



## PROGRESS ON EXTERNAL DEBT RESTRUCTURING

### FLASH NOTE

## SRI LANKA REACHES PROVISIONAL DEAL ON BOND REWORK

### Government Bondholder Negotiations

The government has secured a deal to move forward on the restructuring of **USD 12.6bn** in international bonds. During the Restricted Period, Sri Lanka, the Steering Committee and its advisors met during a two-day working session in Paris on 27<sup>th</sup> and 28<sup>th</sup> June 2024, and following the negotiations the Parties agreed on financial terms of a restructuring of the ISBs.

The restructuring of bonds was one of the key conditions set by the IMF under a USD 2.9Bn bailout programme that has helped Sri Lanka tame inflation, stabilise its currency, and improve public finances. The deal with selected bondholders, who holds about 50% of the outstanding overseas bonds, is contingent on confirmation by the Official Creditor Committee (OCC) made up of bilateral creditors and the IMF to ensure compliance with debt sustainability analysis.

### Bondholder Agreements

*Following the negotiations the Parties agreed on financial terms of a restructuring of the ISBs. The parties agreed to a framework for a deal that is linked to economic performance and a governance-linked structure as part of plain vanilla instruments.*

Investors have agreed to take a 28.0% haircut on face value of USD 12.6Bn and an 11.0% reduction on USD 1.9Bn on past interest with payments on the interest component to start from September. Gains under GDP will be capped at 85.0% of the original principal, displaying the minimum haircut of 15.0% on bonds. Sri Lanka will also pay a fee of USD 225.0Mn to persuade bondholders to accept the deal.

### Bond Restructuring

The framework for the restructuring of bonds are as follows:

**i. Past due interest**

5 bonds are issued to cover interest of 1,678 from 2024-2028, over a coupon rate of 4.0%

**ii. New bond installments**

A series of macro-linked bonds (MLBs), where payouts and principal will be adjusted according to the country's economic performance - downwards.

**MLB #1:** has a coupon of 3.75% up to 2028, a rate of 3.50% up to 2027 with maturities in 2029 and 2030.

**MLB #2:** has a coupon rate of 3.75% up to 2027, a coupon rate of 4.0% between 2028-2032, and a coupon rate of 8.75% from 2033 onwards with maturities from 2031-2033.

**Plain Vanilla #2:** has a coupon of 4.0% until 2027, a coupon rate of 5.5% from 2028-2032, and a coupon rate of 9.25% from 2033 onwards with maturities from 2034-2035.

**MLB #3:** has a coupon of 4.0% until 2027, a coupon rate of 5.5% from 2028-2032, and a coupon rate of 9.75% from 2033 onwards with maturities in 2036.

**MLB #4:** has a coupon of 4.0% until 2027, a coupon rate of 4.25% from 2028-2032, and a coupon rate of 9.75% from 2033 onwards with maturities in 2037 and 2038.

**iii. A third instrument would include a so-called governance linked bond.**

## Annexure

### A1: Joint Working Framework (1/2) Indicative terms of new bonds under an MLB structure<sup>1,2</sup> (under IMF Baseline)

Instrument Type	Bond Installments	Notional amount at exchange date (US\$m)	Notional at end 2027 (US\$m)	Coupon Rate		
				Up to 2027 (cash)	2028-2032 (cash)	2033 onwards (cash)
<b>Past Due Interest 1,678</b>						
Plain Vanilla #1	2024	291	n.a.	4.00%	n.a.	n.a.
	2025	336	n.a.	4.00%	n.a.	n.a.
	2026	336	n.a.	4.00%	n.a.	n.a.
	2027	336	n.a.	4.00%	n.a.	n.a.
	2028	380	n.a.	4.00%	n.a.	n.a.
<b>New bonds instalments 9,036</b>						
MLB #1	2029	650	650	3.50%	3.75%	-
	2030	650	650	3.50%	3.75%	-
MLB #2	2031	900	900	3.75%	4.00%	-
	2032	900	900	3.75%	4.00%	-
	2033	750	750	3.75%	4.00%	8.75%
Plain Vanilla #2	2034	800	800	4.00%	5.50%	9.25%
	2035	800	800	4.00%	5.50%	9.25%
MLB #3	2036	1,195	1,195	4.00%	4.25%	9.50%
MLB #4	2037	1,196	1,196	4.00%	4.25%	9.75%
	2038	1,196	1,196	4.00%	4.25%	9.75%

