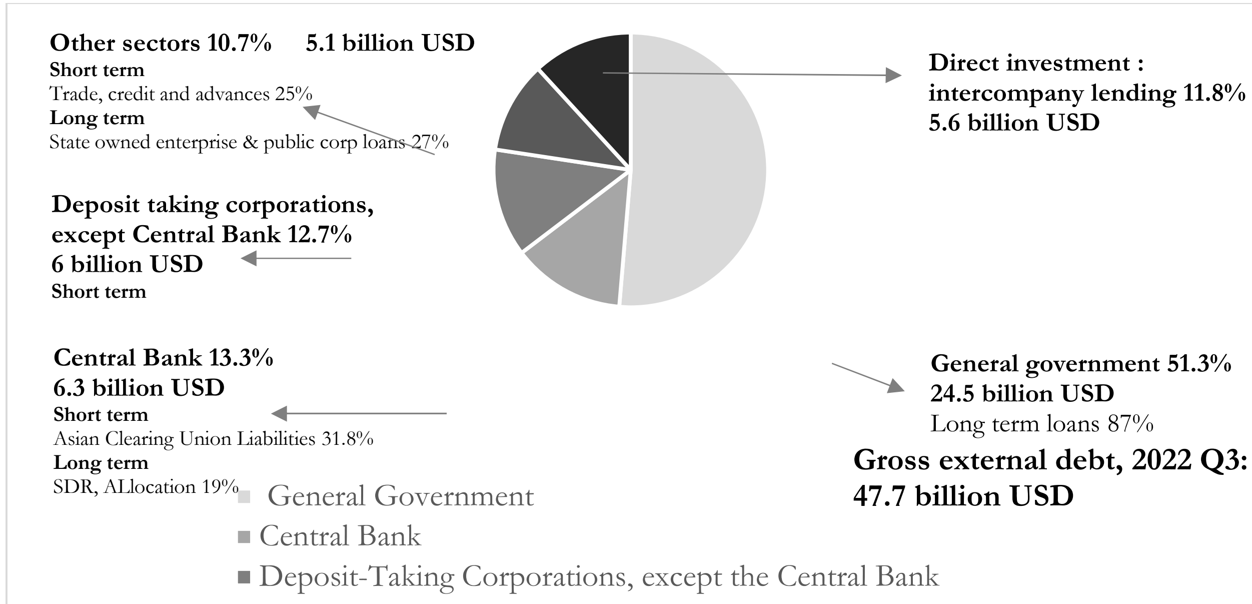
In practice, debt restructuring refers to a combination of debt write-offs, easing of debt terms and the provision of new money on concessional terms that can meet the foreign financing needed to support imports and service debt. Getting agreement on some such combination is a tough call, though imperative, given the size of debt (Fig 6) and the kind of actors involved. What is significant is not just the volume of debt. Along with the rise in debt, the composition of Sri Lanka's external debt has changed dramatically over the years. Figure 16 provides a recent point-of-time picture of the composition of gross external debt by borrower category in the second quarter of 2022. Outstanding government borrowing accounts for the highest share (51.3%), with long term loans dominating (almost 87%). This is followed by borrowing by the central bank (13.3%), deposit taking corporations

or banks (12.7%), and direct investment intercompany borrowing (11.8%), in that order. The remaining sectors account for 10.7%. Clearly, lenders were more willing to fund the government and central bank than other creditors.

Figure 17 provides information on the evolution of the composition of external debt over the years. General government debt has always dominated, accounting for around 60% of the total external debt for most of the time. However, recently the volume of such debt has fallen from $35 billion in 2019 Q3 to $24.5 billion in 2022 Q3 and its relative share has fallen to 50% in the last three quarters. There are some signs of increased lending to the non-governmental sector. Borrowing by deposit taking corporations rose from a little more than $5 billion in the first quarter of 2013 to more than $9 billion in the first quarter of 2016. But it has since declined and returned to its 2012 levels. Intercompany lending too rose from about $2 billion in early 2017 to $5 billion by late 2023. In addition, the fall in the share of the government's debt was also the result of a remarkable spike in central bank external debt, which increased from $2.3 billion in 2021 Q2 to $6.3 billion in 2022 Q3. The main reason for this is use by the CBSL of swap and other arrangements with the Bank of China, the Reserve Bank of India and even the Bank of Bangladesh to shore up its collapsing reserves, which provided temporary respite, though it could not prevent the default in April 2022. In fact, some critics argued that the Sri Lankan government should have defaulted earlier and used the available foreign exchange to finance essential imports rather than to service foreign debt.

Not surprisingly, over this period debt service rose significantly, increasing the debt stress in Sri Lanka. Figure 18 showing the evolution of debt service over the years reflects a rising trend across all indices. Total debt service reached its peak of $7.4 billion in 2018, after which it has declined but continued to remain at high levels. It represented almost 40% of total exports and 7% of GNI in 2020.

Figure 16: Composition of gross external debt, 2022 Q3



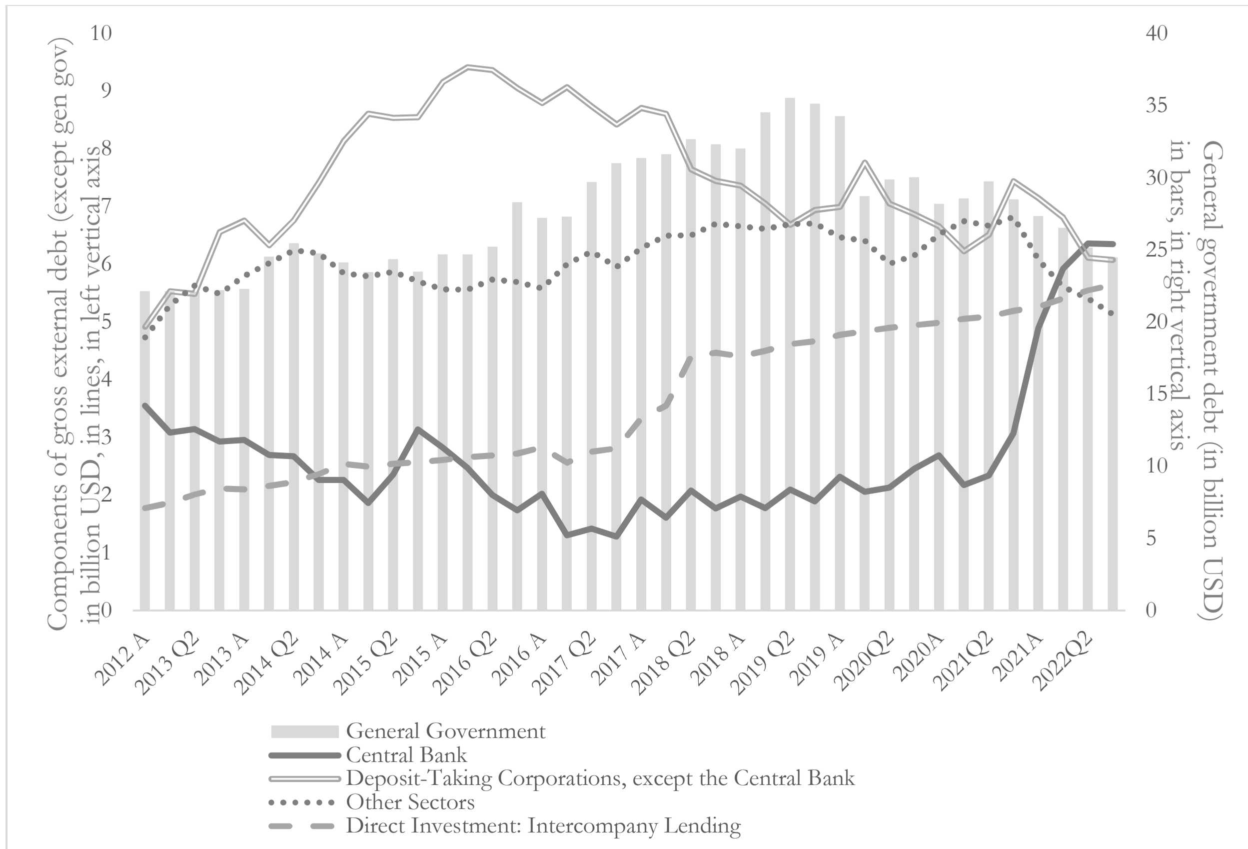
Source: Central Bank of Sri Lanka

Table 2 provides a more detailed breakdown of central government external debt by creditor category, based on data from the Ministry of Finance. Total central government external debt was recorded at around 35 billion USD[19] as at the end of Sep 2022. Out of this, commercial debt represented around 42%, followed by bilateral (31%) and multilateral debt (27%). In the commercial debt category, International Bond Issuances (ISBs) represented around 85%, while term financing facilities (Syndicated Loans) represented around 15%. In multilateral debt, ADB and the World Bank were the main creditors followed by IFAD, OFID, and EIB. Under the bilateral debt category, non-Paris club countries accounted for the major share. Bilateral loans from China represented 13%[20] of total external debt ($4678 million), followed by Japan with 7% ($2464 million), and India with 4.7% ($1652 million)—the top three bilateral creditor countries. China contributed 43 per cent of the stock of Sri Lanka's bilateral debt, Japan 23 per cent and India 15 per cent.

[19] This figure from the Ministry of Finance is different from WB IDS estimates and estimates of external debt provided by the Central Bank of Sri Lanka.

[20] In another report by Moramudali and Panduwawala (2022), Chinese lending to Sri Lanka accounted for almost 20% of the total public debt.

