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Last date: 15.07.2022

Next date: 27.07.2022

SERVICE COPY

IN THE SUPREME COURT OF THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

In the matter of an application under and in terms of Article 17 and 126 of the Constitution of the Democratic Socialist Republic of Sri Lanka.

S.C.F.R. Application No. 212/2022

1. **CHANDRA JAYARATNE**
   No. 2, Greenland Avenue,
   Colombo 05.

2. **JULIAN BOLLING**
   No. 72, 5th Lane,
   Colombo 05.

3. **JEHAN CANAGARETNA**
   No. 5, Bullers Lane, Apartment 3B,
   Colombo 07.

4. **TRANSPARENCY INTERNATIONAL SRI LANKA**
   No. 366, Nawala Road,
   Nawala, Rajagiriya.

PETITIONERS

-Vs-

1. **HON. ATTORNEY GENERAL**
   Attorney General's Department,
   Colombo 12.

2. **MAHINDA RAJAPAKSHA**
   Former Prime Minister,
   Former Minister of Buddhasasana, Religious and Cultural Affairs, Former Minister of Urban Development & Housing, Former Minister of Economic Policies and Plan Implementation and Former Minister of Finance.
   No. 117, Wijerama Mawatha,
   Colombo 07.

3. **HON. BASIL RAJAPAKSE,**
   Former Minister of Finance
   No. 1315, Jayanthipura,

Nelum Mawatha,
Battaramulla.
No. 1316, Jayanthipura,
Nelum Mawatha,
Battaramulla.

4. **HON. M.U.M. ALI SABRY PC**
Former Minister of Finance
No. 5, 27th Lane,
Colombo 03.

5. **HON. RANIL WICKREMESINGHE**
Prime Minister
Minister of Finance, Economic Stability and National Policies,
No. 117, 5th Lane,
Colombo 03.

6. **DESHAMANYA PROFESSOR W.D. LAKSHMAN**
Former Governor of the Central Bank
No. 224, Ihalayagoda,
Imbulgoda.

7. **MR. AJITH NIVARD CABRAL**
Former Governor of the Central Bank of Sri Lanka.
No. 32/7, School Lane,
Nawala.

8. **DR. P. NANDALAL WEERASINGHE**
Governor of the Central Bank of Sri Lanka.
P.O. Box 590,
Colombo 01,
Sri Lanka.

9. **THE MONETARY BOARD OF THE CENTRAL BANK OF SRI LANKA**
Central Bank of Sri Lanka,
P.O.Box 590,
Colombo 01,
Sri Lanka.

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10. **MR. S.R. ATTYGALA**
    Former Secretary to the Treasury/Ministry of Finance
    No. 23, Madapatha,
    Piliyandala.

11. **MR. K.M. MAHINDA SIRIWARDANA**
    Former Secretary to the Treasury/Ministry of Finance,
    The Secretariat,
    Colombo 01.

12. **MR. SALIYA KITHSIRI MARK PIERIS, P.C.,**
    President of the Bar Association of Sri Lanka,
    No. 153, Mihindu Mawatha,
    Colombo 12.

13. **MR. ISURU BALAPATABENDI, AAL.,**
    Secretary of the Bar Association of Sri Lanka,
    No. 153, Mihindu Mawatha,
    Colombo 12.

RESPONDENTS

TO: HIS LORDSHIP THE HONOURABLE CHIEF JUSTICE AND THEIR LORDSHIPS AND LADYSHIPS THE OTHER HONOURABLE JUDGES OF THE SUPREME COURT OF THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

Further to the Order of Your Lordships' Court we tender herewith the Statement of Limited Objections together with the Affidavit and documents marked "7R1(a)" to "7R9(f)" on behalf of the 7th Respondent and respectively **MOVE** that Your Lordships' Court be pleased to accept and direct that the same be filed of record.

Colombo, 15th July 2022

Sgd./SARRAVANAN NEELAKANDAN LAW ASSOCIATES

REGISTERED ATTORNEYS OF THE 7th RESPONDENT

SC(1002)-SC-FRA-212-MO/Motion/Pleadings

SARRAVANAN NEELAKANDAN
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Colombo 00100
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Limited Objections

IN THE SUPREME COURT OF THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

In the matter of an application under and in terms of Article 17 and 126 of the Constitution of the Democratic Socialist Republic of Sri Lanka.

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RESPONDENTS

TO: HIS LORDSHIP THE HONOURABLE CHIEF JUSTICE AND THEIR LORDSHIPS AND LADYSHIPS THE OTHER HONOURABLE JUDGES OF THE SUPREME COURT OF THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

On this 15th day of July, 2022

The **STATEMENT OF LIMITED OBJECTIONS** of the **7TH RESPONDENT** above-named appearing by Sarravanan Neelakandan and Thulasica Neelakandan practising in partnership under the name style and firm of

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SARRAVANAN NEELAKANDAN LAW ASSOCIATES

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and their Assistants, Mohottige Don Raja Mannapperuma, Asurappuli Hewage Sumathipala, Francis Julian Pratheep, Amali Anuradha Mallikarachchi, Chandravathana Sachithananthan, Dumini Nathasha Perera and Amani Mackie Muzammil, its Registered Attorneys, state as follows:

1. The 7th Respondent states that these limited objections are filed according to the 7th Respondent's memory as he has no access to the documents in the custody of the Central Bank of Sri Lanka and of the Monetary Board since the 7th Respondent has relinquished his duties as the Governor of the Central Bank with effect from 04th April 2022.

2. The 7th Respondent reserves the right to file a more comprehensive set of objections if Your Lordship's Court provides an opportunity to do so after perusal of relevant documents.

3. The 7th Respondent's objections are filed based on his best recollection of the facts with regard to the several averments contained in the Petition and affidavit filed by the Petitioner, and documents in his possession and in the public domain.

4. The 7th Respondent denies all and several the averments contained in the Petition and affidavit save and except that which is specifically admitted hereinafter.

5. The 7th Respondent states that he last served as the Governor of the Central Bank during the period from 15th September 2021 to 4th April 2022.

6. The 7th Respondent states that he is unaware of the averments contained in paragraphs 1, 2, 3, 4 and 117 of the Petition.

7. The 7th Respondent admits the averments contained in paragraphs 5 and 7(a), (b), (f), (l) of the Petition.

8. Answering Averment 7 (c), the 7th Respondent admits that the 2nd respondent was the Minister of Finance from 21st November 2019 to 2nd March 2020, but specifically denies the rest of the averments contained therein and states that the 7th Respondent bears no responsibility insofar as violations of any Fundamental Rights of the Petitioners are concerned.

9. Answering Averment 7 (d), the 7th Respondent admits that the 3rd Respondent was the Minister of Finance from 28th July 2021 to 3rd April 2022, but specifically denies the rest of the averments contained therein and states that the 7th Respondent bears no responsibility insofar as violations of any Fundamental Rights of the Petitioners are concerned.

10. Answering Averment 7 (e), the 7th Respondent admits that the 4th Respondent was the Minister of Finance from 4th April 2022 to 9th May 2022.

11. Answering Averment 7 (g), the 7th Respondent admits that the 6th Respondent was the Governor of the Central Bank from December 2019 to 14th September 2021, but specifically denies the rest of the averments contained therein and states that 7th Respondent bears no responsibility insofar as violations of any Fundamental Rights of the Petitioners are concerned.

12. Answering Averment 7 (h), the 7th Respondent admits that the 7th respondent was the Governor of the Central Bank from 15th September 2021 to 4th April 2022, but specifically denies the rest of the averments contained therein and states that the 7th Respondent bears no responsibility insofar as violations of any Fundamental Rights of the Petitioners are concerned.

13. Answering Averment 7 (i), the 7th Respondent admits that the 8th respondent is the present Governor of the Central Bank from 8th April 2022 onwards, The 7th respondent also states that the 8th respondent has been a career officer at the Central Bank for nearly 3 decades upto January 2021. During such period, the 8th Respondent has held office as a Deputy Governor since September 2012, and served as the as the Chairman of the Monetary Policy Committee and the Foreign Reserve Management Committee and overseen the Departments of Economic Research, Statistics, International Operations, Domestic Operations, Macroprudential Surveillance, Exchange Control, Currency and Communication. He has functioned as the Senior Deputy Governor while also acting as the Chief Executive Officer of the Central Bank during the Governor's temporary absence, from 1st November 2017 upto 31st January 2021. According to official documents, the 8th Respondent had retired from the Central Bank as the Senior Deputy Governor only in January 2021, and therefore bears collective responsibility for the management and operations of the Central Bank in the various senior capacities that he has held upto that time.

14. Answering averments in Paragraph 7 (j), the 7th Respondent states that the 9th Respondent has the power to do and perform all acts as may be necessary as per the Monetary Law Act and its responsibilities and objectives are set out in the said Act.

15. Answering averments in paragraph 7 (k), the 7th Respondent admits that the 10th respondent was the Secretary to the Treasury/Ministry of Finance from 20th

November 2019 to 7th April 2022, but specifically denies the rest of the averments contained therein and states that the 7th Respondent bears no responsibility insofar as violations of any Fundamental Rights of the Petitioners are concerned.

16. Answering averments in paragraph 7 (l), 7th respondent admits that the 11th respondent is the present Secretary to the Treasury/ Ministry of Finance from 8th April 2022 onwards. The 7th respondent also states that the 11th respondent has been a career officer at the Central Bank for over 3 decades and has held office upto the level of the Deputy Governor of the Central Bank during the period upto 7th April 2022 and therefore bears collective responsibility for the management and operations of the Central Bank in the various senior capacities that he has held upto that time.

17. Answering the averments in paragraph 7 (m) in general, the 7th Respondent specifically denies the averments contained therein and states that the 7th Respondent bears no responsibility insofar as violations of any Fundamental Rights of the Petitioners are concerned.

