

VERITÉ RESEARCH DEBT UPDATE

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The Verité Research Debt Update provides a regular update for investors, policy makers and analysts, on the latest developments in this space together with commentary and analysis on Sri Lanka's path to resolving its economic crisis since suspending debt repayment in April 2022.



Verité Research is an independent think-tank based in Colombo that provides strategic analysis to high level decision-makers in economics, law, politics, and media.

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KEY DEVELOPMENTS

- The IMF Debt Sustainability Analysis (DSA), which was made public only after 20th March 2023 projects a decline in debt to GDP from 128% of GDP in 2022 to 101.3% of GDP in 2028. In the DSA, the contribution to debt reduction is mainly through reducing the real cost of borrowing and through debt restructuring, rather than through the improvements to the net revenue of the government.
- The IMF DSA projects that the effective interest rate will decline by 2.5 percentage points in absolute terms from 2022 to 2023 and stabilise later at less than 7%. This implies that the yield curve is projected to reduce rapidly and reach values at or around its 2019 levels by the end of 2023. The IMF does not provide guidance on the analytical basis for these optimistic expectations.
- To mitigate the risk of this assumption in the IMF analysis being over-optimistic, Sri Lanka will need a much deeper reduction in outstanding debt, than would be benchmarked based on the present DSA. Alternatively, Sri Lanka will need to allow for higher levels of inflation than currently planned.
- The IMF program has 100 commitments at present. The progress on these is publicly trackable on an online platform maintained by Verité Research. By the end of April, Sri Lanka has recorded conscientious progress by completing 25. There are, however, at least 2 commitments that remain overdue. The success of 10 commitments cannot be ascertained by data in the public domain.