Figure 17: Evolution of components of gross external debt (in billion USD)



Source: Central Bank of Sri Lanka

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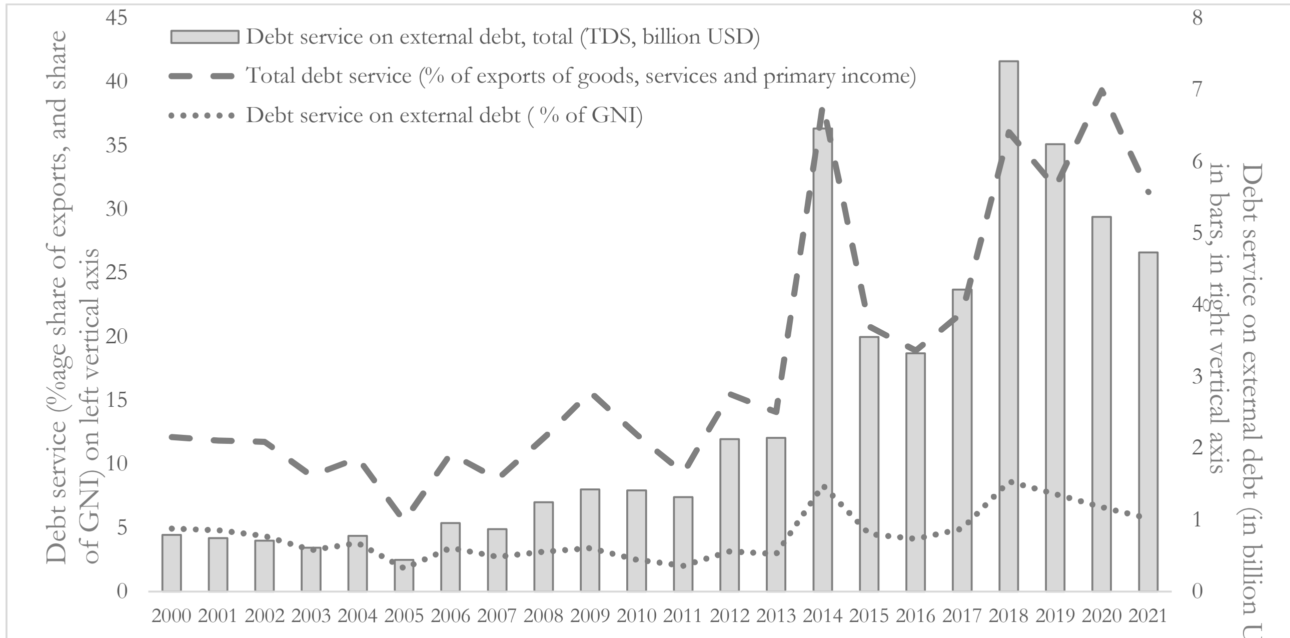
[21] This figure from the Ministry of Finance is different from WB IDS estimates and estimates of external debt provided by the Central Bank of Sri Lanka.

million)—the top three bilateral creditor countries. China contributed 43 per cent of the stock of Sri Lanka's bilateral debt, Japan 23 per cent and India 15 per cent.

Figure 18: Evolution of external debt service over years



Source: World Bank, International Debt statistics

Note: Numbers on the left vertical axis correspond to debt service in percentage terms. Total absolute debt service (in billion USD) is shown on the right vertical axis of this chart.

Along with the growing exposure to private international financial markets, there was also a major structural shift in terms of composition of public debt in favour of bonds. As Table 3 shows, the share of bonds in the total outstanding stock of public and publicly guaranteed (PPG) debt rose from an average of 11.4 per cent during 2011-12 to a peak of 27 per cent in 2019 and stood at an average of 24 per cent during 2020-21. Though big players like Blackrock, Allianz, Neuberger and UBS led the pack of bondholders in terms of value, there were a large number of bondholders, resulting in a wide distribution in bond holdings, which makes debt restructuring negotiations difficult to initiate and conclude. Out of a set of 140 holders of Sri Lankan bonds valued at a total of $4.72 billion listed by Bloomberg (as of August 2023), the top ten accounted for 54 per cent of the total and the top 20 for 72% (Appendix 2 Table).

Table 2: Composition of central government external debt

(USD million and in %) as of Sep 2022

Components of central government external debt	Debt in million USD	Percentage terms
Multilateral	**9499**	**27%**
ADB	5391	15.4%
World Bank	3669	10.4%
Others	439	1.2%
Bilateral	**10814**	**31%**
Paris Club countries	4174	11.9%
Non-Paris Club countries	6640	18.9%
Commercial	**14740**	**42%**
International Bond Issuances (ISB)	12550	35.8%
Term financing facilities (China)	2190	6.2%
Central government external debt	**35052**	**100%**

Source: Quarterly Debt Bulletin, Ministry of Finance, Sep 2022

Table 3: Bonds in total PPG Debt

	Total Debt Stocks: DOD	PPG: Bonds DOD	Bond share (%)
2011	25795	3000	11.6
2012	35736	4000	11.2
2013	39315	5250	13.4
2014	42263	7000	16.6
2015	43925	8650	19.7
2016	46661	10150	21.8
2017	50766	11150	22.0
2018	52920	12400	23.4
2019	56118	15050	26.8
2020	56299	14050	25.0
2021	56592	13050	23.1

Source: World Bank, IDS.

There are substantial variations in the yields associated with bilateral, multilateral, commercial bank and sovereign bond credits. As Table 4 shows, by end 2021, private creditors accounted for 45 per cent ($16.3 billion) of public and publicly guaranteed (PPG) debt advanced by official (bilateral and multilateral) and private creditors combined. Bondholders accounted for 80 per cent of debt outstanding to private creditors and 58 per cent of incremental PPG credit during 2011-21. If we consider debt service (or the sum of amortisation and interest paid annually), the share of the private creditors in cumulative debt service paid over 2011-21 amounted to 58 per cent and that of bondholders to 37 per cent. The average ratio of debt service to the value of outstanding debt stock stood at 8.44 per cent in the case of bilateral debt, 5.17 per cent in the case of multilateral debt, 26 per cent in the case of commercial banks, 10.8 per cent in the case of bondholders, and 13.8 per cent in the case of private creditors as a group. These variations are influenced by differences in the volume

of maturing debt and new inflows in each category. Since the share of commercial banks has been falling and that of bonds rising in new debt, the amortisation associated with commercial bank flows is likely to be higher, affecting the debt service ratio in that category. If we consider the average interest rate (over 2011-21) on each kind of debt, it amounts to 2.4 per cent for bilateral debt, 1.17 on multilateral debt, 2.14 per cent on commercial bank debt and 5.42 per cent on debt to bondholders. Clearly bondholders had been charging a significant premium for the capital they advanced, allowing them to recoup their capital in a shorter period.

Table 4: Details of PPG Debt by Category ($ mn and %)

	Debt stock end-2021	**Incremental debt stock 2011-21**	**Cumulative debt service 2011-21**	**Average debt service to debt stock ratio 2011-21**	**Average interest rate 2011-21**
Bilateral	10423	2173	9586	8.44	2.40
Multilateral	9750	3404	4421	5.17	1.17
Multilateral Concessional	3415	-1578	2736	5.95	0.97
IDA	3219	567	1442	4.44	0.94
IBRD	521	518	99	6.14	3.73
Official creditors	20173	5577	14007	7.03	1.88
Commercial Banks	3279	2288	6044	26.05	2.14
Bonds	13050	10050	12430	10.81	5.42
Private creditors	16347	12262	19390	13.75	4.62

Source: Based on data from World Bank **World Development Indicators**

But outflows on account of bonds maturing have also increased, as old debt matures and new debt becomes difficult to access because of debt stress. A comparison of the average annual net flows of

debt over 2011-21 with the flow in year 2021 is suggestive (Table 5). In the case of bilateral credit, net flows averaged a positive $406 million over 2011-21, and a negative $456 million in 2021 alone. The retreat of Paris Club creditors and the tightening of flows from China is reflected here. The figures for multilateral flows are an average of $383 million over 2011-21 and a positive inflow of $772 million in 2021, making this the main route for net flows. Net flows of PPG credit from commercial banks that averaged a positive $226 million over 2011-21 stood at a higher $592 million in 2021. Finally, PPG bonds, net flows of which averaged a positive $1 billion over 2011-21, were in retreat with a net outflow of $1 billion in 2021 alone.

Table 5: Net Flows and Net Transfers ($ mn)

	Average 2011-21	2021
Bilateral	406	-456
Multilateral	383	772
IBRD	52	209
IDA	87	121
Regional Development Bank Concessional	-21	-72
Regional Development Bank: Non-Concessional	253	499
Others	13	-8
PNG: IFC	21	-47
IMF Nonconcessional	8	-57
PPG and PNG: Bonds	1005	-1000
PPG: Official: Creditors	789	316
PPG: Private Creditors	1227	-420
PPG: Private Creditors: Bonds	1005	-1000

PPG: Private Creditors: Commercial Banks	226	592
PPG: Private Creditors: Others	-4	-11
Private Non-Guaranteed	471	48
PNG: Commercial Banks and Other Creditors	471	48
Commercial Banks and Other Lending: PPG and PNG	693	628

Source: Based on data from World Bank **World Development Indicators**

Implications for Restructuring

The combination of different creditors resulting from shifts in relative shares over time makes the task of dealing with debt stress difficult. It has become accepted practice that multilateral agencies, while willing to provide additional credit to address a crisis, will not take a haircut or write off part of the debt owed to them, as it is claimed that doing so would damage their credit ratings in markets from which they have to borrow to execute their 'developmental' role. They, therefore, insist on retaining their preferred creditor roles, stemming from the fact that they lend to countries that are "members" under the treaty establishing the institution. This requires borrowers to meet their commitments to the institutions that they are a part of. This is unfortunate, since these institutions can be persuaded and supported to do the needful by the governments that control them, as indeed they have done in the past (for example during HIPC in the 1990s).

This is true of the IMF as well, which is culpable as a player responsible for Sri Lanka's crisis. As noted, it has accommodated Sri Lanka with balance of payments support on 16 previous occasions, prior to the most recent agreement. And through the conditions it attached to those lines of credit, it has had a significant influence on Sri Lanka's economic policies. Those policies were central to shaping the economic structure that has proven to be inadequate to ensure balance of payments stability or to withstand shocks of the kind imparted by the COVID pandemic and the invasion of Ukraine.