18. The 7th Respondent specifically denies the averments contained in paragraphs 8, 9 (a), (b) (i),(iii),(iv),(v), 10, 11, 12, 13, and 14 and states that the 7th Respondent's bears no responsibility in so far as violation of any Fundamental Rights of the Petitioners are concerned.

19. By way of further answer to the averments contained in the Petition and Affidavit, the 7th Respondent states as follows;

(i) Reckless Debt Default of 12th April 2022

20. Answering paragraph 10(b), the 7th Respondent states that since the 7th Respondent was not the Governor of the Central Bank after 4th April 2022, he bears no responsibility for the decisions taken after such date.

21. **The 7th Respondent states that after his relinquishment of duties, the Government had decided to default on its sovereign debt (without even the necessary approvals) which had resulted in catastrophic long-term and short-term repercussions to the economy and caused the country to default on the repayment of foreign debts for the first time in its history, thus leading to the relegation of Sri Lanka to a state of bankruptcy/ insolvency.**

22. The 7th Respondent states that the decision to default on 12th April 2022 was highly suspicious, irrational, arbitrary, illegal, and wrongful and it is inexplicable that it had been hastily carried out in view of the fact that, by end March 2022, the "pipeline" of expected forex inflows showed a healthy position which had obviously been recklessly and callously disregarded.

That "pipeline" of expected inflows is given below:

"Pipeline" of additional expected inflows in 2022	USD million	Status by 4th April 2022
India – Oil Facility (Trade Finance)	500	Confirmed
India - Goods Facility (Trade Finance)	1,000	Confirmed
India - ACU postponement in addition to existing USD 1,500 m	500	Confirmed
China – Special Refinance Facility (Cash)	1,000	Confirmed
China - Goods (Trade Finance)	1,500	Confirmed
West Coast Power divestment proceeds	250	Very likely
Hilton and other hotel projects divestment	500	Very likely
Tourism inflows @ USD 100 per month for 9 months upto end 2022	900	Very likely
Green Bond – June 2022 – Discussion on-going	1,000	Very likely
Green Bond – September 2022 – Discussion on-going	1,000	Likely
Peoples Bank of China (PBOC) SWAP facility, likely to be made operative after negotiations	1,550	Likely, after the receipts of cash loans
Qatar Central Bank SWAP facility - Discussion on-going	1,000	Likely, after China & India inflows materialize
Existing SWAP facilities from India and Bangladesh to be rolled over with a possible further SWAP facility of USD 1 billion from the Reserve Bank of India		Very likely
Total	**10,700**	

23. **The 7th Respondent states that the sudden "default" announcement of 12th April 2022, completely disrupted all the above expected inflows,** with the possible exception of the roll-over of the India and Bangladesh SWAPs that had been previously negotiated. In fact, the Chinese Ambassador in Sri Lanka has specifically alluded to this situation as well. Of the above pipeline, a sum of USD 4,500 mn was confirmed as being in the final stages by 3rd April 2022, and a further amount of about USD 2,650 mn was very likely to materialize over the short term, which would have enabled the Government to settle the maturing payments due in 2022, while also rolling over several other existing loans, including Sri Lanka

Development Bonds and FCBU loans. Hence, the decision to default payment was inexplicable and utterly reckless. That irresponsible and illegal decision plunged Sri Lanka into a serious chasm of economic and financial isolation as a "bankrupt" nation, with the consequential severely damaging repercussions due to haunt the nation for many years to come.

24. The 7th Respondent states that, as set out in the table above, Sri Lanka was on the verge of receiving a significant inflow of funds of USD 1 billion and access to a trade loan of USD 1.5 billion from China that were expected to materialize towards the latter part of April 2022 or early May 2022. These inflows were officially announced by both the Chinese Ambassador in Sri Lanka on 21st March 2022 (True Copies of the Documents evidencing the aforesaid are **marked as Annexes "7R1(a)", "7R1(b)", "7R1(c)" & "7R1(d)" and pleaded as part and parcel of these Limited Statement of Objections**) and subsequently re-confirmed by the Sri Lanka Ambassador in China on 12th April 2022. (True Copies of the Documents evidencing the aforesaid are **marked as Annexes "7R2(a)", "7R 2(b)", "7R2(c)", "7R2(d)" & "7R2(e)" and pleaded as part and parcel of these Limited Statement of Objections**). At the same time, negotiations were at an advanced stage on the Indian line of credit for a further USD 1 billion for goods, and USD 500 million for oil, as well as a further financial accommodation of about an additional USD 500 million by the Reserve Bank of India through the postponement of the Asian Clearing Union (ACU) settlements. That is why it is inexplicable as to why a hasty decision was taken to announce the sudden "debt default" and non-payment of all forex debt and interest (including the July 2022 USD 1,000 mn International Sovereign Bonds ISB) from 12th April 2022 onwards, and thereby risk major adverse consequences, together with a massive "cross-default" as well.

25. The 7th Respondent states that there had been an ill-advised and erroneous claim that there was no other option but to default since by defaulting forex loans and thereby not paying the maturing debts, there would be sufficient forex resources "freed" and available in the country to import the requirements of all essential items needed by the people. However, the fallacy of that contention and the recklessness of that decision is now exposed, since by 12th July 2022, although the Forex loans and interest had been unpaid since 12th April 2022 for 3 months, there is now even less Forex available for the country to import any of the essential supplies. **Shortages and queues are increasing with no end in sight, because no country or overseas supplier now wishes to do business with Sri Lanka without an up-front payment, as the country has officially announced that it is bankrupt. Based on that announcement, the International Ratings Agencies have also**

placed Sri Lanka's sovereign debt rating at a default status, while also down-grading all Sri Lankan banks, further aggravating the situation.

26. The 7th Respondent states that the former Governors Professor W. D. Lakshman and A. N. Cabraal (6th and 7th Respondents) and former Treasury Secretary S. R. Attygalle (10th Respondent) had secured the required Forex inflows to pay loans and interest, as well as taken the required steps to roll-over maturing debt, while also sourcing Forex to buy fuel, coal, medicine, gas, and foodstuffs, and to clear the containers of imports, even with some delays. Not only did the Government settle the maturing ISB of USD 500 mn in January 2022 and all other maturing debts and interest in the months of January and February 2022, during the month of March 2022, the Government paid back and rolled-over sovereign Forex debt payments of a substantial sum of USD 1,166 million out of the total amount of repayments of approximately USD 7,100 million that was due in 2022. Thereafter, in April 2022, the Forex debt servicing was comparatively less at only USD 244 million, while the Forex debt servicing for May and June was only another USD 789 million. The repayment and roll-over of these amounts were comfortably manageable with the likely inflows from the 25% export conversions to be mandatorily sold to the Central Bank by the commercial banks and the roll-over of maturing SLDBs being arranged as in the past, in addition to the new cash inflows expected from China and India.

27. The 7th Respondent states that it is well known that when an ordinary person defaults on a loan to a bank and is named as a delinquent debtor in the Credit Information Bureau (CRIB), such person will not be able to get any more loans from any bank or from other lenders. Even if they do, it will be a very difficult endeavour. Shockingly, the Sri Lankan authorities did not seem to have anticipated that would happen to Sri Lanka as well, when it was hurriedly decided to unilaterally default on Sri Lanka's sovereign debt with an announcement being made to that effect.

28. The 7th Respondent states that it must be appreciated that it is not possible to have selective defaults of particular sovereign loans, since many loan agreements with international creditors have **"cross-default"** clauses which are far-reaching. It is also likely that those persons who were calling for the sovereign default of the ISB of January 2022, including the Petitioners did not realise or appreciate the fact that, as per the Offering Circular for the ISBs, the Sri Lankan Government had solemnly assured all prospective investors that ***"the full faith and credit of the Democratic***

Socialist Republic of Sri Lanka will be <u>pledged</u> for the due and punctual payment of the principal of, and interest on, the Bonds."

29. **The 7th Respondent states that when a sovereign forex loan is not repaid, the credibility of the country will be lost, and investors will shun that country.** It will be very difficult for the defaulting country to obtain new forex loans thereafter. The access to International Bond Markets may be lost for at least 5 to 10 years after the default. The country's banking system will be placed under a lot of pressure and face very serious difficulties when opening letters of credit and carrying out forex transactions. Forex loans and investments that were previously forthcoming to the local banks would be halted or postponed. Most forex-funded infrastructure projects will stop. Foreign Direct Investors will adopt a "wait and see" attitude. Small and medium sized import-based businesses and entrepreneurs will face the risk of collapse. Hundreds of thousands of jobs and livelihoods will be in jeopardy. Inflation and interest rates will rise. The Government will be compelled to sell valuable assets at low prices. The country's foreign policy will be compromised. Certain forex creditors will file legal action to recover their dues and the Government will incur huge litigation costs. Some creditors may call for the re-structure of local debt, which, if done, could lead to serious socio-economic consequences. Issue of Treasury Bills to the Central Bank (money printing) may increase significantly. The local currency will lose value. The Government's local currency payments, including salary and pension payments, will be stressed. **In a nutshell, grievous prejudice will be caused to the economy and the country. In fact, almost all of the above outcomes have been experienced by the country already after the reckless announcement of the debt default by the 4th, 8th and 11th Respondents about 3 months ago.**

30. The 7th Respondent states that it would have been vital to have a well-structured strategy to deal with the challenge of default if there was a compelling need to default the external debt, and not do so hurriedly as the failure to do so will definitely lead to unmanageable problems. It is also likely that those persons who proposed default (including think-tanks and INGOs) will not, at a later stage, assume responsibility when the default repercussions arise, and it will be the Government and the people that will have to face the consequences. That is why if a sovereign debt default was contemplated, it was the responsibility of the authorities to initiate and undertake a discussion on the subject and thereafter take a considered decision. In fact, a decision to default by a country is so serious that it should have properly received the formal approval of the Monetary Board and the Cabinet of Ministers with the advice of the Attorney General as well. Further, in view of the

fact that the Parliament had already voted the necessary funds for debt servicing at the time of approving the Budget and Parliament has the final responsibility for finances, obtaining Parliament's approval would have also been a pre-requisite for a default. Unfortunately, according to available information, Sri Lanka's unnecessary and reckless debt default had been carried out without any such prior approval.

