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CENTRAL BANK OF SRI LANKA

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Press Release

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Sri Lanka reiterates its commitment to meeting all its financial obligations

The Government of Sri Lanka finds inferences in recent media reports questioning its ability to honour its debt service obligations. The Government notes with dismay such inferences made by certain media to imply that Sri Lanka is at risk of falling into a sovereign debt crisis by comparing Sri Lanka with other sovereigns which are said to be in similar situations. The Government wishes to categorically deny all such baseless claims, and would like to reiterate to all stakeholders that Sri Lanka will duly honour all its debt service obligations in the period ahead.

The recent volatilities in yield levels of Government of Sri Lanka's International Sovereign Bonds (ISBs) during the Covid-19 pandemic period are no different to what has been observed across a majority of emerging and frontier market economies. It is noteworthy that despite such volatility, global institutional investors, fund managers and analysts recommend Sri Lankan debt instruments for investment, while remaining confident of Sri Lanka's credit quality.

The Government also wishes to clarify that the unintended delay in holding the general elections and the submission of the government budget must not be considered as leading to any policy uncertainty or procedural standoff, but a result of the health policy response to contain the Covid-19 pandemic. According to the country's constitution, His Excellency the President is empowered to authorise the government operations in the absence of an annual budget for a period up to three months after convening the Parliament following the elections. Thus, the government operations function without any hindrance, and any uncertainty surrounding the date of holding the general elections will be resolved after the ruling by the Supreme Court on the same in the coming days.

In the meantime, the Government has already introduced measures to curtail expenditure, while the delay in presenting the government budget automatically limits the space for additional expenditure for this year. Further, the cost of Government financing from both domestic and external sources has markedly declined so far during 2020. The Government has taken proactive measures in mobilising funds from multiple sources of market based and official sources of financing to effectively improve the terms and conditions of financing. Given volatile market conditions across the globe, the issuance of an international bond by the Government is not anticipated in the near term, thereby rendering the current yields observed in the international bond market irrelevant. The focus of financing will be to further explore bilateral and multilateral sources to benefit both risk and cost considerations of debt management, and these discussions are well underway. Further, the country is in the process of exploring SWAP facilities with regional central banks, while arrangements are being made for syndicate financing with identified foreign sources.

Meanwhile, the faster than expected rebound of Sri Lanka's economy from the Covid-19 outbreak would also lend support to the Government's efforts to consolidate fiscal operations in the period ahead. Sri Lanka has been able to contain the spread of the pandemic successfully in a short period of time with minimal disruptions to activity. Sri Lanka faced a partial lockdown only for eight weeks, i.e., during the second half of March, April, and the first half of May. During this time, many offices, financial institutions, factories, delivery services, agricultural services, public services were functioning. The month of April each year is a festive season, in which economic activity is in any case subdued. The stimulus measures announced by the Government and the Central Bank are expected to help a fast revival of businesses and support the individuals affected by the outbreak. Accordingly, Sri Lankan economy is expected to record a growth of around 1.5 per cent in 2020, with much of that growth expected to occur in the second half of the year.

Sri Lanka's exports and tourism sectors are gearing up for an early recovery, which could support a faster revival of activity while easing any pressure on the external sector. According to latest market information, Sri Lankan factories have received fresh additional orders to manufacture health and safety related equipment. Sri Lanka's traditional export commodities such as Tea has attracted record prices at auctions due to good demand from major importers. Hotels remain ready for an early resumption of tourists with extra sanitary preparations. Moreover, the lower fuel import expenditure and the temporary restrictions imposed on non-essential merchandise imports are expected to cushion any adverse impact on the trade balance. As such, despite the transitory adverse impact on tourism, transport sector and workers' remittances due to the Covid-19 outbreak, the narrowing trade deficit is expected to cushion the current account deficit in 2020. Contrary to unfounded inferences and comparisons, Sri Lanka has already initiated measures to return to normalcy and gradually being opened up for business throughout the country. In this backdrop, the Government of Sri Lanka categorically disagrees with recent assessments of risks and rating decisions by some international rating agencies.

In conclusion, the Government emphasizes that Sri Lanka has demonstrated its commitment to honouring all its obligations on time, even during difficult times in the past, and will continue to do so in the future, while engaging with all investment and development partners.