The second group that is difficult to bring to the table to contribute to crisis resolution are the private creditors, whose share in total credit has been rising across emerging markets and has soared in Sri Lanka in recent years. Dispersed bondholders accounted for almost 36 per cent of the stock of central government external debt at the end of 2022. Even if some among them think that in a situation of severe crisis, as is true in Sri Lanka, it is best to take losses and exit, the process runs into obstacles because of the holdouts who want to maximise their gains. In Sri Lanka's case, one such creditor, Hamilton Reserve Bank, which holds around $250 million of Sri Lanka's 5.875 per cent International Sovereign Bonds that fell due on July 25, 2022 has filed a suit in a New York district court seeking full payment of principal and interest. Some of these holdouts often tend to be vulture funds who buy doubtful debt at a massive discount (Sri Lankan bonds were selling at around 25-30 cents to a dollar) and push for full payment. Their demands are not open for negotiation.[22]

To sidestep this obstacle, the international financial network, which in practice includes the IMF, is seeking a resolution in which private creditors are offered a reasonable exit deal, as discussed below. This should not come as a surprise. In a stance highlighted by the Brady Bonds initiative in Latin America in the late 1980s, advanced country governments have always worked to bail out private creditors from their jurisdictions, when the latter are entangled in the debt of countries experiencing repayment difficulties. If private creditors who did not exercise due diligence are to be let off lightly, the burden of the adjustment needed to ensure resolution has to be borne by governments, in their role as bilateral creditors, besides the majority of citizens in defaulting countries. Most western, advanced country bilateral creditors work together in the 'Paris Club' to share some of the burden when resolving debt crises in poor countries. The difficulty in Sri Lanka's case is that, while most private creditors are from the advanced economies in the West, the bilateral creditors that matter most are from Asia, with middle-income countries like China and India, besides high-income Japan, being particularly significant.

Recognising this special circumstance, the global financial network and the governments of the advanced nations that support it have spun a narrative in which Sri Lanka's debt problem is seen as

[22] There are efforts underway to change the law in countries that are home to the major global financial centres. UK, France and Belgium have enacted "safe harbour" laws that force market participants to join in restructuring negotiations. According to Daniel Reichert-Facilides: "The perception of safe harbour laws as a fringe idea has drastically changed since Assembly Bill A2970 passed the judiciary committee of the New York State Assembly last month. If enacted, the new law will limit the recovery of sovereign debt through New York courts to the burden sharing standards that have been set for the country in an international initiative for debt relief. In other words, it would make the longstanding Paris Club principle of comparable treatment enforceable as a matter of New York law." Financial Times June 2, 2023, https://www.ft.com/content/213aa90a-3eba-4451-a509-b9d17e1d56c8.

the result of the largesse of its Asian neighbours driven by strategic rather than economic considerations. The same strategic objectives are expected to push them to contribute disproportionately to resolution. As figures cited earlier showed, China, Japan and India are by no means primary contributors to the debt that precipitated the crisis. But a large write-off on their part could offer a reprieve to private creditors.

This possibly explains the narrative that has been built on Sri Lanka's debt accumulation. In recent years China has been the principal incremental bilateral lender to Sri Lanka, accounting for more than half of the increment in debt since 2008. Many of these loans were for large infrastructure projects which ended up yielding low or negative returns and earning very little by way of foreign exchange needed to service the foreign currency debt. Matters came to such a head that Sri Lanka decided to hand over one of those completed projects, Hambantota port (with around 15,000 acres of surrounding land), on a 99-year lease for $1.12 billion to China Merchants Port Holdings in 2017. Ever since then, Sri Lanka's debt has received much international attention, not necessarily for the right reasons. Using the Hambantota example, Sri Lankan debt has been presented, especially in the global discourse, as the inevitable consequence of a conspiratorial effort by the Chinese government to trap developing countries with loans to gain control of strategic assets. The implicit suggestion is that the Sri Lankan debt crisis is not so much a reflection of excessive commercial borrowing in an easy credit environment, but of the geopolitics represented by the Belt and Road Initiative.

That argument has been countered by analysts and policy makers, citing the actual evidence on China's role in the debt and debt servicing build up (Barautigam and Rithmire 2021, Nicholas and Nicholas 2023). Chinese lending to Sri Lanka has been quite different from the typical commercial loans mobilised through the market. Roughly 60 per cent of loans from China were concessional in nature, with interest rates in the 2-3 per cent range and maturity periods of 15-20 years. Moreover, while loans from China gained in importance in recent years, only about 13 per cent of total foreign debt was from Chinese sources. In the event, a relatively small proportion of debt service paid was against debts to China. If we take Hambantota, for example, despite being one of the major projects funded with debt, it accounted only for around 5 per cent of annual debt service payments. And China's decision to take the port on lease gave the Sri Lankan government much needed foreign exchange to service debt and stave-off default at the time.

3. International Monetary Fund and the DSA

In September 2022, officials from International Monetary Fund and the Sri Lankan authorities reached a staff level agreement on a 48- month Extended Fund Facility (EEF) with a requested access of about SDR 2.2 billion (equivalent to US$2.9 billion)[23] which ostensibly aims to render the country's debt sustainable.

The EFF supported program claims to have provisions to restore debt sustainability and help the economy achieve financial and macroeconomic stability. The IMF's *Debt Sustainability Analysis* (DSA) glibly assumed that real GDP, after contracting by 3 percent in 2023, would return to positive territory and recover to "its medium-term potential of 3.1 percent". It, on the other hand, requires that Sri Lankan debt restructuring should meet the following requirements:

- Public debt should fall from 128 per cent in 2022 to below 95 percent of GDP by 2032[24]
- Post-program "gross financing needs" of the central government should be reduced to an average of less than 13 per cent of GDP over 2027-32.
- Annual external debt service in foreign exchange of the central government should remain below 4.5 percent of GDP in each year over 2027-32.
- Debt service reduction during 2023-27 should be sufficient to close external financing gaps. Under the baseline scenario, US$17 billion in debt service reduction is required, including the arrears accumulated in 2022. (IMF 2023)

The DSA predicts that despite adoption of austerity measures, GDP would increase and contribute to the reduction of the public debt to GDP ratio. None of these targets are likely to be achieved. Rather, recession would intensify and government revenues would shrink, in the absence of strong countervailing measures to raise additional taxes in ways that do not adversely impact growth. The recommendations for fiscal consolidation assume tax structure reforms to increase tax revenues, with

[23] https://www.imf.org/en/News/Articles/2022/09/01/pr22295-imf-reaches-staff-level-agreement-on-an-extended-fund-facility-arrangement-with-sri-lanka

[24] Maret and Setser (2023) describe this target as "puny" and argue that, combined with optimistic projections of revenues, it amounts to setting up Sri Lanka for another crash. While that is indeed a possibility, this is not because of IMF's targets per se, but the kind of policies it has forced Sri Lanka to adopt. They note that Sri Lanka's budgetary revenues (relative to GSP) are low, but do not mention that the IMF's recommendations on this count are regressive and inadequate. But, they do recognize that by emphasising "gross financing needs" rather than the value of *external* debt, the IMF's targets shift attention to domestic debt restructuring ignoring the fact that what matters is the ability to generate the foreign exchange needed to service external debt.

little clarity on what needs to be done. While tax reforms are needed, new measures are projected to increase goods and services taxes more than direct taxes, thereby reducing the direct to indirect tax ratio. This would increase the fiscal burden on the poor and vulnerable and might further aggravate inflation. On the other hand, there is no reference to wealth taxes, imposition of which would not only address inequality, but generate resources through progressive means to support the restructuring effort.

The burden of fiscal adjustment thus falls on expenditure rationalizing measures such as limiting growth in the public sector wage bill and public pension spending. While the programme is likely to fuel inflation unless there are truly drastic falls in workers' real incomes, there is talk of restoring price stability through growth-reducing measures like tightening monetary policy and discontinuing monetary financing of government deficits. Moreover, it calls for "broader institutional reforms to improve efficiency, coverage and targeting of the SSN". Targeting Social Safety Nets (SSN) under the mask of improving efficiency, as experience globally has shown, only leads to the exclusion of large numbers of the vulnerable.

The real objective of the DSA remains the imposition of austerity to release scarce financial resources for servicing debt, though it does not make clear how those resources can be transformed into hard currency to service foreign debt. It recommends reducing the "gross financing needs" (GFN) of the government—or its overall new borrowing requirement plus debt maturing during the year—from 34.6 per cent of GDP to an annual average of less than 13.6 per cent over 2027-32. As compared with this 60 per cent reduction in gross financing, the outflow on account of foreign debt servicing is expected to fall only from 9.4 per cent of GDP to 4.5 per cent of GDP. This is because the haircut required of foreign private creditors (whose bond holdings were at one point trading at a low of around 20 cents to the dollar in global markets) is limited to a modest 30 per cent. In the event, the government is expected to begin issuing new sovereign bonds of $1.8 billion (1.8 per cent of projected GDP) in 2027, with increases in line with GDP growth thereafter, suggesting that repayments of reduced foreign debt would be sustained with new foreign borrowing. This is simply a repeat of the unfortunate trajectory that brought the Sri Lankan economy to the current mess.

There is no reason to believe that these steps would resolve the crisis in Sri Lanka. First, the IMF package of $2.9 billion over a period of 48 months translates to just $60 million per month, which is grossly insufficient to address the current crisis. The first two instalments of the IMF loan, one released in April and the other due for release later in 2023, amount to $330 million each. The Sri Lankan

government had estimated in June that it would need around $5 billion to finance essential imports over six months. The IMF's support cannot help with that, contributing at most to a temporary improvement in the country's foreign reserve position. The World Bank's IDS projects debt servicing payments based on existing debt levels at $28 billion over the four years ending 2025.