31. **The 7th Respondent states that as a consequence of Sri Lanka's debt default there is now an increasing likelihood of forex creditors calling for local debt also to be re-structured, since the major part of the Sri Lankan Government's debt servicing is that of local debt.** Their contention may be that for "debt sustainability" to be achieved, a local debt re-structuring must also be carried out. It is possible that the International Monetary Fund (IMF) may also agree with such a contention given their past record in responding to debt sustainability situations in other countries. The Government and the Central Bank have of course stated that there is no need or intention to re-structure local debt. However, if the Government is compelled to do so, perhaps at the behest of the IMF, the fall-out from such a decision could be quite challenging to handle socially, economically and politically.

32. The 7th Respondent states that in any event, the 7th Respondent cannot be held responsible for the current crisis which has arisen mainly from the hasty and reckless decision to default on the sovereign forex debt, and thereby putting Sri Lanka into an almost irretrievable position of despair and hopelessness, particularly because such default did not have the prior approval of the Monetary Board, the Attorney General, the Cabinet of Ministers or the Parliament.

(ii) Downturn of economy from 2015 to 2019

33. The 7th Respondent states that it has been averred that the unprecedented economic crisis driven by "debt unsustainability" has been due to, *inter alia,* the gross mismanagement of the economy by several respondents including the 7th Respondent. However, it would be noted that the Sri Lankan economy had its most remarkable growth and progress during the period 2006 to 2014 when the 7th Respondent was the Governor of the Central Bank of Sri Lanka. For purposes of record, a summary of the economic progress from 2006 to 2014 was as follows:
    - Gross Domestic Product (GDP) grew from USD 24 bn in 2005 to USD 79 bn in 2014, with an average growth of about 6.4% over the final 5 years, 2010 to 2014.
    - Local and Foreign Investment increased, year on year.

- There was growing confidence in the economy, particularly after the conflict.
- Single digit inflation was maintained an uninterrupted period for about 6 years.
- The LKR was stable with a gentle appreciation of the LKR in 2013 and 2014.
- A healthy forex reserve cover was achieved, where reserves increased from USD 2.6 bn in 2005 to USD 8.2 bn in 2014.
- Public Debt to GDP ratio reduced sharply from 91% in 2005 to 72% in 2014. Low Forex debt-servicing was at manageable levels with only about USD 280 mn needed for ISB debt-servicing in 2014.
- Modest growth was recorded in exports and remittances, on an yearly basis.
- Tourism experienced exponential growth, particularly after the conflict.

34. The 7th Respondent states that, in contrast, from 2015 to 2019 the economy suffered a continuous downturn, resulting in the IMF determining that the economy of Sri Lanka was "vulnerable" at the "eve" of the Covid-19 Pandemic. In particular, the forex borrowing of the Government ballooned by 65% from USD 23.4 bn to USD 38.7 bn from 2014 to 2019, as a result of a major forex borrowing blitz in 2018 and 2019: the ISBs volume grew from a modest level of USD 5.0 bn (6% of GDP) in 2014 to a highly vulnerable level of USD 15.0 bn (18% of GDP) by 2019. The average interest rate for ISBs also increased significantly and the ISB debt servicing rose to nearly USD 1 bn in 2020 from about USD 280 mn in 2014, although there was only a very slight improvement in the GDP over the five years. In addition, GDP Growth was sluggish and down to around 2% by 2019. High tax rates had been introduced, but the Fiscal Deficit remained high due to the high interest cost consuming the additional tax revenue. Further, Government revenue actually decreased in 2019 although the tax rates were high, due to the economic downturn. Even after a net ISB increase of USD 10 bn, other term loans of USD 2 bn, and inflow from Hambantota Port sale of USD 1 bn (total forex cash inflows of USD 13 bn), forex reserves were down to just USD 7.6 bn by end 2019 from USD 8.2 bn by end 2014. Only marginal growth in exports was recorded in the 5 years, and almost no growth in remittances. Tourism was badly affected after the Easter Sunday bombing. The IMF Article 4 Report-Press Release for 2022 (first paragraph) (True Copies of the Documents evidencing the aforesaid are **marked as Annex "7R3" and pleaded as part and parcel of these Limited Statement of Objections**) referred to Sri Lanka's economy being highly vulnerable at the eve of the Covid Pandemic, which means that the vulnerability was already prevalent at the beginning of 2020.

*Please also see CBSL Road Map of 1st October 2021 (*True Copies of Documents evidencing the aforesaid are **marked as Annex "7R4" and pleaded as part and parcel of these Limited Statement of Objections**) *(where many of those matters have been explained), and where the Way Forward for different stakeholders had been communicated by the Central Bank, as soon as the 7th Respondent assumed duties as the Governor.*

In fact, the 7th Respondent also referred to many of these matters in his **Presentation to Cabinet on:** *"ශ්‍රී ලංකාවේ ණයබරතාවය, දැනට මුහුණ දෙන අභියෝග සහ යෝජිත විසඳුම්"* on 26th October 2020, while serving as the State Minister of Money Capital Markets and State Enterprise Reforms. (A True Copy of the Document evidencing the aforesaid are **marked as Annex "7R5" and pleaded as part and parcel of these Limited Statement of Objections))**

The 7th Respondent also made a Presentation as the Governor of the Central Bank at the All-Parties Conference on 23rd March 2022, which is found at the following web link:
(https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/press/notices/notice_20220328_Governors_speech_in_all_party_conference_e.pdf)

35. The 7th Respondent states that the following extracts from that presentation at the All-Party Conference may also be relevant:

Quote:

The current economic crisis

35.1 *The whole world is aware of the massive economic crisis we are facing today. We witnessed how economies of many countries were falling into massive crises over the past two years when hit by the COVID-19 pandemic. This was experienced by almost every country. When COVID-19 pandemic started to escalate gradually into a global crisis, some countries were on a strong economic foundation, but some countries were weak due to various reasons. Unfortunately, Sri Lanka belonged to the latter category as the economic growth rate in Sri Lanka had gradually fallen from 7 percent to 2 percent during 2015-2019. Forex reserves had dropped by almost USD 1 billion, despite the growth of foreign debt by a significant USD 15 billion. The GDP had grown to only USD 84 billion from USD 79 billion. The tourism industry had stalled following the Easter Sunday attack. The total of foreign debt servicing payable per year had increased from about USD 2 billion to nearly USD 6 billion. The Sri Lankan rupee had depreciated to Rs.182 from Rs.131 against the USD. Therefore, the already weakened Sri Lankan economy was not economically prepared to withstand* *the shock of the pandemic. Thus, the Government and the Central Bank of Sri Lanka had to face the crisis by implementing various innovative methods and new ways.*

35.2 *As a result of the pandemic and its aftermath, Sri Lanka had to allocate large amounts of money for vaccines: a debt moratorium amounting to over Rs. 4 trillion had to be granted to the pandemic affected individuals and businesses. The loss of economic activities to the country due to the lockdown amounted to more than Rs. 1,000 billion: the drastic decline in government revenue compelled the Central Bank to finance government payments: the annual average foreign exchange inflows from the tourism industry fell from USD 4.5 bn per annum to near-zero levels: there was a severe decline in forex remittances since mid-2021 due to various reasons: a steep increase was experienced in crude oil prices to USD 130 per barrel due to the war between Russia-Ukraine: and inflation all over the world recorded its' highest rates over many decades.*

35.3 *As a result of these effects, it is no secret that prices in Sri Lanka have moved well beyond expectations due to supply side pressures coupled with the pick-up in aggregate demand. At the same time, due to the scarcity of foreign exchange, the scarce forex inflows had to be distributed among various needs, such as debt servicing, financing fuel and other essential imports, and other essential forex outflows. Unfortunately, at the same time, scarce foreign exchange had also been expended on financing non-essential and non-urgent imports that kept pouring into the country. Meanwhile, the electricity supply had been interrupted from time to time due to the declining water levels in the reservoirs and shortage of fuel for electricity generation.*

35.4 *The weakening financial conditions of the relevant state-owned business enterprises due to the continuous maintenance of prices and tariffs below cost, had also emerged as another crisis. Therefore, it was by supplying more than USD 1,800 mn in foreign exchange to the forex market since August 2021 to date, for the importation of essentials such as food items, medicine, fuel, coal and gas, even amidst severe difficulties, that the Central Bank was able to ease the severity of the situation to a certain extent. In the circumstances, we will be compelled to state without doubt that the current economic crisis is extremely severe.*

The primary reasons for this foreign exchange crisis: External debt crisis

35.5 *One of the main reasons for the present day external debt challenge in Sri Lanka is the steep rise in external indebtedness during the 5 years, from 2015 to 2019. In that regard, we need to acknowledge an increase in external debt is a lot riskier than an increase in domestic debt. During the 5 years from 2015 to 2019, Sri Lanka's external debt stock increased by a massive 65% from USD 23.4 billion to USD 38.7 billion. Even more seriously, International Sovereign Bonds outstanding, which is a form of commercial debt increased 200%, from USD 5 billion to USD 15 billion, even though the GDP increased only by 5.8%, from USD 79 to 84 billion.*

35.6 *This huge mis-match made it very challenging to meet the payments on account of debt servicing amounting to nearly USD 6 billion from 2019 onwards, although in*

2014, it was only about USD 2 billion. If the economy which was at USD 79 billion in 2014, had grown by 65% to around USD 131 billion by 2019, this challenge would not have been serious. However, by 2019, the economy had grown only up to USD 84 billion and therefore, this repayment of foreign debt and debt servicing had become extremely challenging.

