



PROGRESS ON EXTERNAL DEBT RESTRUCTURING

FLASH NOTE

SRI LANKA FINALIZES EXCHANGE OF INTERNATIONAL SOVEREIGN BONDS AND RECEIVES FITCH CREDIT RATING UPGRADE

Bond Exchange

Sri Lanka has finalized the exchange of its International Sovereign Bonds under the Local Bonds Option as part of its External Debt Restructuring (EDR). The results, announced on 16th Dec-24, led to the issuance of eight new LKR Treasury Bonds with a variable coupon rate of **SLFR + 0.50%**. These bonds, allocated **LKR 19,466.1Mn** each, have maturities from 2036 to 2043.

The bonds' interest rate is tied to the 6-month historical average of the Standing Lending Facility Rate (SLFR), ensuring a flexible response to market conditions.

This bond exchange is part of a USD 12.5Bn restructuring plan, expected to save USD 9.5Bn in debt service over the next four years. With the bond exchange, Sri Lanka will join Ghana, Ukraine, and Zambia in completing restructuring this year.

Treasury bonds denominated in LKR and settled on 20.12.2024 are as follows:

ISIN	Series	Date of Issue	Date of Maturity	Amount Allocated (LKR Mn')
LKJ01236C152	0.50%2036'A'	15-03-2024	15-03-2036	19,466.1
LKJ013371155	0.50%2037'A'	15-09-2024	15-09-2037	19,466.1
LKJO14381151	0.50%2038'A'	15-09-2024	15-09-2038	19,466.1
LKJ015391156	0.50%2039'A'	15-09-2024	15-09-2039	19,466.1
LKJ016401152	0.50%2040'A'	15-09-2024	15-09-2040	19,466.1
LKJO017411158	0.50%2041'A'	15-09-2024	15-09-2041	19,466.1
LKJO18421154	0.50%2042'A'	15-09-2024	15-09-2042	19,466.1
LKJO19431150	0.50%2043'A'	15-09-2024	15-09-2043	19,466.1

Fitch Rating Upgrade

Following the finalization of the exchange of International Sovereign Bonds, Fitch upgraded Sri Lanka's long-term foreign-currency rating to 'CCC+' from 'RD' and local-currency IDR to 'CCC+' from 'CCC-'.

However, Hamilton Reserve Bank (HRB), a holdout investor, owned about 25% of the outstanding 2022 bond series that **failed to meet the required 75% acceptance threshold** during Sri Lanka's bond restructuring. The bank used older collective action clauses to challenge the restructuring, which allowed it to bypass the requirement of holding 25% of all issued bonds.

Consequently, Hamilton Reserve pursued legal action to block the restructuring process, leveraging these outdated clauses. This resulted in the 2022 bond series being excluded from the broader restructuring, **reducing the overall acceptance rate to 96% of Sri Lanka's total commercial external debt.**

Macroeconomic Outlook

Under the IMF program, Sri Lanka's central bank has implemented deflationary policies since September 2022, improving the balance of payments. The government debt-to-GDP ratio is projected to decline to 90% by 2028, while interest-to-revenue coverage is expected to drop to 42%—still higher than the 16% average for other 'CCC'-rated countries but lower than 67% before default.



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