Second, as noted, some of IMF's targets and policy recommendations are unrealistic, contradictory and can have detrimental impacts on the economy. The ambitious fiscal adjustment envisions a central government primary surplus at 2.3 percent of GDP by 2025. In 2022, the primary balance was estimated at a negative 3.8 percent of GDP. An 'improvement' in the primary balance of this magnitude in three years, with worldwide recessionary tendencies and shrinking public investment, is the opposite of what is needed, and is also unlikely to be achieved without extreme hardship. In these extraordinary times, the IMF-inspired policies of fiscal consolidation and macroeconomic and structural reforms can end up being counterproductive by hurting the most vulnerable sections of the society. There appears to be a Plan B, signalled in the Budget for 2023. It proposed privatization of profitable state enterprises and easing of labour laws. It also proposed public asset stripping and privatization of strategic lands, energy and transport and telecom infrastructure and other public sector enterprises – a move which has been heavily criticized by economists[25]. On the other hand, even as people experienced soaring food prices and severe malnutrition is on the increase, the budget reduced allocation to the agriculture sector drastically – a policy incompatible with the current needs of the country.

Domestic Debt Restructuring

Further, in the Sri Lankan case, following a prior experiment with Ghana, the realization of IMF fiscal targets has been tied to a direct attack on and expropriation of the savings of the population. On July 1, 2023, Sri Lanka's parliament approved through a majority 122-versus-62 vote, a plan to restructure the government's domestic debt totalling 15.4 trillion Sri Lankan rupees (SLR) at the end of March 2023. That is not all of Sri Lanka's public debt though. At that point in time, of the government's debt of $75 billion, only $38.3 billion was domestic debt denominated in Sri Lankan rupees, with external, foreign currency debt amounting to $36.6 billion.[26]

[25] https://debtjustice.org.uk/press-release/ghosh-piketty-and-varoufakis-among-182-experts-calling-for-sri-lanka-debt-cancellation, https://www.ft.lk/opinion/International-academics-speak-out-on-dealing-with-Sri-Lankan-debt/14-743932.

[26] Data from Ministry of Finance, *Quarterly Public Sector Debt* for the first quarter of 2023.

To reiterate, Sri Lanka's crisis stems from its inability to service external debt, the interest and amortisation for which must be paid in foreign exchange. As a result, past profligacy leading to excessive aggregate debt was not the real problem. The crisis was precipitated by excessive foreign currency debt, and a pandemic-induced collapse in foreign exchange receipts from tourism, exports and remittances, and a spike in the outflow of foreign exchange because of a speculation-induced increases in the global prices of fuel and food.

Any real solution required an immediate reduction in the volume of external debt owed, involving substantial losses or haircuts for foreign creditors. However, the programme which came with the IMF's $3 billion loan included a commitment on the part of the Sri Lankan government that it would reduce all debt, domestic and external, and not just the external debt which was the source of the crisis. The obvious difference between domestic and external debt—that the former can be serviced with domestic currency the availability of which the government and the central bank control, while the latter has to be paid for in foreign currency that has to be earned with foreign revenues or new foreign borrowing which the government cannot control—was ignored.

The IMF solution, which does not help address the restructuring of external debt, makes all public debt—external and domestic—the source of the crisis, and treats the unsustainable "gross financing needs" of the government as the core issue. To address that, the Debt Sustainability Assessment by the IMF makes a case for a reduction of the ratio of public debt to GDP largely through reduction in domestic debt. The GFN figure is to be reduced from 34.6 per cent of GDP to an annual average of less than 13.6 per cent over 2027-32. As compared with this 60 per cent reduction in gross financing, the outflow on account of foreign debt servicing is expected to fall from 9.4 per cent of GDP to 4.5 per cent of GDP. This is because the haircut required of foreign private creditors is limited to a modest 30 per cent. A large part of the adjustment is a restructuring of domestic debt (the Sri Lanka rupee equivalent of $42 billion), with no reference to how this would help finance the servicing of external debt in foreign exchange. Since sovereign debt is made the prime issue, the emphasis is on ensuring that less of the budgetary resources allocated for debt service is eaten up by domestic debt-related payments. It is assumed that the state would be in a position to automatically transform the remaining such resources into foreign exchange to service external debt.[27]

[27] https://www.bloomberg.com/news/articles/2023-01-30/sri-lanka-creditors-seek-clarity-on-local-bonds-for-debt-talks.

Of the Sri Lankan government's total domestic public debt, around 30 per cent has been mobilised through the issue of short-term Treasury bills and around 60 per cent through Treasury bonds. The central bank holds most of the Treasury bills (62 per cent at the end of 2022), with banks and superannuation funds (like the Employees Provident Fund and Employees Trust Fund – EPF and ETF) accounting for 19 and 5.5 per cent respectively. But in the case of the longer-term Treasury bonds, the banks account for around 44 per cent and the superannuation funds for around 37 per cent. Since it is domestic debt that is to be disproportionately cut, both these instruments need to be restructured, and banks, the central bank and the superannuation funds must all bear the burden.

However, the banks are in no shape to accept a reduction in the value of their holdings. Non-performing loans on their books have spiked over the period of the crisis, and any further loss would result in insolvency that would hurt their large depositor base. In fact, the government is setting aside money to recapitalise them. So, they have been excluded from the restructuring. Hence, a substantial share of the burden of adjustment must be borne by the superannuation funds, especially the EPF and ETF, which are the repositories of the retirement savings of employees falling in their jurisdiction.

The adjustment is to occur largely through a reduction in the interest rate paid on these bonds (valued at around $10 billion[28]), from an average of above 20 per cent currently to 12 per cent until 2025 and 9 per cent thereafter till maturity. This is expected to reduce the outgo on interest paid by the government by 0.5 percentage points of GDP every year. According to Ahilan Kadirgamar (2023b), the average value of all retirement funds over the last five years stands at 17.7 per cent of GDP, and with a 0.5 percentage points of GDP loss in value each year, the total value of the retirement funds will decline to 12.5 per cent of GDP over a decade. That spells a loss of 30 per cent in the value of funds cashed a decade from now.

The inflation that has accompanied the Sri Lankan crisis has already eroded in substantial measure the value of savings of Sri Lanka's citizens. The imposition of this additional burden is nothing less than administering a dose of shock therapy that hurts those who had in no way contributed to the external debt crisis. What is more, this is no solution to the crisis. It is merely a way of reducing the losses of foreign creditors who have already earned large profits on the debt they channelled to the Sri Lankan

[28] https://www.bloomberg.com/news/articles/2023-09-12/sri-lanka-gets-closer-to-imf-funds-with-local-bond-swap-deal.

government without due diligence. The whole of that debt, which markets have been treating as near worthless, needs to be written off.

External debt restructuring in practice

Bilateral creditors

Thus far, the grant and disbursement of IMF support under the EFF have been tied to the debt restructuring process that it is intended to facilitate. The process seems to have gone through two stages. The first was the grant of broad financing assurances for obtaining approval for the programme and loan facility from the IMF Board, without necessarily filling in the details as to the relative roles of payment pauses, interest rate reductions, maturity extensions and haircuts. The second, to be completed before the second tranche of the facility was released, was the provision of details and confirmation by the different creditors—China, India, Japan, and other Paris Club members—of their offer, following an assessment by each as to whether they were getting comparable or equivalent treatment in the restructuring exercise.

With respect to the first stage, an early assurance came from India in mid-January 2023, one of Sri Lanka's non-Paris club official creditors, which offered its support and indicated that it is committed to deliver financing and debt relief consistent with restoring debt sustainability.[29] But India was by no means the dominant creditor. China, as noted, is the biggest creditor to Sri Lanka, accounting for $7.4 billion, or a fifth of public external debt, by end-2022. (IMF 2022). Almost immediately after the EFF was requested, there were sustained efforts to make China a part of this agreement. These included requiring China to stretch maturities, reduce or eliminate interest rates and payments, and rethink the debt restructuring framework along with Paris club members[30]. In March 2023, China, after a virtual meeting between the head of China's Exim bank and President Wickremesinghe and a visit to Sri Lanka by a Chinese delegation, unilaterally announced that it would back Sri Lanka's restructuring effort. China soon gave its written assurance via the Export-Import Bank of China[31]. The EXIM Bank announced that it will not seek immediate repayment of debt (principal and interest) for 2022 and 2023 and called for expedited negotiations for medium- and long-term debt treatment. On top of this

[29]World Economic Outlook Update on Jan 31, 2023 at https://www.imf.org/en/News/Articles/2023/01/31/tr-13123-world-economic-outlook-update
[30] https://www.imf.org/en/News/Articles/2023/01/13/tr011223-transcript-of-imf-md-kristalina-georgieva-media-roundtable
[31] https://www.bloomberg.com/news/articles/2023-03-07/china-said-to-back-sri-lanka-debt-plan-paving-way-for-imf-loan#xj4y7vzkg

two-year moratorium, China also consented to Fund financing not withstanding arrears to the government and China's Export and Credit Insurance Corporation (IMF 2023). Critics argued that India's offer was more comprehensive, and that China's emphasis was on shoring up Sri Lanka's foreign exchange reserves, and not realising specific debt to GDP and gross financing needs to GDP ratios. Meanwhile, a similar assurance came from the Paris Club (including Japan), paving the way for Board approval of the IMF loan.

Release of the second tranche was also delayed because the Fund was not satisfied with the 'reform' measures undertaken by the government, and because of lack of progress in debt restructuring.[32] There were two issues of concern here. Implicit IMF control over the restructuring process. And, the unwillingness of the multilateral banks to accept any hair cut as part of the restructuring. These divided the bilateral creditor base. On one side were India and the Paris Club creditors, who wanted China to join a restructuring exercise they design and put in place in association with the IMF. That was to be aligned with the IMF's DSA and involve no haircut on the part of multilateral creditors like the World Bank and the IMF. On the other was China, which was not willing to accept IMF and Paris Club hegemony over the restructuring process, was not convinced that, because of late entry as a dominant bilateral creditor, it should bear a larger burden, and wanted the Paris Club-dominated multilaterals that were channels for developed country lending to also take a haircut as part of common and comparable treatment.[33] This position of China was presented by the Paris Club-India-IMF coalition as one derailing the restructuring process at the cost of Sri Lanka.