Table: Outstanding Foreign Currency Denominated Central Government Debt

(USD. million)

	31 Dec. 2014	31 Dec. 2019	31 Dec. 2020	31 Dec. 2021	28 Feb. 2022
Debt Instruments/ Types of Debt					
Sri Lanka Development Bonds	2,984	3,084	2,639	2,295	2,089
Foreign Currency Banking Unit Loans	150	925	1,220	695	449
Syndicated and Term Loans	-	1,333	1,500	2,223	2,224
Projects Loans	15,309	18,293	19,084	18,943	19,017
International Sovereign Bonds	5,000	15,050	14,050	13,050	12,550
Other		63	55	49	48
Total Foreign Currency Denominated Debt	23,443	38,748	38,548	37,255	36,377
Gross Domestic Production *(US Dollar. billion)*	79.4	84.0	81.0	n/a	n/a

USD million

	2014	2019	2020	2021	2022
Foreign Currency Denominated Debt Service Payments	2,102	5,560	5,940	6,366	7,024

Loss due to the COVID-19 pandemic and the imposition of lockdown measures

35.7 *At the same time, the economic growth rate further decreased alongside the imposition of lockdown measures, and the GDP deteriorated significantly to USD 81 billion by the end of 2020, further worsening the situation. Therefore, arresting the continuing recession despite some modest growth in 2021, had become a very difficult proposition for the new government. In the face of the COVID-19 pandemic, many were of the view that the country should be in a strict lockdown to save the lives of the people. Accordingly, the country was in a lockdown in 2020 and 2021 for very long periods. As a result, industries and businesses were hit hard, while the small and medium-sized enterprises (SMEs) were also severely affected.*

35.8 *As a result, Sri Lanka's economy contracted by 3.5% by 2020, while in 2021, the growth rate is set to record a modest rate of around 4% only. It is true that this loss has led to serious economic downturn in the country, and the consequences were even more severe, since the economy had already been in a major downward spiral by the end of 2019. In fact, the challenge posed was severe, especially to the external sector, for several reasons. The first is that the amount of public debt borrowed in foreign exchange had increased by 65% during the 5-year period from 2015 to 2019._The second is that the regular foreign exchange inflows received by the tourism sector alone in 2020 and 2021 had declined by about USD 9 billion. Third, in 2021, the foreign exchange inflows through workers' remittances had declined by about USD 1.5 billion.*

35.9 *The lesson that could be learnt here is that while the lives of people are to be valued, it is important to value the livelihoods of the people as well. Although some persons may insist that the country should be in a lockdown in times of a pandemic, it should also be understood that the situation and the pressure which a country and the economy would have to face later as a consequence may be also extremely challenging. Therefore, going forward, it should be kept in mind that all persons must adhere to health guidelines while adapting to the new normal, as the country cannot afford any further lockdowns.*

End of Quote

36. **The 7th Respondent states that from the above it is clear that the down-turn the Sri Lankan economy had been ongoing since 2015, and that with the onset of the Covid pandemic in early 2020, the situation had worsened quite significantly.** In that context, it is very strange that the Petitioners had ignored this vital and significant aspect in relation to the downturn and not sought to hold the then key officials accountable for the decline. By deliberately attempting to place blame only upon those who assumed office from late 2019 onwards, the Petitioners have displayed their clear bias and an ulterior motive that their only focus is a "witch-hunt" to assign blame on certain selected individuals as specifically chosen by the said Petitioners which includes an "International" Non-Governmental Organization which is well-known for "selected" interventions.

(iii) Erosion of Reserves during 2015 to 2019

37. The 7th Respondent states that, if the Petitioners had carried out un-biased and professional evaluation of Sri Lanka's external sectors, they would have noted that the **Forex Reserves that should have been available at the Central Bank as at the end of 2019 should have been at least USD 25 bn higher if the external sector had been more prudently managed. In fact, by end 2019, the Forex Reserve was only USD 7.6 bn, although the Forex Reserve was USD 8.2 bn as**

far back as 5 years earlier as at end December 2014. Of course, at various times, certain persons have attempted to make out that the Forex Reserve by end 2019 was substantial, and that it had been irresponsibly squandered by the subsequent administrations. However, when a deep analysis is done, it is clear that the Forex Reserve available by end 2019 was much less than what should have been available, and that **the deficiency in the Reserve would be as much as a staggering USD 25 bn.** A simple computation of specific inflows that would have impacted the Gross Forex Reserves in given below:

Sources of Forex Inflows /Savings from 2015 to 2019	**USD bn**
Benefit of global fuel prices decrease from 2015 to 2019 (minimum)	7.5
Net ISB issues (Issues of USD 12.0 bn – settlements of USD 2.0 bn)	10.0
Additional tourism receipts (minimum)	4.0
Hambantota Port - Sales proceeds	1.0
China Development Bank – Term loans	2.0
New inflows and savings that should have been added to the Reserves by 31.12.2019	24.5
Add: brought forward Forex Reserves on 01.01.2015	8.2
Forex Reserves that should have been available on 31.12.2019	**32.7**
Less: Actual Forex Reserves on 31.12.2019	(7.6)
Unexplained Short-fall of Forex Reserves as at 31.12.2019	**25.1**

38. The 7th Respondent states that the above table indicates that Forex Reserves as at 31st December 2019 had only been an actual amount of USD 7.6 bn, instead of USD 32.7 bn which should have been the minimum amount at hand by that date. **Needless to say, if USD 32.7 bn had been available in the official Forex Reserves at end 2019, Sri Lanka would have possessed sufficient Forex Reserves to comfortably absorb and navigate the shock of the Covid 19 pandemic and its after-effects on the country's external account.** This significant "short-fall" was confirmed by the IMF Article IV Report in March 2022 which highlighted that Sri Lanka was "vulnerable" at the "eve" of the Pandemic and that there were "inadequate external buffers" at the time of the new Government taking office around the end of 2019.

39. The 7th Respondent states that the above short-fall further confirms the IMF statement in March 2022 that there were **"inadequate external buffers"** at the time of the new Government taking office, around the end of 2019. In this background, the new Government had to follow a "non-debt" forex inflows strategy as there was very little policy space for Sri Lanka to increase its external borrowings any further. In fact, such strategy was prudently followed from 2020 onwards, and was re-

iterated when the "CBSL Road Map" was announced in October 2021. **In any event, the market opportunities to issue new ISBs in the wake of Covid-driven inactivity in the global bond markets also made it almost impossible to issue any new Sovereign Bonds, as did the ratings downgrade that had been imposed on more that 100 countries in the wake of the economic uncertainty that arose after the onset of the Covid Pandemic.**

40. The 7th Respondent states that if the officials who held office from late November 2019 to early April 2022 are being requested to explain their roles in the management of the economy during their period in office and even for outcomes after their terms of office, it is fair that those who held office prior to November 2019 should also be held answerable and responsible for the "vulnerability" of the economy (as also stated by the IMF) by that time. In such circumstances, it is suspicious, surprising and inexplicable that the Petitioners has carefully avoided any reference to those in office previously, and only alluded to the actions of a few selected individuals only.

(iv) Consideration of macro-economic fundamentals in a holistic manner

41. The 7th Respondent states that it is observed that there is a tendency for many persons to consider specific economic macro-fundamentals in isolation, instead of considering the impact of each of the macro-fundamentals on the behaviour and function of other inter-connected macro-fundamentals. As a result, there is often a dis-connect *vis-à-vis* the commentaries regarding the overall behaviour of the macro-fundamentals since that aspect is often over-looked by certain analysts. Nevertheless, the Monetary Board and the Central Bank have to view and consider all macro-fundamentals in a holistic manner and not each one in isolation. In doing so, the country's and people's present and future vital needs have to be often balanced against Central Bank's own liquidity needs in the usage of the country's forex and local currency reserves. It must be noted that the Central Bank has a responsibility to secure both "economic and price stability" and "financial system stability" as per the Monetary Law Act. Accordingly, all competing issues have to be "balanced" against one another in working towards those objectives. For example, "excess" issues of Treasury Bills by the Government to the CBSL was at times a dire necessity to keep Sri Lanka from defaulting on its sovereign debt and for the Government to be able to make vital payments on many occasions, and had to be resorted to, even with a future risk of demand-driven inflation. On several occasions, forex also had to be directly provided by the CBSL to the two systematically important state banks to prevent those institutions from defaulting,

even when the CBSL reserves were at low levels, in keeping with the CBSL's "financial system stability" objective. There was also a vital and long-term need to keep the country solvent, in keeping with the 74-year old Government policy of honoring its debts, as otherwise obtaining new loans or even opening a simple letter of credit by a local bank would have been almost impossible.

42. The 7th Respondent states that it is also noted that all matters and issues raised by the Petitioners are matters where the decisions had been taken by the 9th Respondent in a legal manner, based on the existing facts as presented, expectations of future events and the best judgement of the persons vested with decision-making authority in relation to the economy, including the 7th Respondent during the period he served as the Governor. Further, the decisions taken and actions implemented by the 9th Respondent while the 7th Respondent was in office as the Governor, were not for the 7th Respondent's individual or personal benefit, but as an integral part of implementing Government or Monetary Board policies that were lawful. At the same time, it was always ensured that the decisions of the Monetary Board were taken either unanimously or by majority vote so that all decisions were lawful.

43. The 7th Respondent states that in the case **S.C.F.R. Application No. 457/2012 - *Senasinghe vs Cabraal,*** Justice K. Sripavan has judicially pronounced that certain economic decisions will need to be taken at the ground level at the particular time, based on the information available and the reasonable expectation and judgement of the members of the decision-making authority, namely the Monetary Board. The following dicta in ***Senasinghe vs Cabraal*** is very relevant to explain this principle: *"We must not forget that in complex economic policy matters every decision is necessarily empiric and therefore its validity cannot be tested on any rigid formula or strict consideration. The Court while adjudicating the constitutional validity of the decision of the Governor or Members of the Monetary Board must grant a certain measure of freedom considering the complexity of the economic activities. The Court cannot strike down a decision merely because it feels another policy decision would have been fairer or wiser or more scientific or logical. The Court is not expected to express its opinion as to whether at a particular point of time or in a particular situation any such decision should have been adopted or not. It is best left to the discretion of the authority concerned".*
(https://www.supremecourt.lk/images/documents/scfr_application_457_2012.pdf)

44. The 7th Respondent states that any person could do a post-mortem on any matter with subsequent outcomes and post acquired information, in relation to a prior decision. However, it must be appreciated that the Monetary Board has to take decisions in real time, taking the then existing circumstances, exigencies, priorities and available information into consideration. Also, it must be remembered that many competing issues may need to be considered and suitably balanced from a national point of view as well, without only viewing a particular issue or subject in isolation or from a specific angle or view point. In any event, it is also noted that although the Petitioners have questioned the judgment of the decisions taken by the 7th and 9th Respondents, not a single instance of *mala fide* or bad faith on the part of the 7th Respondent has been levelled by the Petitioners.