### A2: Joint Working Framework (2/2) Overview of GDP thresholds under the updated MLB structure

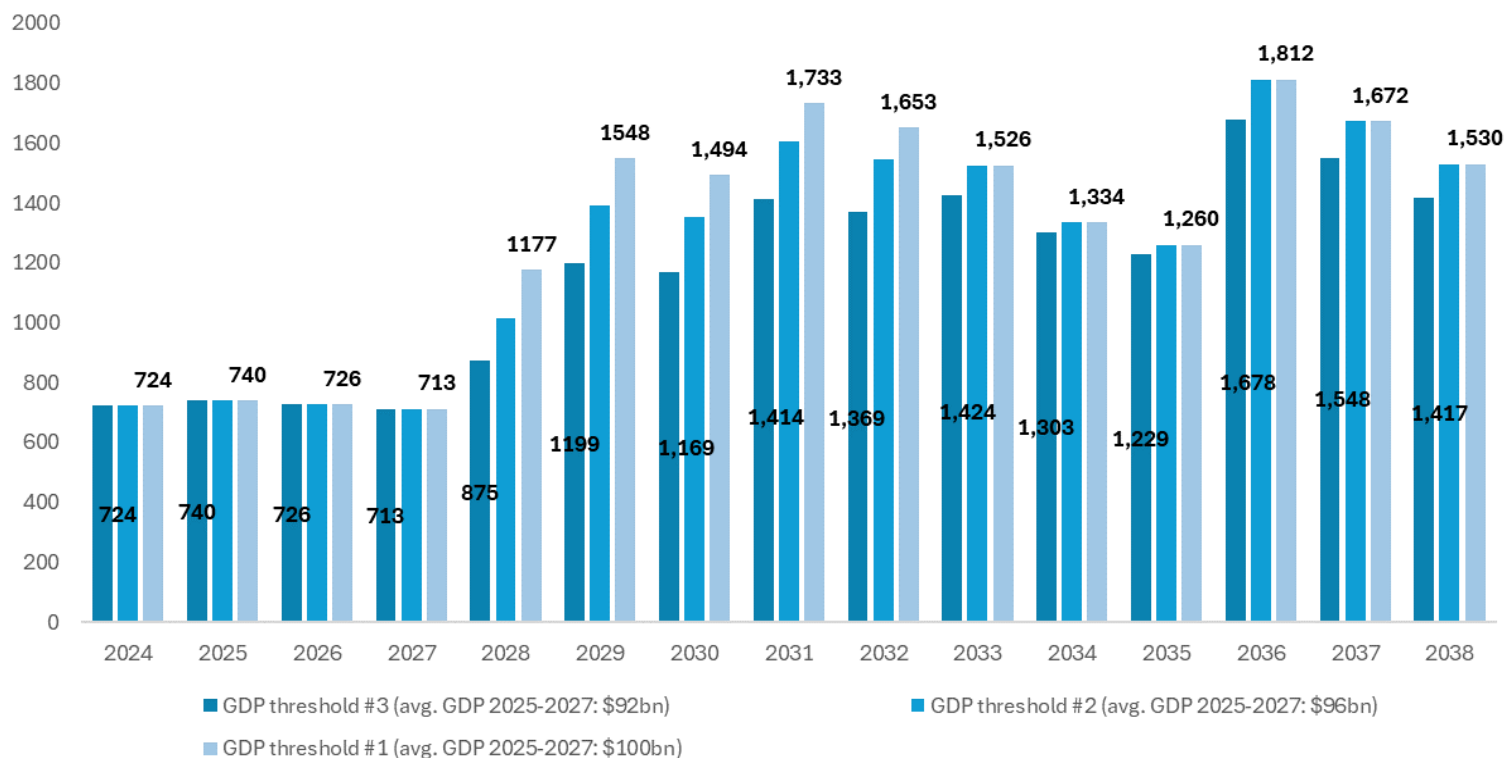
Baseline	US\$ nominal GDP (avg. 2025-2027, billion)	Adjustments			Control Variable (real GDP cumulative growth in %, 2024-2027)	
		Weighted incremental principal reinstatement	2028 principal (as a % of original claim excluding PDIs)	Weighted average coupon post 2028	Observed cumulative growth greater than 11.1% (IMF projections)	Observed cumulative growth lower than 11.1% (IMF projections)
GDP threshold #1	100.0	18.10%	85.00%	8.20%	Adjustment activated	No adjustment activated
GDP threshold #2	96.0	18.10%	85.00%	7.20%	Adjustment activated	No adjustment activated
GDP threshold #3	92.0	10.70%	79.70%	6.60%	Adjustment activated	No adjustment activated
IMF baseline	88.6	-	72.00%	6.30%	N/R	N/R
Threshold below IMF baseline #1	86.7	-9.10%	65.50%	6.30%	No adjustment activated	Adjustment activated
Threshold below IMF baseline #2	84.7	-17.30%	59.60%	6.30%	No adjustment activated	Adjustment activated

Additional protection for the authorities with a control variable activating or not the adjustments based on the observed cumulative real GDP growth