Final commitments had to wait for negotiations between the creditors and the Sri Lankan government, and, in the case of the Paris Club and India, on proof that China was making a comparable offer. Victoria Nuland, the US undersecretary for political affairs stated during an early February visit to China: "As the largest bilateral creditor of Sri Lanka, we expect that China will provide credible and specific debt assurances regarding its readiness to join the rest of us in the IMF standards regarding debt restructure."[34] The Paris Club-India-IMF coalition even set up a creditors committee to discuss the details of restructuring offers. China refused to join and only participated as an observer. The accusation that China was subverting the process persisted, and the Sri Lankan government reportedly

[32] https://asia.nikkei.com/Spotlight/Sri-Lanka-crisis/Sri-Lanka-fails-first-IMF-review-no-timeline-for-further-aid.
[33] https://www.bloomberg.com/news/articles/2023-02-03/china-calls-on-imf-to-support-sri-lanka-urgently-with-bailout.
[34] https://www.bloomberg.com/news/articles/2023-02-02/paris-club-backs-sri-lanka-debt-plan-to-help-unlock-imf-deal.

even toyed with the idea of incorporating a special "Most Favoured Creditor" clause in its debt restructuring proposal that would preclude better terms for China to appease the other bilateral creditors.[35]

Meanwhile, the Paris Club-India-IMF coalition launched an initiative in the form of the Global Sovereign Debt Roundtable, co-chaired by the IMF Managing Director, the World Bank President and the annually rotating Presidency of the G20 (then India). That initiative, a meeting of which was held in April, claims to be working to build a 'common understanding' on debt restructuring and ensure 'comparable treatment' to address shortcomings in the current process. The initiative, prompted by the ineffectiveness of the G20's Common Framework, is clearly intended to retain developed market economy control over the restructuring process, and pressure China to offer large concessions through a process they control through the multilateral development banks. China's reluctance to join the IMF-coordinated restructuring effort was not so much because it did not want to offer Sri Lanka concessions, but because it did not want to do so within a framework in which it had little say and was indirectly dominated by the Paris Club group of creditors.[36]

Ultimately, in the second stage, China, which chose not to join the 14-member creditor group jointly led by Japan, India and France, and to negotiate directly with Sri Lanka, was first off the block. A deal to restructure $4.2 billion of debt between the Export-Import Bank of China and Sri Lankan authorities, the details of which are not fully in the public domain, was announced on 10 October, 2023.[37] A statement from the finance ministry of Sri Lanka said that agreement had been reached "on the key principles and indicative terms of a debt treatment".[38] Taken by surprise, the group of Paris Club creditors and India, after reviewing the details of the China deal provided to them by the Sri Lankan negotiators,[39] arrived at a deal to restructure about $5.9 billion of debt on November 29, 2023.[40] It involved a mix of long-term maturity extension and reduction in interest rates. According

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[35] https://www.bloomberg.com/news/articles/2022-12-12/sri-lanka-weighs-favored-creditor-clause-to-speed-up-debt-talks.

[36] For example, the *Financial Times* reported in March 2023 that China was "reluctant to treat debts along the lines put forward by western lenders, arguing that global norms concerning restructuring need to be updated." See https://www.ft.com/content/81b96459-a6e2-4bc3-bdf0-460a14324dbf.

[37] See https://www.bloomberg.com/news/articles/2023-10-10/china-says-exim-bank-sri-lanka-reached-preliminary-debt-deal-lnk4c38i and https://asia.nikkei.com/Spotlight/Sri-Lanka-crisis/Sri-Lanka-creditor-nations-reach-debt-restructuring-deal-in-principle.

[38] https://www.bloomberg.com/news/articles/2023-10-12/sri-lanka-china-agree-to-restructure-4-2-billion-of-debt.

[39] https://www.bloomberg.com/news/articles/2023-11-16/sri-lanka-gives-details-of-china-deal-keeping-imf-loan-on-track.

[40] https://www.bloomberg.com/news/articles/2023-11-29/sri-lanka-official-creditors-agree-to-restructure-debt-deal.

to Masato Kanda, the Vice Minister of Finance for International Affairs, " conditions set by China are comparable".[41] The Sri Lankan finance ministry meanwhile stated in a press release that: "The next steps will include finalizing similar agreements with our remaining official bilateral creditors, including Saudi Arabia, Pakistan, Kuwait and Iran, altogether representing a further $274 million of outstanding claims."[42] It also said that: "Sri Lanka now intends to focus its efforts on reaching comparable debt restructuring agreements with external commercial creditors, and in particular with its holders of international sovereign bonds." The Chinese move therefore helped to push things forward. And, the absence of any agreement with private creditors did not prevent the IMF from providing board approval for its EFF line of credit.[43]

Commercial creditors

Restructuring private debt is, however, proving difficult. Among the private creditors, at least some were looking for an early deal on their terms. In early February 2023 a group of such creditors describing itself as an "Ad Hoc Group of Sri Lanka Bondholders"[44] wrote a letter, tellingly, to the IMF, expressing their interest in negotiations with the Sri Lankan government to restructure debt "in a manner that both ensures debt sustainability and safeguards financial stability". The group ostensibly wanted to discuss the economic assumptions underlying the IMF's programme targets and "the adequacy and feasibility of the adjustment efforts".

Clearly, the bondholders were working on getting themselves a sweet deal. Much later, in October 2023, the Sri Lankan government turned down a proposal from foreign dollar bondholders to restructure $12 billion of bonds, which provided for a low 20 per cent haircut and the issue of macro-linked bonds (MLBs) that would link payouts to macroeconomic outcomes.[45] Differences revolve around the absence of comparable treatment relative to bilateral creditors and the terms of the

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[41] https://asia.nikkei.com/Spotlight/Sri-Lanka-crisis/Sri-Lanka-creditor-nations-reach-debt-restructuring-deal-in-principle.
[42] https://www.treasury.gov.lk/api/file/2c42b81a-babe-4416-8183-32e6a79c98c0.
[43] https://www.bloomberg.com/news/articles/2023-10-19/sri-lanka-wins-imf-staff-level-approval-for-330-million-payout.
[44] The group reportedly consts of around 30 asset managers exposed to Sri Lankan including majors like Amundi Asset Management, BlackRock, Morgan Stanley Investment Management and T. Rowe Price Associates.
[45] https://www.bloomberg.com/news/articles/2023-10-19/sri-lanka-bondholders-proposal-is-met-with-government-pushback. If the GFN/GDP ratio rises "above 4.5% in 2027, coupons will adjust downwards",according to one source quoted by Reuters, https://www.reuters.com/world/asia-pacific/sri-lanka-bondholders-sent-12-bln-debt-rework-proposal-government-sources-2023-10-12/.

macroeconomic bonds. According to White & Case LLP, an advisor to the ad hoc group of private creditors:

> The debt restructuring will be consummated through an exchange offer to all holders of the 11 series of international bonds issued by the Republic of Sri Lanka (the "Republic") (collectively, the "Existing Bonds"). Holders that elect to receive the MLBs in exchange for their Existing Bonds will receive US$800 in principal amount of MLBs for each $1,000 in principal amount of Existing Bonds exchanged (i.e. 20% haircut). …
>
> Under the terms of the MLBs, if the Adjustment Condition has been met (and the Republic has delivered an officer's certificate to the Trustee certifying the same), then from and including 31 [●], 2028 up to and excluding 31 [●], 2032, the interest rate and/or principal payable on the MLBs shall be decreased. …
>
> Any and all accrued and unpaid interest as of the settlement date of the debt restructuring will be compensated as follows (with the precise allocation method to be agreed):
>
> (a) [40]% paid in cash by the Republic upon settlement of the restructuring; and
>
> (b) [60]% capitalized into the New PDI (Past Due Interest) Bonds.[46]

The holdout

One pressure point faced by the Sri Lankan government was the possibility of holdout creditors derailing the restructuring process because of the terms of some of its older dollar bonds. According to Lee Buchheit, a sovereign debt restructuring expert Sri Lanka has consulted, "some of the nation's debt contracts contain the so-called single series collective action clause, which could allow a minority of bondholders to veto or demand terms in the negotiations".[47]

The offer from the private creditors was partly triggered by fears that any settlement with Sri Lanka could be jeopardised by the outcome of a curious case in the Southern District court of New York. This relates to the effort by Hamilton Reserve Bank (HRB) to obtain a ruling requiring the Sri Lankan government to pay its dues in full as per the debt contract. Described by the *Financial Times* as "an

[46] "Ad Hoc Group of Sri Lanka Bondholders Submits Restructuring Proposal" at https://www.prnewswire.com/news-releases/ad-hoc-group-of-sri-lanka-bondholders-submits-restructuring-proposal--corrected-annexes-301959862.htmlhttps://www.prnewswire.com/news-releases/ad-hoc-group-of-sri-lanka-bondholders-submits-restructuring-proposal--corrected-annexes-301959862.html.
[47] https://www.bloomberg.com/news/articles/2022-06-07/restructuring-guru-buchheit-warns-sri-lanka-on-holdout-creditors.

obscure., tiny St Kitt's bank"[48], HRB holds almost 25 per cent of defaulted Sri Lankan ISBs issued in 2012. Sri Lanka appealed for a stay of the case for six months, since it was in debt restructuring negotiations with its creditors. HRB on the other hand wanted a summary judgement.