(v) Allowing flexibility of the (Sri Lankan Rupee (LKR)

45. The 7th Respondent states that the Petitioners have alleged that the depreciation of the Sri Lankan Rupee (LKR) was not done in an "orderly" manner. It is of course well known that different stakeholders have different view-points about the value at which the currency should be maintained or traded, or what policy should be followed to determine the value of the currency, or the timing of those decisions, depending on their own preferences and circumstances. However, the Central Bank has to take a holistic view since the value of the currency will have a major impact on the debt stock, the debt repayments, cost of living, inflation, price and economic stability, financial system stability, exports, imports, remittances, forex inflows, forex outflows, etc. The Central Bank also has to be very conscious of the timing of these decisions as well. That is why the several factors that affect those decisions have to be carefully considered and the Monetary Board has to take such decisions after a proper and structured discussion.

46. **In that background, the decision to allow flexibility in the exchange rate was taken by the Monetary Board of the CBSL on 7th March 2022, and that decision was based on a Monetary Board Paper dated 7th March 2022 submitted by all three Deputy Governors (11th Respondent, Mahinda Siriwardene, Dammika Nanayakkara & Mrs Yvette Fernando), Director Economic Research Department Dr. Anil Perera and Director International Operations Department Dr. Sumila Wanaguru.** The Board Paper stressed the need for changing the exchange rate policy immediately in order that the exchange rate acts as a "shock absorber" in the face of adverse developments in the global front on Sri Lanka's already fragile Balance of Payments, including the increase of

the crude oil price to nearly USD 140 per barrel and the worsening Russia-Ukraine war.

47. The 7th Respondent states that based on that Board Paper and the discussion at the meeting, the Monetary Board accordingly decided to *"allow the market to have a greater flexibility in the exchange rate with immediate effect and communicate that the Central Bank is of the view that forex transactions would take place at levels which are not more than Rs. 230 per US dollar"*. From the above it will be clear that, while the Monetary Board had expressed its "view" as to the level at which forex transactions would take place as a market guidance, a clear decision had been taken to allow for the flexibility of the LKR in the forex market. On the same day, a statement was issued to the media in line with the above decision.

Refer:
https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/press/pr/press_2022
0307_policy_package_to_support_greater_macroeconomic_stability_e.pdf.

Further, within about a week of floating the LKR, the President Gotabaya Rajapaksa made a formal announcement that the government had initiated discussions with the International Monetary Fund for a programme.

48. The 7th Respondent states that at the time of the 7th Respondent's resignation on 4th April 2022, the LKR was trading at Rs. 289.73/299.99 per USD in accordance with the new "flexible" exchange rate policy as announced by the Monetary Board. In fact, prior to the exit of the 7th Respondent as Governor, there had been an assurance from the Sri Lanka Bank's Association that their intention is to maintain the LKR at a range between Rs. 294.00/299.00 per USD, and that arrangement had been somewhat instrumental in restoring stability in the exchange rate at that time. (True copies of the Documents evidencing the aforesaid are **marked as Annex "7R6" and pleaded as part and parcel of these Limited Statement of Objections**). Even after the 7th Respondent's exit as Governor, the Monetary Board chaired by the new Governor Dr. Weerasinghe (8th Respondent) continued with the "flexible" exchange rate policy whilst the Government and CBSL also took a series of far reaching decisions which included the hotly-debated decisions to sharply increase policy interest rates by 700 bps from 8th April 2022 onwards, and the sudden discontinuation of repayments of forex loans and interest from 12th April 2022 onwards. In the meantime, the LKR continued to depreciate to a range of Rs. 364.23/377.50 against the USD by 12th May 2022, at which point, the Monetary Board under the 8th Respondent had apparently once again decided to "fix" the

exchange rate at a new range between Rs.355.00/Rs.365.00 per USD, with the move to "fix" the exchange rate being titled *"Middle Rate of USD/LKR Spot Exchange Rate and Variation Margin"* (True copies of the Documents evidencing the aforesaid are **marked as Annex "7R7" and pleaded as part and parcel of these Limited Statement of Objections**) although it was quite similar to the policy adopted by the Monetary Board chaired by Governor Professor W D Lakshman (6th Respondent) which "fixed" the LKR exchange rate at a range of Rs.199.00/203.00 per USD from 6th September 2021 onwards. Thereafter, on 6th June 2022, the Central Bank issued a statement explaining the new "exchange rate policy" (True copies of the Documents evidencing the aforesaid are **marked as Annex "7R8" and pleaded as part and parcel of these Limited Statement of Objections**) which "fixed" the exchange rate under Governor Dr. Nandalal Weerasinghe (8th Respondent). Hence, if the Petitioners have any concerns about the conduct of the exchange rate policy under the 7th Respondent, they would also need to refer to the policy adopted by the Monetary Board under the 8th Respondent which had resulted in the LKR depreciating from Rs. 294.00/299.00 per USD to Rs. 364.23/377.50 per USD, and for the increase in inflation from 18.7% in March 2022 to 54.6% in June 2022 fueled by the currency depreciation and the massive policy interest rate hike of 7% on 8th April 2022. The sharp increase in the Government's borrowing costs due to the resulting increase in the Treasury Bills and Bonds yield rates are also matters that have been impacted by the policies followed after 4th April 2022, as may be noted from the following table.

Period of T/Bills	**1st April 2022**	**8th July 2022**	**Increase**
91 – day (%)	12.92	28.08	15.16
182 – day (%)	12.25	28.74	16.49
364 – day (%)	12.28	28.11	15.83

Source: CBSL Weekly Indicators

49. The 7th Respondent states that it is of course likely that if Sri Lanka pursues an IMF programme the IMF will insist that the "flexible" exchange rate policy must be continued once again. In any event, exports, remittances and other forex earnings have still not picked up sufficiently, even through such an outcome was expected by the authorities when the exchange rate was allowed to float. Hence, even though the IMF will probably insist that the LKR "float" policy be restored, the Sri Lankan authorities will need to take a carefully considered position in this regard as inflation is presently expected to exceed 70% (as per the 8th Respondent), and further depreciation of the LKR could drive inflation to "hyper-inflation" unmanageable levels, with resulting dire consequences.

(vi) Why was the IMF not accessed earlier?

50. The 7th Respondent states that the Petitioners have also referred to an alleged continued "refusal" to seek the assistance of the IMF and that such action was wrong and misconceived. What the Petitioners have attempted to technically opine is that all economic problems of Sri Lanka would have been solved if the authorities had sought the assistance of the IMF, thereby giving the impression that the only course of action available to Sri Lanka was to have an IMF programme. In that regard, the Petitioners seem to have deliberately withheld a large number of instances and case studies where social tensions of serious proportion had erupted and the political systems had failed in certain countries in the face of IMF programmes. The Petitioners also seem to have conveniently overlooked the fact that there would be tough conditions (prior-actions, tight monetary and fiscal targets, unpopular structural reforms etc) that may need to be agreed to by the Government and CBSL in order to access new IMF funding, and that fulfilling those conditions could sometimes lead to serious social up-heavels as well. Some of disadvantages of an IMF programme which many persons including the Petitioners, often prefer not to discuss, would be:
    - *The IMF is likely to require Sri Lanka to raise tax revenue by increasing taxes.*
    - *The IMF is likely to require Sri Lanka to cut down expenditure. Given the rigidity of expenditure, there is likely to be an impact on welfare expenditure.*
    - *The IMF is likely to require liberalization of pricing of public utilities and petroleum prices.*
    - *The IMF is likely to request for adjustments in interest rates and exchange rates, which will amplify Sri Lanka's debt burden. Sharp and unpredictable adjustments of the exchange rate may hamper investor confidence.*
    - *The above adjustments will increase cost of living, at a time when the increase in cost of living is already high.*
    - *Debt renegotiations will be a tedious process with at least a 2-3 year adjustment period. External financial sector/legal experts will be required for this process.*
    - *During the period of restructuring/reprofiling of debt, Sri Lanka is unlikely to be able to secure foreign financing. This will result in a significant overshooting of the exchange rate, along with further curtailment of spending of imported goods and services during this period.*

- *Sri Lanka may also be requested to restructure/reprofile domestic debt. This will have serious repercussions on mobilizing financing for day-to-day operations of the Government.*
- *Sri Lanka's impeccable track record will be broken, which will tarnish long term credibility of the country.*
- *Ability of the country to carry out home-grown reforms to support non-debt build up of reserves and reduce the current account gap may get hampered.*

From the above, it will be noted that the disadvantages set out above are extremely serious and some of the possible conditions could be almost impossible to implement. That would mean that it may even not be possible to fulfil the likely conditions given the political environment, which would, in turn, mean that the country could be completely starved of finances after an approach to the IMF. The 7th Respondent states that a possible new IMF programme, if pursued, will need to be managed and negotiated very skillfully and carefully, both politically and economically. Otherwise, the programme itself could lead to the serious de-stabilisation of the country and the economy and even widespread social unrest. Several countries have experienced severe challenges in recent times due to the negative fall-out of IMF programmes. These include experiences in Greece, Indonesia, Pakistan, and Argentina. Please also see following Annexes:

Annex 7R 9 (a) – IMF bailout – road to stability or recipes for disaster?