### A3: Debt service under the Joint Working Framework

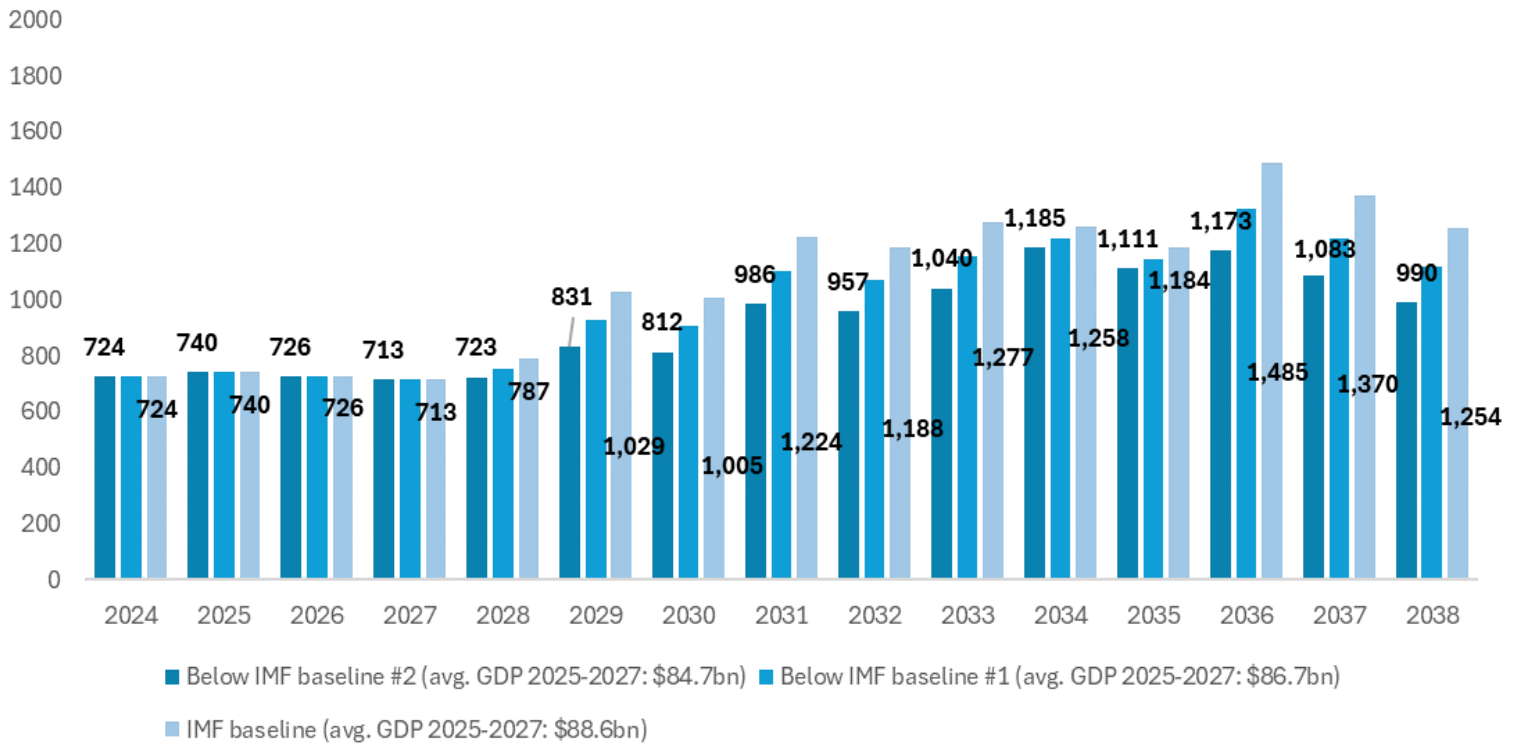
USD Mn	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	Total Debt Service
GDP threshold #1 (avg. GDP 2025-2027: \$100bn)	724	740	726	713	1177	1548	1,494	1,733	1,653	1,526	1,334	1,260	1,812	1,672	1,530	19,640
GDP threshold #2 (avg. GDP 2025-2027: \$96bn)	724	740	726	713	1015	1393	1,353	1,607	1,544	1,526	1,334	1,260	1,812	1,672	1,530	18,947
GDP threshold #3 (avg. GDP 2025-2027: \$92bn)	724	740	726	713	875	1199	1,169	1,414	1,369	1,424	1,303	1,229	1,678	1,548	1,417	17,527
IMF baseline (avg. GDP 2025-2027: \$88.6bn)	724	740	726	713	787	1,029	1,005	1,224	1,188	1,277	1,258	1,184	1,485	1,370	1,254	15,963
Below IMF baseline #1 (avg. GDP 2025-2027: \$86.7bn)	724	740	726	713	753	925	904	1,099	1,067	1,153	1,220	1,146	1,322	1,220	1,116	14,827
Below IMF baseline #2 (avg. GDP 2025-2027: \$84.7bn)	724	740	726	713	723	831	812	986	957	1,040	1,185	1,111	1,173	1,083	990	13,794

### A4: Debt service under the IMF baseline relative to debt service under the GDP thresholds above the IMF baseline





**A5: Debt service under the IMF baseline relative to debt service under the GDP thresholds below the IMF baseline**





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