According to the court, HRB claims that it is owed $242,990,000 in principal and $7,137,831.25 in accrued interest, and that is not interested in participating in debt restructuring negotiations. If HRB held a little more than 25 per cent of the bonds in question, it could have blocked the use of collective action clauses that can be used to force it to participate in the restructuring exercise. This is because the collective action clauses in the bond terms stipulate that if a restructuring deal is negotiated by those holding 75 per cent of the bonds, the decision is binding on all holders. So HRB's plea is aimed at pre-empting any enforced participation in a deal that accepts a haircut by obtaining a summary judgement for full payment from the court.[49] The district court finally held that: "A judgment for Hamilton would provide an incentive to other bondholders to engage in line-jumping litigation and deter commercial creditors from participating in the restructuring negotiations … Moreover, the IMF funding is contingent on 'a sovereign debt restructuring that meets debt sustainability targets'. A breakdown in restructuring negotiations could threaten Sri Lanka's progress towards these IMF targets, its economic recovery, and the well-being of its citizenry."

Interestingly, a set of Paris Club creditors weighed in supporting Sri Lanka. The governments of France and the UK filed a joint "amicus curiae" supporting Sri Lanka's request for a six month stay. Their stance was clear in the position advanced by their filing: "A judgement in favour of the plaintiff before the completion of the debt restructuring process would risk disrupting the ongoing negotiations by creating an incentive for holdout creditors, thereby jeopardising the comparability of treatment between different categories of creditors … delaying the cash disbursement by the IMF to the debtor country and resulting in significant costs for Sri Lanka and the official creditors' taxpayer".[50]

In short, France as host of the Paris Club and the UK as historical coordinator of the London Club, an informal group of private creditors to negotiate with sovereign borrowers, wanted to ensure that the already delayed restructuring process mediated by the IMF on their behalf is not derailed. Besides questioning the legitimacy of that process, this would also strengthen China's stand that it disagrees with and cannot join the process on the terms dictated by the official creditor's committee. Soon the

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[48] https://www.ft.com/content/7cf3e17e-cd84-4f98-b745-671ab6ef04bb.
[49] https://www.ft.com/content/7cf3e17e-cd84-4f98-b745-671ab6ef04bb.
[50] Quote in an *Financial Times* report by Robin Wigglesworth at https://www.ft.com/content/be2e1206-155b-4bc5-83e9-882802d25baf.

US government joined the support group, submitting a Statement of Interest to the court backing Sri Lanka's motion on the grounds that the debt restructuring process was "well advanced and is progressing toward a favourable resolution for Sri Lanka and its creditors in the coming months."[51] The statement held that "the United States assesses that the stay would facilitate an orderly and consensual sovereign debt restructuring process", with the expectation "that the official creditor committee will reach consensus on debt treatment terms — including a term committing Sri Lanka to seek comparable treatment from its commercial creditors and the official bilateral creditors." It also noted that: "A stay would also facilitate negotiations with private creditors, an estimated majority of which have conditioned their participation on the application of comparable treatment. Hamilton Bank's request that this Court order its immediate repayment undermines these ongoing negotiations." To summarise, HRB cannot be allowed to jeopardise the restructuring process and challenge the effort of the Paris Club and the United States to hegemonise the management of global debt flows.

In the event, the court of district judge Denise Cote did grant Sri Lanka the stay.

But the crisis is still unresolved. If multilateral development banks refuse to accept any debt reduction, and private creditors too stay away from restructuring negotiations, awaiting full compliance with the terms of the IMF programme and the promise it holds for timely repayment in future, the burden falls on the bilateral creditors. That implies that China will have to bear much of the burden of adjustment, with no guarantee of comparable treatment of other creditor groups. Getting China to accept a substantial haircut as part of a programme designed by the IMF is a problem. Moreover, China agreeing to back stop the IMF's DSA at much cost would set off demands for similar treatment from other debtor countries to which it has lent liberally.

Finally, there is also no reason to expect that all private creditors would be willing to accept a debt restructuring exercise involving even the modest 30 per cent haircut recommended by the IMF. They have been negotiating hard. As has happened in other efforts at debt rescheduling elsewhere in the developing world, such as Argentina, some or a majority of these lenders may be unwilling to accept the loss associated with the 'haircut' (or debt reduction) and softening of terms that are required to work out a sustainable debt resolution programme.

The other obstacle to restructuring is likely to be the inability of Sri Lanka to offer the kind of collateral required on restructured debt which private creditors are demanding elsewhere. Recently, Suriname

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[51] Ibid.

managed a restructuring agreement with private holders of two Eurobond issues, on terms that are revealing.[52] Even though the high rate at which prospective payments have been capitalised has substantially reduced the actual haircut from an estimated nominal figure of 25 per cent, the restructuring has been linked to a value restructuring instrument (VRI) that promises access to potential royalties from oil resources. As per the terms of the VRI, creditors will be eligible for 30 per cent of potential royalties in excess of $100 million from a yet to be exploited oil block (Block 58) for a period extending to 2050. Observers estimate that this mortgage of an oil resource could deliver huge profits, rather than losses, to the creditors. Such conditions are problematic in themselves. But in Sri Lanka's case it may find it hard to identify resources that can deliver such potential gains to the creditor. It may have to fall back on privatising crucial public assets to earn the foreign exchange needed to service debt.

All this makes a quick restructuring of debt, which is crucial for a return to stability, unlikely. Two factors in particular are likely to derail that process. First, the likelihood that the Sri Lankan government, despite its efforts, may fail to realise the targets set by the IMF (especially that of moving from a primary deficit to a primary surplus in the budget and reducing the aggregate debt-GDP ratio). This could result in a postponement or cancellation of future tranches of the IMF loan, of which only a first tranche of $330 million has been disbursed. An IMF team that visited Sri Lanka for two weeks in September concluded, for example, that though Sri Lanka had made "commendable progress" on the economic reform front, efforts to improve tax and revenue collection had fallen short of expectations. So, it held back staff-level approval for release of the second tranche.[53] Second, the likelihood that discussions with private creditors may stall, especially with 'holdouts' unwilling to accept debt value reduction.

This is what Sri Lanka's government and people are faced with, leading to a situation where the crisis continues and intensifies, with no solution in sight in the near future.

4. Way forward

As history would tell us, the ongoing policy responses to address the current crisis in Sri Lanka are essentially the same standard responses the International Monetary Fund proposes for any distressed economy. Though the Sri Lankan debt crisis has been unique, it has striking parallels with other

[52] https://www.reuters.com/markets/suriname-bondholders-reach-debt-restructuring-deal-sources-2023-05-03/#:~:text=The%20deal%20to%20restructure%20Suriname's,government%20said%20in%20a%20statement.
[53] https://www.ft.com/content/9eec3437-7ec8-4f15-bce8-aa17a0032c35.

developing nations. It is the outcome of a classic neoliberal model adopted in the context of the globalization of finance. It is also the result of changes since the global financial crisis, when following quantitative easing and drastic interest rate reductions in advanced economies, capital gushed into many developing economies, especially through the bond market. The capital was used to finance deficits and led to the accumulation of external debt till a point it became unsustainable—a feature made clear when they were hit by external shocks.

There are a number of lessons on dealing with sovereign debt stress and crisis that emerge from the Sri Lankan experience. The first is that medium and long term policies must address external vulnerability and pre-empt excessive dependence on foreign debt flows to manage the balance of payments. The second is that in the event of debt accumulation because of chronic vulnerability or external shocks, the problem must be addressed early by the *international community* and not just national governments, without waiting for the occurrence of a crisis. The third is that, to the extent that some dependence on debt flows is inevitable, the effort should be to recycle global surpluses to low and middle income countries through official channels, rather than allow yield-seeking private creditors to step in, since this would only intensify subsequent balance of payments stress and lead to reliance on new borrowing to pay off old debt. Fourth, when channelling debt flows to less developed countries coping with balance of payments stress, access should not be made conditional on adoption of IMF-style 'adjustment' policies. These have proved to be regressive, and even worsen the balance of payments problem rather than resolve it to restore external debt sustainability. Fifth, if and when an external debt crisis does occur, it should be addressed head on with large haircuts for *all* creditors, based on the comparability of treatment principle.

In general, we need to broaden our understanding of the tools to address a debt crisis beyond fiscal austerity. Historically, there have been precedents of dealing with debt crisis in drastic ways. For instance, after World War II, to address the massive debt overhang of West Germany, the London Debt Agreement of 1953 was enforced resulting in elimination of half of the German debt. The debt agreement contributed to economic growth by creating fiscal space for public investment and social spending, restoring full convertibility of the Deutsche Mark, as well as by stabilizing inflation (Galofré-Vilà et al., 2019). There is a need to rethink debt cancellation and restructuring strategies from the lens of the German debt agreement. While the story of Germany during World Wars is different from the current cases of debt crisis in the Global South, the economic and social hardships faced by the working class in these economies follow parallel routes to those which had resulted in economic

distress creating popular anger and the rise of fascism in Germany. The difference is that while the global community after the second World War agreed to save Germany to avoid the resurgence of fascism, such efforts seem to be missing for poor economies of the Global South.

Finally, countries that are externally vulnerable, like Sri Lanka was and is, must tread an alternative path by mobilising additional domestic resources for development, adopting redistributive measures such as wealth taxes to finance public investment, diversifying exports, and reducing dependence on imports, especially for essential items. These are necessary features of a sustainable development trajectory, that would also release resources for a substantial step up in welfare expenditures, involving employment guarantees, secure access to affordable food, health, education and social protection.