Annex 7R 9 (b) – Insights into the IMF bailout debate: A review and research agenda;

Annex 7R 9 (c) – China "sad" that Sri Lanka went to IMF and defaulted: envoy

Annex 7R 9 (d) – How to the IMF bungled the Greek debt crisis

Annex 7R 9 (e) – Government's discussions with IMF has affected SL's request for $ 2.5 billion from China: Chinese Envoy

Annex 7R 9 (f) – Sri Lanka and Argentina

(True copies of the Documents evidencing the aforesaid are **marked as Annexes "7R9(a)", "7R9(b)", "7R9(c)" , "7R9(d)", "7R9(e)" & "7R9(f)" and pleaded as part and parcel of these Limited Statement of Objections**)

51. The 7th Respondent states that in any event, since early 2020, the government under President Gotabaya Rajapaksa has implemented a plan consisting of several components for the external sector. These components included:
    (a) securing of multi-lateral and bi-lateral loans;
    (b) monetization of selected assets;
    (c) obtaining Central Bank SWAPs;

(d) promoting Hambantota Industrial & Pharmaceutical Zones, Colombo Port City and other FDIs; and,

(e) increasing non-debt inflows, remittances and exports. That official government stance was well known and pursued quite diligently (although not all components were too successful) until the President announced that he was seeking an IMF programme on 15th March 2022.

52. The 7th Respondent states that in the period upto March 2022, the analysis of publicly available data shows that the Government secured forex cash loans of almost USD 1,300 million from the China Development Bank while the Central Bank of Sri Lanka (CBSL) obtained a SWAP facility of USD 1,550 million from the Peoples Bank of China. The CBSL also secured "bridging finance" of over USD 1,500 million from India through the post-ponement of the Asian Clearing Union (ACU) settlements, and a further SWAP facility of USD 400 million from the Reserve Bank of India. In addition, another SWAP facility from the Bangladesh Bank was obtained for USD 200 million. **The cumulative value of all those inflows was around USD 4,950 million.** Incidentally, such sum is well over the USD 3 bn that many have claimed as being the amount that would have been received by the Sri Lankan Government and the CBSL, had the Government embarked on an IMF programme. In fact, it was by using these new funds, and the "brought forward" forex reserves of USD 7.6 bn as at 31st December 2019 of the CBSL, that the three International Sovereign Bonds totaling USD 2,500 million were settled in 2020, 2021 and 2022, together with other maturing debt, while also providing significant liquidity support of nearly USD 2,000 million to the State Banks, and supplying forex for urgent essential imports of around USD 1,800 million for food, fuel, gas, coal, medicines, etc., at the request of the Government.

53. The 7th Respondent states that, in addition, the Government finalized a trade credit line of USD 1,000 million for oil imports and USD 1,000 million for other essential imports from the Government of India and access to these facilities had commenced from late March 2022 onwards. Further, based on an appeal from the President of Sri Lanka to the President of the Peoples' Republic of China in January 2022, China had also indicated that it was ready to provide a liquid finance facility of USD 1,000 million and another facility of USD 1,500 million for import financing. In fact, these facilities were officially referred to by China's Ambassador in Sri Lanka on 21st March 2022 and Sri Lanka's Ambassador in China on 12th April 2022. **On the**

basis of the above assurances from China and India, further commitments of USD 4,500 million were also assured.

54. **The 7th Respondent states that in the light of the materialized receipts of USD 4,950 million by end March 2022 (as set out elsewhere in this document) and credible commitments of USD 7,150 million, the decision taken by the Government to pursue its stated path could be justified.** In fact, the situation would have been grave from about 2021 onwards, if the aforementioned forex inflows had not been diligently planned and arranged by the authorities and the commitments not obtained, whilst only relying on a possible IMF programme, which could have been delayed or dragged on for whatever reason, even if the IMF had been approached earlier. In all probability, if Sri Lanka had reached out to the IMF, Sri Lanka would not have received the other finances (as seen and experienced today), where financing sources or other countries are not extending funds and merely stating that they are awaiting the "IMF talks outcome" which is very uncertain and unpredictable. In fact, already all possible funding agencies and traditional bi-lateral development partners have announced that they have decided to wait for the IMF programme to be in place, before any bi-lateral funds or "bridging finance" could be committed, and since Sri Lanka as the recipient country is dependent on such bi-lateral funds, the economy is now starved of new funds, and consequently, in serious jeopardy.

55. **The 7th Respondent states that in any event, it must be clearly understood that seeking a programme with the IMF is a decision that has to be taken by the President and the Cabinet of Ministers, and not by an official such as the 7th Respondent.** If the Cabinet had taken a policy decision one year or even two years ago to approach the IMF and informed the country of the Government's intention to do so, the entire governmental machinery including the CBSL and Ministry of Finance (MOF) would have complied with that decision. In fact, that happened on 15th March 2022, when the President made the official announcement that the Government would seek an IMF programme.

56. The 7th Respondent states that it is now 4 months since the Government approached the IMF on 15th March 2022, and that since then, most "bridging financing" and other arrangements have not been forthcoming since all such possible lenders are awaiting the outcome of the discussions and negotiations with the IMF. Meanwhile, the country is facing a serious shortage of forex and the present authorities are struggling to even provide for the basic necessities, even after defaulting on the forex debt. Inflation has risen to over 50%, and is expected to exceed 70%

according to the 8th Respondent. The cut-off levels of Treasury Bill interest rates have already soared beyond 35% per annum. Rumours abound about certain drastic likely IMF conditions and many persons are highly apprehensive as to what may happen, if those conditions are to be met by the Government and the CBSL. In any case, there appears to be no finality of a Programme, and conflicting statements emanate from various authorities at intervals, eroding what little confidence that is left. If, as the Petitioners claim, the IMF was the panacea for all Sri Lankan economic ills, even after 4 months of approaching the IMF, there does not appear to be any encouraging signs of such a benefit, although many negative outcomes could of course be pointed out. The limited progress seems to also indicate that Sri Lanka is slowly but surely being strangled by outside forces on whom the Government is now compelled to rely upon, and needless to say, over a very short period, the economy is likely to shrink further, and the country will be at risk of plunging towards despair and destruction. It is also now observed that fresh conditions are being proposed by powerful and influential IMF members which may make it even more challenging for Sri Lanka to ever access an IMF Programme and its funds, without first making contentious social and foreign policy changes as well.

(vii) Settlement of the ISB of USD 500 mn in January 2022

57. The 7th Respondent states that the Petitioners have gone to great lengths to suggest that Sri Lanka should not have serviced its Sovereign debt, including the maturing ISB of USD 500 mn on 18th January 2022. In fact, the 1st Petitioner had been one such proponent who had actively and publicly canvassed that Sri Lanka should not honour its ISB maturities and other commitments. At the same time, there are many others, including the present Prime Minister and Finance Minister (5th Respondent), who have clearly stated that it would be highly counter-productive if Sri Lanka were to default. **In that context, the 7th Respondent re-iterates that it was quite possible for Sri Lanka to service its debt even with certain difficulties and that it is only by defaulting its forex debt that the country and economy had been subjected to most grievous prejudice and catastrophe.**

58. The 7th Respondent states that the International Sovereign Bond settlement of USD 500 million on 18th January 2022 was a routine and Parliament-approved budgeted debt repayment out of a total of approximately USD 7,100 million forex debt-servicing payments and Rs.3,000 billion local debt-servicing payments that were maturing in the year 2022. According to published information, that amount of USD

500 million accounts for about 7% of the Government's forex debt-servicing and about 2.3% of the total debt-servicing in 2022.

59. The 7th Respondent states that as per Section 113 of the Monetary Law Act, the Central Bank of Sri Lanka *via* its Public Debt Department (PDD) manages the public debt as the Agent of the Government. It is therefore the primary responsibility of the Government, and not the CBSL to borrow and to repay the Government Debt. As the Agent, the Central Bank has to act on the direction and instructions of the Government in relation to public debt management and cannot unilaterally decide to pay or not to pay any debt of the Government. Further, it is the Government that makes funds available for local and foreign debt-servicing from the funds which have been specifically appropriated by Parliament for that purpose.

60. **The 7th Respondent states that, if therefore, for any reason, the Government were to decide to default on its debt repayments, that would have to be a decision of the Government.** If the Government so decides, the Government, through the Ministry of Finance (MOF) must instruct the Central Bank not to re-pay any or all of the Government's debts. Further, if such a far-reaching and vital decision were to be taken, it will obviously have to be the Government that would have to take the responsibility for the repercussions that would follow such a default as well. **The above position is clearly confirmed by the fact that it was the MOF that announced the new *"Interim External Public Debt Servicing Policy"* on 12th April 2022.** Through the enunciation of that new policy, all forex debt repayments due to be settled by the Government upto that day, were to be stopped immediately, and restructured eventually. That announcement, inter alia, stated: *"It shall therefore be the policy of the Sri Lankan Government to suspend normal debt servicing of All Affected debts (as defined below), for an interim period pending an orderly and consensual restructuring of those obligations in a manner consistent with an economic adjustment program supported by the IMF. The policy of the Government as discussed in this memorandum shall apply to amounts of Affected Debts outstanding on April 12, 2022. New credit facilities, and any amounts disbursed under existing credit facilities, after that date are not subject to this policy and shall be serviced normally"*. The entire MOF statement is reported by Daily FT at : https://www.ft.lk/top-story/Sri-Lanka-declares-bankruptcy/26-733409

61. **The 7th Respondent states that it should therefore be clear that until the above decision to default with effect from 12th April 2022 was taken by the Government, it was the bounden duty and solemn responsibility of the**