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Appendix

Table A1: Categorization of public and publicly guaranteed external debt (PPG), total debt service in million USD

PPG	2015	2016	2017	2018	2019	2020	2021
Bilateral	793	893	1014	1047	1043	1108	1192
Bilateral concessional	112	132	153	164	176	193	206
Bonds	891	553	1020	2020	2583	2024	1933
Commercial banks	430	292	713	593	647	639	375
Multilateral concessional	223	230	237	257	269	297	318
Official creditors	1112	1239	1398	1515	1579	1678	1805
Other private creditors	15	26	325	310	157	12	12
Private creditors	1336	871	2059	2922	3387	2675	2321

Source: Constructed from World Bank, International Debt statistics

Table A2: Holdings of Sri Lankan Bonds

Democratic Socialist Republic of Sri Lanka									
1) Current		2) Historical	3) Matrix	4) Ownership Summery	5) Insider Transactions	6) Options	7) Issuer Debt		
Debt Inclusion		Parent Campany and all subsidiaries							
Assest Classes		Crops (1)	Govts (198)	Pfds (0)	Loans (71)	Munis (0)	Issues Currency		
Coupon		All	Maturity	All	Muturity Type	All			
Assest Held		270	Total Debt	37.02BLN	% Out	12.36	Currency	USD	Investment Mgr View
S. No.	Holder Name	Count	Source	Held Amount	Position	% Out	Mkt Value	Filing Date	Country/Region
1	Black Rock Inc	21	ULT-AGG	82,21,93,000	8,22,193	2.22	363MLN	08/16/23	United States
2	Allianz SE	14	ULT-AGG	37,63,47,000	3,76,347	1.02	145MLN	06/30/23	Germany
3	Neuberger Berman Group LLC	13	MF-AGG	27,17,44,000	2,71,744	0.73	93MLN	07/31/23	United States
4	UBS AG	11	ULT-AGG	20,92,61,000	2,09,261	0.57	85MLN	08/14/23	Switzerland
5	T Rowe Price Group Inc	13	ULT-AGG	17,48,55,072	1,07,10,052	0.47	97MLN	06/30/23	United States
6	FMR LLC	9	ULT-AGG	15,52,74,226	1,55,274	0.42	71MLN	08/17/23	United States
7	Massachusetts Financial Services Co	6	MF-AGG	14,80,42,000	1,48,042	0.40	67MLN	06/30/23	United States
8	Cridit Agricole Group	7	ULT-AGG	14,58,86,000	1,45,886	0.39	55MLN	03/31/23	France
9	MN Group NV	11	ULT-AGG	13,15,97,000	1,31,597	0.36	57MLN	04/30/23	Netherlands
10	Capital Group Cos Inc/The	17	ULT-AGG	13,11,05,880	22,19,603	0.35	51MLN	07/31/23	United States
11	FIL Ltd	8	ULT-AGG	10,10,13,425	1,01,013	0.27	34MLN	06/30/23	Bermuda
12	EatonVance Crop	18	ULT-AGG	10,09,24,000	1,00,924	0.27	41MLN	04/30/23	United States
13	Prudential PLC	11	ULT-AGG	9,46,11,000	94,611	0.26	40MLN	05/31/23	United Kingdom
14	Vanguard Group Inc/The	7	ULT-AGG	8,93,75,000	89,375	0.24	41MLN	07/31/23	United States
15	Barings LLC	13	MF-AGG	8,78,77,200	1,03,55,906	0.24	64MLN	12/31/22	United States
16	Franklin Resources Inc	12	ULT-AGG	7,67,98,000	76,798	0.21	34MLN	06/30/23	United States
17	Lord Abbett & Co LLC	4	MF-AGG	7,48,34,000	74,834	0.20	7,60,053	05/31/23	United States
18	Goldman Sachs Group Inc/The	11	ULT-AGG	7,31,82,000	73,182	0.20	26MLN	06/30/23	United States
19	JPMorgan Chase & Co	6	ULT-AGG	6,30,87,000	63,087	0.17	29MLN	07/31/23	United States
20	Wellington Management Group LLP	9	MF-AGG	5,73,16,000	57,316	0.15	24MLN	06/30/23	United States
21	Pictet Funds SA	5	ULT-AGG	5,62,57,000	56,257	0.15	26MLN	04/30/23	Switzerland
22	Credit Suisse Group AG	13	ULT-AGG	5,22,55,000	52,255	0.14	21MLN	07/31/23	Switzerland
23	Nordea Bank Abp	10	ULT-AGG	5,04,64,000	50,464	0.14	22MLN	06/30/23	Sweden
24	SEI Investments Co	15	ULT-AGG	5,01,19,000	50,119	0.14	22MLN	07/31/23	United States
25	BNP Paribas SA	9	ULT-AGG	4,98,46,000	49,846	0.13	22MLN	06/30/23	France
26	Intesa Sanpaolo SpA	10	MF-AGG	4,56,38,000	45,638	0.12	19MLN	04/28/23	Italy
27	Legal & General Gropu PLC	11	MF-AGG	4,48,80,000	44,880	0.12	19MLN	08/17/23	United Kingdom
28	Royal Bank of Canada	4	ULT-AGG	4,34,19,000	43,419	0.12	15MLN	04/28/23	Canada
29	Payden & Rygel	12	MF-AGG	4,28,55,000	42,855	0.12	18MLN	06/30/23	United States
30	JP Morgan Private Investments Inc	6	MF-AGG	4,01,00,000	40,100	0.11	17MLN	12/31/22	United States
31	TCW Group Inc/The	1	MF-AGG	3,65,68,000	36,568	0.10	17MLN	07/31/23	United States
32	Teachers Insurance & Annuity Asso...	8	ULT-AGG	3,19,10,000	31,910	0.09	15MLN	06/30/23	United States
33	Prudential Financial Inc	14	ULT-AGG	3,18,40,000	31,840	0.09	10MLN	07/31/23	United States
34	M&G PLC	4	ULT-AGG	2,95,00,000	29,500	0.08	13MLN	04/30/23	United Kingdom
35	Morgan Stanley	11	ULT-AGG	2,91,62,680	6,97,083	0.08	14MLN	06/30/23	United States
36	Danske Bank A/S	8	ULT-AGG	2,88,54,555	28,855	0.08	10MLN	06/30/23	Denmark
37	Global Evolution Manco SA	5	MF-AGG	2,36,24,400	36,12,450	0.06	16MLN	06/30/23	Luxembourg
38	HSBC Holdings PLC	5	ULT-AGG	2,29,99,000	22,999	0.06	10MLN	04/28/23	United Kingdom
39	Hartford Financial Services Group ...	9	ULT-AGG	2,24,15,000	22,415	0.06	8MLN	08/17/23	United States
40	Banque Lombard Odier & Cie SA	8	ULT-AGG	2,13,67,000	21,367	0.06	2MLN	06/30/23	Switzerland
41	Fideuram - Intesa Sanpaolo Privat...	9	MF-AGG	1,82,50,000	18,250	0.05	7MLN	07/31/23	Italy
42	SNS Investment Fund Management...	5	MF-AGG	1,80,12,847	18,013	0.05	6MLN	06/30/23	Netherlands
43	HCSC Insurance Services Co	7	ULT-AGG	1,68,16,000	16,816	0.05	6MLN	03/31/23	United States
44	Nykredit Portefoelje Administratio...	8	MF-AGG	1,65,15,000	16,515	0.04	7MLN	06/30/23	Denmark
45	State of Wisconsin Investment Boa...	14	Research	1,57,69,000	15,769	0.04	6MLN	09/30/22	United States
46	Stone Harbor Investment Partners ...	10	MF-AGG	15,69,99,000	15,699	0.04	7MLN	05/31/23	United States
47	Alliance Bernstein Holding LP	6	ULT-AGG	1,56,29,000	15,629	0.04	6MLN	06/30/23	United States
48	Mediolanum International Funds Ltd	8	MF-AGG	1,36,02,000	13,602	0.04	6MLN	03/31/23	Ireland
49	Fineco Asset Management DAC	7	MF-AGG	1,35,87,000	13,587	0.04	5MLN	07/19/23	Ireland
50	American Beacon Advisors Inc	6	MF-AGG	1,33,83,776	16,02,436	0.04	9MLN	06/30/23	United States
51	Sparinvest Fondsmaeglerselskab A...	9	ULT-AGG	1,18,15,753	11,816	0.03	5MLN	06/30/23	Denmark
52	Candriam Investors Group	3	ULT-AGG	1,10,00,000	11,000	0.03	5MLN	06/30/23	Luxembourg
53	Sydinvest International	4	MF-AGG	1,06,24,506	10,625	0.03	5MLN	07/31/23	Denmark
54	Manulife Financial Crop	2	ULT-AGG	97,34,688	9,735	0.03	4MLN	07/31/23	Canada
55	Azimut Holding SpA	5	ULT-AGG	92,81,200	3,08,350	0.03	5MLN	07/31/23	Italy
56	Virtus Alternative Investment Advi...	3	MF-AGG	88,23,000	8,823	0.02	4MLN	06/30/23	United States
57	Edmond De Rothschild Group	3	ULT-AGG	87,00,000	8,700	0.02	4MLN	03/31/23	Luxembourg
58	Jyske Invest	3	MF-AGG	84,18,000	8,418	0.02	4MLN	07/31/23	Denmark
59	Abrdn Plc	10	ULT-AGG	79,78,792	13,76,717	0.02	6MLN	06/30/23	United Kingdom
60	William Blair & Co LLC	4	ULT-AGG	78,50,000	7,850	0.02	3MLN	06/30/23	United States
61	Invesco Ltd	4	ULT-AGG	77,62,000	7,762	0.02	3MLN	06/30/23	United States
62	GAM Holding AG	6	ULT-AGG	72,60,000	7,260	0.02	3MLN	04/30/23	Switzerland
63	Investeringsforeningen	5	ULT-AGG	69,84,000	6,984	0.02	3MLN	07/31/23	Denmark
64	Deutsche Bank AG	8	ULT-AGG	69,65,000	6,965	0.02	3MLN	08/18/23	Germany