Borrower (i.e, the Government) and its Agent (i.e, the Central Bank) to take all steps to honour the repayments of all Government debts falling due upto that date. In addition, Finance Minister Basil Rajapaksa (3rd Respondent) had also specifically given a re-assurance in Parliament about the repayment of the ISBs when winding up the Budget debate on 10th December 2021 (as reported in the Hansard page 2830) a translation of which is as follows: *"Frankly, we are facing a massive economic crisis. We are facing a foreign reserves crisis as well. However, as the Finance Minister, with the permission of the President and the Prime Minister, I must very solemnly confirm in this august assembly that we would pay every dollar that is due to be paid next year. I give that assurance with responsibility. First, we have to pay 500 million dollars in January. Next, we have to pay 1000 million dollars in July. In between, we have to pay other interest and capital repayments in our debt servicing. I hereby confirm to this august assembly that we will pay all that. We have a plan to do that. We will implement that plan".*

62. The 7th Respondent states that it must be appreciated that defaulting sovereign debt is a very complicated matter with grave consequences. It must also be understood that settling or not settling the country's sovereign debt or a specific part of it, is not a matter where a single individual or even the Monetary Board (9th Respondent) can unilaterally decide. Nevertheless, there have been claims by various persons including the Petitioners and even some Members of Parliament, that the settlement of the maturing ISB of USD 500 million on 18th January 2022 was done at the behest of, and/or the sole discretion of the 7th Respondent as the then CBSL Governor in order to enable certain unspecified investors to make undue profits, ignoring the advice of various so called "experts". Ironically, when it was initially believed that the Sri Lankan Government may default on the January 2022 ISB, most of those same so-called experts had warned about the grave consequences and grievous prejudice of a possible default and urged the Government not to default, but to source the funds through any means to avoid such a default. However, when it was subsequently known that the Government had secured the funds to settle the ISB, the same persons robustly and publicly advised sovereign default, and inexplicably found fault with the then Governor (7th Respondent) when their new amended "advice" to default was not heeded. In that context, the *bona fides* of some of those persons would need to be questioned.

63. **The 7th Respondent states that in any event, at the time in question (January 2022), the official Government policy was to pay its sovereign debt, which policy, the MOF and the CBSL (as Agent) had followed faithfully and**

diligently, since independence. Needless to say, such deep-rooted policy could not, and should not have been unilaterally or legally abrogated by the then Governor (7th Respondent) and the Monetary Board (9th Respondent) on 18th January 2022, as lobbied and advised by certain persons and politicians. In fact, during the month of March 2022 alone, the government honoured and/or rolled-over sovereign Forex debt payments as stated elsewhere in this "Limited Statement of Objections". It that context, it must also be noted that the repayment exercise is mainly dependent on the cash/funds inflows and outflows, and not only dependent upon the quantum of the available reserves. If the only criteria for debt repayment was the availability of liquid funds in possession, it would have not been possible to manage the debt repayment programmes of the government over the past many years. The simple example of this phenomenon is the settlement of Treasury Bills and Bonds of the Government where each week about Rs.100 bn matures and is rolled-over without the Treasury having to advance any new funds from its own coffers towards its settlement. Therefore, it is vital that the authorities ensure public confidence in the financial system and carefully arrange the cash flows in anticipation of the payments due, and thereby skillfully manage the inflows and outflows of funds efficiently, particularly in times of financial stresses. That was what was done over the past several months and years under previous Governors, Treasury Secretaries and Finance Ministers until early April 2022, and that was what was needed to be done thereafter as well, without jeopardizing the entire nation's future by defaulting on the loan repayments and interest payments to international creditors. In fact, it is reported that the Forex debt servicing was only about USD 244 million in April 2022, while the Forex debt servicing for May/June 2022 was only another USD 789 million, adding to a total of USD 1,033 million. The repayment and roll-over of these amounts were therefore comfortably manageable with the likely inflows into the Central Bank reserves from the 25% export conversions, other planned inflows that were expected to materialize in the next few months, together with the successful roll-over of maturing SLDBs and FCBU loans.

(viii) Priority is to meet the overall objectives of the Central Banks

64. The 7th Respondent states that the Petitioners have, at various points of their Petition, referred to comments or statements of certain persons who are claimed to be experts in order to suggest various responsibilities and specific duties relating to the 9th Respondent's functions, duties and responsibilities. In this regard, the 7th Respondent states that the 9th Respondent's functions, responsibilities and objectives are set out clearly in **Section 5 of the Monetary Law Act** which reads as follows:

Section 5: *An institution, which shall be called and known as the Central Bank of Sri Lanka (hereinafter referred to as "the Central Bank") is hereby established as the authority responsible for the administration, supervision and regulation of the monetary, financial and payments system of Sri Lanka, and without prejudice to the other provisions of this Act, the Central Bank is hereby charged with the duty of securing, so far as possible by action authorised by this Act, the following objectives, namely -*

(a) economic and price stability; and

(b) financial system stability,

with a view to encouraging and promoting the development of the productive resources of Sri Lanka.

65. The 7th Respondent asserts that during the period he held office as the Governor of the 9th Respondent organization, he had made every effort to enable the 9th Respondent to deliver the above objectives in a holistic, practical and legal manner and that he had also been assured by the relevant officials of the Central Bank that the 9th Respondent had taken all steps to achieve its objectives to the maximum extent possible, in a holistic manner in the very difficult and challenging circumstances. At the same time, all statutory obligations to keep the government hierarchy notified of the economic situation was duly observed, and all such communications as required by the Law were made in a formal and official manner as well. At the same time, it must also be stated that many differing strategies had been implemented from time to time based on the need and availability of resources, and the desired overall outcomes. At certain times, such strategies may have even appeared to be in conflict with certain pre-determined values, notions or concepts of various analysts or outside "experts" who sometimes may not have sufficiently appreciated the stresses experienced by the economy as the result of the massive global and local economic crises.

66. The 7th Respondent states that throughout these Limited objections statement, the 7th Respondent has clearly explained that the Petitioners' Fundamental Rights had not, in any way, been violated by the execution of the functions under the purview of the 7th Respondent, as claimed by the Petitioners.

67. The 7th Respondent states that grave and irreparable loss and damage would be caused to the 7th Respondent if any interim relief sought by the Petitions is granted by Your Lordships' Court.

68. Based on the above facts, the 7th Respondent is advised to state that the Petition of the Petitioners cannot be maintained, and that the Petitioners are not entitled to the reliefs prayed for, and that the Petitioners' Petition shall be dismissed *in limine.*

WHEREFORE the 7th Respondent prays that Your Lordships' Court be pleased to -

(a) refuse Leave to Proceed and reject and dismiss the Petition of the Petitioners *in limine*;

(b) refuse the application for Interim Relief;

(c) grant costs; and

(d) grant such further and other relief in the premises as to Your Lordships' Court shall seem meet.

Colombo, 15th July 2022

Sgd./SARRAVANAN NEELAKANDAN LAW ASSOCIATES

REGISTERED ATTORNEYS OF THE 7TH RESPONDENT

Settled by:

Mr. Sapumal Tennekoon
Attorney-at-Law

Mr. Ralitha Amarasekara
Attorney-at-Law

Mr. Jeevantha Jayatilake
Attorney-at-Law

Mr. Shavindra Fernando
President's Counsel

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Affidavit

IN THE SUPREME COURT OF THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

In the matter of an Application under and in terms of Articles 17 and 126 of the Constitution of the Democratic Socialist Republic of Sri Lanka

S.C.F.R. Application No. 212/2022

1. **CHANDRA JAYARATNE**
   No. 2, Greenland Avenue,
   Colombo 05.

2. **JULIAN BOLLING**
   No. 72, 5th Lane,
   Colombo 05.

3. **JEHAN CANAGARETNA**
   No. 5, Bullers Lane, Apartment 3B,
   Colombo 07.

4. **TRANSPARENCY INTERNATIONAL SRI LANKA**
   No. 366, Nawala Road,
   Nawala, Rajagiriya.

PETITIONERS

-Vs-

1. **HON. ATTORNEY GENERAL**
   Attorney General's Department,
   Colombo 12.

2. **MAHINDA RAJAPAKSHA**
   Former Prime Minister,
   Former Minister of Buddhasasana, Religious and Cultural Affairs, Former Minister of Urban Development & Housing, Former Minister of Economic Policies and Plan Implementation and Former Minister of Finance.
   No. 117, Wijerama Mawatha,
   Colombo 07.

3. **HON. BASIL RAJAPAKSE,**
   Former Minister of Finance
   No. 1315, Jayanthipura,
   Nelum Mawatha,
   Battaramulla.
   No. 1316, Jayanthipura,
   Nelum Mawatha, Battaramulla.

4. **HON. M.U.M. ALI SABRY PC**
Former Minister of Finance
No. 5, 27th Lane,
Colombo 03.

5. **HON. RANIL WICKREMESINGHE**
Prime Minister
Minister of Finance, Economic Stability and National Policies,
No. 117, 5th Lane,
Colombo 03.

6. **DESHAMANYA PROFESSOR W.D. LAKSHMAN**
Former Governor of the Central Bank
No. 224, Ihalayagoda,
Imbulgoda.

7. **MR. AJITH NIVARD CABRAL**
Former Governor of the Central Bank of Sri Lanka.
No. 32/7, School Lane,
Nawala.

8. **DR. P. NANDALAL WEERASINGHE**
Governor of the Central Bank of Sri Lanka.
P.O. Box 590,
Colombo 01,
Sri Lanka.

9. **THE MONETARY BOARD OF THE CENTRAL BANK OF SRI LANKA**
Central Bank of Sri Lanka,
P.O.Box 590,
Colombo 01,
Sri Lanka.

10. **MR. S.R. ATTYGALA**
Former Secretary to the Treasury/Ministry of Finance
No. 23, Madapatha,
Piliyandala.

11. **MR. K.M. MAHINDA SIRIWARDANA**
Former Secretary to the Treasury/Ministry of Finance,
The Secretariat,
Colombo 01.

12. MR. SALIYA KITHSIRI MARK PIERIS, P.C.,
President of the Bar Association of Sri Lanka,
No. 153, Mihindu Mawatha,
Colombo 12.