65	Aegon NV	2	ULT-AGG	60,00,000	6,000	0.02	3MLN	03/31/23	Netherlands
66	Bondbloxx Inv Management LLC	6	MF-AGG	59,25,000	5,925	0.02	2MLN	08/17/23	United States
67	Zuercher Kantonalbank	10	ULT-AGG	58,50,000	5,850	0.02	2MLN	06/30/23	Switzerland
68	Interfund Advisory Co SA	7	MF-AGG	56,00,000	5,600	0.02	2MLN	07/31/23	Luxembourg
69	Natixis SA	3	ULT-AGG	53,25,000	5,325	0.01	2MLN	06/30/23	France
70	Mediolanum Gestione Fondi SGR PA...	7	MF-AGG	51,96,000	5,196	0.01	2MLN	03/31/23	Italy
71	MML Investment Advisers LLC	11	MF-AGG	51,80,000	5,180	0.01	2MLN	06/30/23	United States
72	Van Eck Associates Crop	3	MF-AGG	51,49,187	3,12,243	0.01	9,52,152	08/11/23	United States
73	Petercam SA/Luxembourg	1	MF-AGG	50,00,000	5,000	0.01	2MLN	04/28/23	Luxembourg
74	Emirate of Dubai United Arab Emir...	2	ULT-AGG	50,00,000	5,000	0.01	2MLN	07/31/23	United Arab Emir...
75	LGIM Corporate Director Ltd	4	MF-AGG	41,00,000	4,100	0.01	2MLN	07/31/23	Luxembourg
76	Dorinco Reinsurance Co	9	Sch-D	40,14,000	4,014	0.01	2MLN	03/31/23	United States
77	Banca Sella Holding SpA	4	MF-AGG	40,00,000	4,000	0.01	2MLN	07/31/23	Italy
78	Mutual of America Capital Manage...	1	MF-AGG	40,00,000	4,000	0.01	0	03/31/23	United States
79	Raiffeisen Bank International	5	ULT-AGG	39,50,000	3,950	0.01	2MLN	02/28/23	Austria
80	Erste Group Bank AG	3	ULT-AGG	35,00,000	3,500	0.01	2MLN	06/30/23	Austria
81	AXA SA	3	ULT-AGG	33,00,000	3,300	0.01	2MLN	10/31/22	France
82	Voya Investment Management LLC	3	MF-AGG	32,50,000	3,250	0.01	1MLN	07/31/23	United States
83	Neuberger Berman Asset Management	5	MF-AGG	31,50,000	3,150	0.01	1MLN	04/28/23	Ireland
84	Income Partners Asset Management	1	MF-AGG	30,00,000	3,000	0.01	1MLN	06/30/22	Hong Kong
85	Ninety One UK Ltd	3	MF-AGG	28,92,000	2,892	0.01	1MLN	04/30/23	United Kingdom
86	Bank of Montreal	1	ULT-AGG	28,00,000	2,800	0.01	0	04/30/23	Canada
87	Janus Henderson Group PLC	7	ULT-AGG	27,95,000	2,795	0.01	1MLN	06/30/23	United Kingdom
88	Jupiter Fund Management PLC	5	ULT-AGG	26,75,000	2,675	0.01	6,33,447	03/31/23	United Kingdom
89	Helaba Invest KAGmbH/Germany	3	MF-AGG	25,50,000	2,550	0.01	1MLN	06/30/23	Germany
90	New York Life Insurance Co	3	ULT-AGG	24,00,000	2,400	0.01	1MLN	04/30/23	United States
91	Transamerica Investment Services...	2	MF-AGG	23,30,000	2,330	0.01	1MLN	07/31/23	United States
92	American Century Cos Inc	1	MF-AGG	22,00,000	2,200	0.01	9,95,984	08/17/23	United States
93	American International Group Inc	1	ULT-AGG	21,64,000	2,164	0.01	1MLN	03/31/23	United States
94	Deka Vermoegensmanagement Gm...	3	MF-AGG	21,25,000	2,125	0.01	9,62,622	04/28/23	Germany
95	Neuflize OBC Asset Management SA	4	MF-AGG	21,02,000	2,102	0.01	8,61,102	07/31/23	France
96	Northwestern Mutual Life Insurance	2	ULT-AGG	21,00,000	2,100	0.01	9,48,895	06/30/23	United States
97	Union Investment Luxembourg SA	4	ULT-AGG	20,00,000	2,000	0.01	9,05,920	06/30/23	Germany
98	Macquarie Group Ltd	2	ULT-AGG	19,18,000	1,918	0.01	8,69,585	04/28/23	Australia
99	Betashares Capital Ltd	3	ULT-AGG	17,33,000	1,733	0.00	4,81,556	04/30/23	Australia
100	Assicurazioni Generali SpA	2	ULT-AGG	15,81,000	1,581	0.00	7,15,749	05/31/23	Italy
101	Fund Rock Management Co SA	5	MF-AGG	14,76,000	1,476	0.00	6,70,963	06/30/23	Luxembourg
102	Lazard Ltd	9	ULT-AGG	14,73,000	1,473	0.00	6,66,495	04/28/23	Bermuda
103	Ameriprise Financial Inc	1	ULT-AGG	12,80,000	1,280	0.00	0	06/30/23	United States
104	Nomura Holdings Inc	4	ULT-AGG	12,45,242	1,245	0.00	3,39,154	08/18/23	Japan
105	UBS Asset Management Taiwan Ltd	1	MF-AGG	12,02,586	1,203	0.00	0	06/30/23	Taiwan
106	AGF Management Ltd	1	ULT-AGG	12,00,000	1,200	0.00	0	03/31/23	Canada
107	Mirae Asset Global Investments Co...	2	ULT-AGG	12,00,000	1,200	0.00	5,42,544	08/16/23	South Korea
108	3 Banken-Generali Investment Gm...	1	MF-AGG	11,00,000	1,100	0.00	5,10,532	03/31/23	Austria
109	Legal & General Investment MGMT	3	MF-AGG	11,00,000	1,100	0.00	5,08,471	05/31/23	Luxembourg
110	Gallery Trust	1	MF-AGG	10,81,000	1,081	0.00	4,88,234	12/31/22	United States
111	Vontobel Holding AG	3	ULT-AGG	10,14,000	1,014	0.00	4,85,266	04/28/23	Switzerland
112	Consultinvest Asset Management-S...	1	MF-AGG	10,00,000	1,000	0.00	4,62,100	06/30/23	Italy
113	Deka Bank Deutsche Girozentrale	3	MF-AGG	10,00,000	1,000	0.00	4,52,510	04/28/23	Germany
114	Pramerica Management Co SA	2	MF-AGG	9,65,000	965	0.00	2,55,266	04/28/23	Luxembourg
115	BI Asset Management Fondsmaegle...	1	MF-AGG	9,36,051	936	0.00	0	06/30/23	Denmark
116	Marks & Spencer Unit Trust Manage...	2	MF-AGG	8,65,000	865	0.00	3,00,347	06/30/23	United Kingdom
117	Universal Investment Co LLC	4	ULT-AGG	8,00,000	800	0.00	2,97,650	05/31/23	United States
118	Alliance Bernstein LP	3	MF-AGG	7,93,000	793	0.00	3,61,305	06/30/23	United States
119	Principal Financial Group Inc	3	ULT-AGG	7,50,000	750	0.00	3,41,855	04/28/23	United States
120	Neuberger Berman Taiwan SITE Ltd	1	MF-AGG	7,22,685	723	0.00	0	06/30/23	Taiwan
121	Guide Stone Capital Management LLC	2	MF-AGG	7,00,000	700	0.00	3,19,119	06/30/23	United States
122	Automobile Club of Michigan	1	ULT-AGG	6,95,000	695	0.00	3,14,640	06/31/23	United States
123	La Francaise Des Placements SAS	1	MF-AGG	6,00,000	600	0.00	0	12/31/22	France
124	HSBC Global Funds ICAV	3	MF-AGG	6,00,000	600	0.00	2,75,170	02/28/23	Ireland
125	IFM Independent Fund Management...	1	MF-AGG	5,00,000	500	0.00	2,33,865	06/28/23	Liechtenstein
126	Capital Group UK Management Co L...	1	MF-AGG	5,00,000	500	0.00	2,32,060	06/30/23	United Kingdom
127	Andbanc Investments SIF/Luxembourg	2	MF-AGG	4,00,000	400	0.00	1,80,978	12/31/21	Luxembourg
128	Wells Fargo & Co	1	ULT-AGG	4,00,000	400	0.00	1,81,576	07/31/23	United States
129	Man Asset Management Ireland Ltd	1	MF-AGG	4,00,000	400	0.00	1,80,712	06/30/22	Ireland
130	Morningstar Investment Management	1	MF-AGG	4,00,000	400	0.00	1,81,036	06/30/23	United States
131	Desjardins Trust Inc	1	MF-AGG	4,00,000	400	0.00	0	07/31/23	Canada
132	Northern Trust Crop	1	MF-AGG	3,00,000	300	0.00	1,35,795	06/30/23	United States
133	Gaoteng Global Asset Management	1	MF-AGG	2,90,000	290	0.00	1,31,643	06/30/22	Hong Kong
134	Pacific Life Insurance Co	3	MF-AGG	2,75,000	275	0.00	1,27,633	03/31/23	United States
135	Dunhum & Associates Investment C...	1	MF-AGG	2,00,000	200	0.00	90,476	06/30/23	United States
136	State Street Corp	1	ULT-AGG	2,00,000	200	0.00	90,330	12/31/22	United States
137	Ashmore Portfoy Yonetimi AS	1	MF-AGG	2,00,000	200	0.00	92,824	06/30/23	Turkey
138	Touchstone Advisors Inc	1	MF-AGG	2,00,000	200	0.00	93,708	06/30/23	United States
139	Virtus ETF Advisers LLC	1	MF-AGG	75,000	75	0.00	33,929	08/17/23	United States
140	Allspring Global Investment Holdi...	1	MF-AGG	206	0	0.00	94	07/31/23	United States
141	Union Bancaire Privee	1	ULT-AGG	0	0	0.00	0	04/28/23	Switzerland

Source: Bloomberg, August 18. 2023.