13. MR. ISURU BALAPATABENDI, AAL.,
Secretary of the Bar Association of Sri Lanka,
No. 153, Mihindu Mawatha,
Colombo 12.

RESPONDENTS

I, **NIVARD AJITH LESLIE CABRAAL,** a citizen of Democratic Socialist Republic of Sri Lanka and bearing National Identity Card No. 543490040 V of No. 32/7, School Lane, Nawala being a Roman Catholic do hereby make oath and say as follows:-

1. (i) I am the 7th Respondent above-named and I depose to the matters herein from my personal knowledge and to the documents available with me.

   (ii) I state that the that the limited objections are filed according to my memory as I have no access to the documents in the custody of the Central Bank of Sri Lanka and of the Monetary Board since I have relinquished my duties as the Governor of the Central Bank with effect from 4th April 2022.

2. I state that I reserve the right to file a more comprehensive set of objections if Your Lordship's Court provides an opportunity to do so after perusal of relevant documents.

3. I state that the objections are filed based on my best recollection of the facts with regard to the several averments contained in the Petition and Affidavit filed by the Petitioner, and documents in my possession and in the public domain.

4. I state that I deny all and several the averments contained in the Petition and affidavit save and except that which is specifically admitted hereinafter.

5. I state that I last served as the Governor of the Central Bank during the period from 15th September 2021 to 4th April 2022.

6. I state that I am unaware of the averments contained in paragraphs 1, 2, 3, 4 and 117 of the Petition.

7. I state that I admit the averments contained in paragraphs 5 and 7(a), (b), (f), (l) of the Petition.

8. Answering Averment 7 (c), I state that I admit that the 2nd Respondent was the Minister of Finance from 21st November 2019 to 2nd March 2020, but specifically denies the rest of the averments contained therein and states that I bear no responsibility insofar as violations of any Fundamental Rights of the Petitioners are concerned.

9. Answering Averment 7 (d), I state that I admit that the 3rd Respondent was the Minister of Finance from 28th July 2021 to 3rd April 2022, but specifically deny the rest of the averments contained therein and states that I bear no responsibility insofar as violations of any Fundamental Rights of the Petitioners are concerned.

10. Answering Averment 7 (e), I state that I admit that the 4th Respondent was the Minister of Finance from 4th April 2022 to 9th May 2022.

11. Answering Averment 7 (g), I state that I admit that the 6th Respondent was the Governor of the Central Bank from December 2019 to 14th September 2021, but specifically denies the rest of the faverments contained therein and I state that I bear no responsibility insofar as violations of any Fundamental Rights of the Petitioners are concerned.

12. Answering Averment 7 (h), I state that I admit that I was the Governor of the Central Bank from 15th September 2021 to 4th April 2022, but specifically denies the rest of the averments contained therein and I state I that I bear no responsibility insofar as violations of any Fundamental Rights of the Petitioners are concerned.

13. Answering Averment 7 (i), I state that I admit that the 8th Respondent is the present Governor of the Central Bank from 8th April 2022 onwards, I further state that the 8th Respondent has been a career officer at the Central Bank for nearly 3 decades upto January 2021. During such period, the 8th Respondent has held office as a Deputy Governor since September 2012, and served as the as the Chairman of the Monetary Policy Committee and the Foreign Reserve Management Committee and overseen the Departments of Economic Research, Statistics, International Operations, Domestic Operations, Macroprudential Surveillance, Exchange Control, Currency and Communication. I have functioned as the Senior Deputy Governor while also acting as the Chief Executive Officer of the Central Bank during the Governor's temporary absence, from 1st November 2017 upto 31st January 2021. According to official documents, the 8th Respondent had retired from the Central Bank as the Senior Deputy Governor only in <u>January 2021</u>, and therefore bears collective responsibility for the management and operations of the Central Bank in the various senior capacities that I have held upto that time.

14. Answering averments in Paragraph 7 (j), I am advised and accordingly I state that the 9th Respondent has the power to do and perform all acts as may be necessary as per the Monetary Law Act and its responsibilities and objectives are set out in the said Act.

15. Answering averments in paragraph 7 (k), I state that I admit that the 10th Respondent was the Secretary to the Treasury/Ministry of Finance from 20th November 2019 to 7th April 2022, but specifically denies the rest of the averments contained therein and states that the I bear no responsibility insofar as violations of any Fundamental Rights of the Petitioners are concerned.

16. Answering averments in paragraph 7 (l), I state that I admit that the 11th Respondent is the present Secretary to the Treasury/ Ministry of Finance from 8th April 2022 onwards. I further state that the 11th Respondent has been a career officer at the Central Bank for over 3 decades and has held office upto the level of the Deputy Governor of the Central Bank during the period upto 7th April 2022 and therefore bears collective responsibility for the management and operations of the Central Bank in the various senior capacities that I have held upto that time.

17. Answering the averments in paragraph 7 (m) in general, I state that I specifically deny the averments contained therein and states that I bear no responsibility insofar as violations of any Fundamental Rights of the Petitioners are concerned.

18. I state that I specifically deny the averments contained in paragraphs 8, 9 (a), (b) (i),(iii),(iv),(v), 10, 11, 12, 13, and 14 and state that I bear no responsibility in so far as violation of any Fundamental Rights of the Petitioners are concerned.

19. By way of further answer to the averments contained in the Petition and Affidavit, the I state as follows;

(i) RECKLESS DEBT DEFAULT OF 12TH APRIL 2022

20. Answering paragraph 10(b), I state that since I was not the Governor of the Central Bank after 4th April 2022, I bear no responsibility for the decisions taken after such date.

21. **I state that after my relinquishment of duties, the Government had decided to default on its sovereign debt (without even the necessary approvals) which had resulted in catastrophic long-term and short-term repercussions to the economy and caused the country to default on the repayment of foreign debts for the first time in its history, thus leading to the relegation of Sri Lanka to a state of bankruptcy/ insolvency.**

22. I state that the decision to default on 12th April 2022 was highly suspicious, irrational, arbitrary, illegal, and wrongful and it is inexplicable that it had been hastily carried out in view of the fact that, by end March 2022, the "pipeline" of expected forex

inflows showed a healthy position which had obviously been recklessly and callously disregarded.

That "pipeline" of expected inflows is given below:

"Pipeline" of additional expected inflows in 2022	USD million	Status by 4th April 2022
India – Oil Facility (Trade Finance)	500	Confirmed
India - Goods Facility (Trade Finance)	1,000	Confirmed
India - ACU postponement in addition to existing USD 1,500 m	500	Confirmed
China – Special Refinance Facility (Cash)	1,000	Confirmed
China - Goods (Trade Finance)	1,500	Confirmed
West Coast Power divestment proceeds	250	Very likely
Hilton and other hotel projects divestment	500	Very likely
Tourism inflows @ USD 100 per month for 9 months upto end 2022	900	Very likely
Green Bond – June 2022 – Discussion on-going	1,000	Very likely
Green Bond – September 2022 – Discussion on-going	1,000	Likely
Peoples Bank of China (PBOC) SWAP facility, likely to be made operative after negotiations	1,550	Likely, after the receipts of cash loans
Qatar Central Bank SWAP facility - Discussion on-going	1,000	Likely, after China & India inflows materialize
Existing SWAP facilities from India and Bangladesh to be rolled over with a possible further SWAP facility of USD 1 billion from the Reserve Bank of India		Very likely
Total	**10,700**	

23. **I state that the sudden "default" announcement of 12th April 2022, completely disrupted all the above expected inflows,** with the possible exception of the roll-over of the India and Bangladesh SWAPs that had been previously negotiated. In fact, the Chinese Ambassador in Sri Lanka has specifically alluded to this situation as well. Of the above pipeline, a sum of USD 4,500 mn was confirmed as being in the final stages by 3rd April 2022, and a further amount of about USD 2,650 mn was very likely to materialize over the short term, which would have enabled the Government to settle the maturing payments due in 2022, while also rolling over several other existing loans, including Sri Lanka Development Bonds and FCBU loans. Hence, the decision to default payment was inexplicable and utterly reckless. That irresponsible and illegal decision plunged Sri Lanka into a serious chasm of economic and financial isolation as a "bankrupt" nation, with the consequential severely damaging repercussions due to haunt the nation for many years to come.

24. I state that, as set out in the table above, Sri Lanka was on the verge of receiving a significant inflow of funds of USD 1 billion and access to a trade loan of USD 1.5 billion from China that were expected to materialize towards the latter part of April

2022 or early May 2022. These inflows were officially announced by both the Chinese Ambassador in Sri Lanka on 21st March 2022. Documents evidencing the aforesaid are marked as **"7R 1(a)", "7R 1(b)", "7R 1(c)" & "7R 1(d)" and pleaded as part and parcel of these Limited Statement of Objections**) and subsequently re-confirmed by the Sri Lanka Ambassador in China on 12th April 2022. True copies of Documents evidencing the aforesaid are marked as **Annexes "7R 2(a)", "7R 2(b)", "7R 2(c)" , "7R 2(d)" & "7R 2(e)" and pleaded as part and parcel of these Limited Statement of Objections**). At the same time, negotiations were at an advanced stage on the Indian line of credit for a further USD 1 billion for goods, and USD 500 million for oil, as well as a further financial accommodation of about an additional USD 500 million by the Reserve Bank of India through the postponement of the Asian Clearing Union (ACU) settlements. That is why it is inexplicable as to why a hasty decision was taken to announce the sudden "debt default" and non-payment of all forex debt and interest (including the July 2022 USD 1,000 mn International Sovereign Bonds ISB) from 12th April 2022 onwards, and thereby risk major adverse consequences, together with a massive "cross-default" as well.

25. I state that there had been an ill-advised and erroneous claim that there was no other option but to default since by defaulting forex loans and thereby not paying the maturing debts, there would be sufficient forex resources "freed" and available in the country to import the requirements of all essential items needed by the people. However, the fallacy of that contention and the recklessness of that decision is now exposed, since by 12th July 2022, although the Forex loans and interest had been unpaid since 12th April 2022 for 3 months, there is now even less Forex available for the country to import any of the essential supplies. **Shortages and queues are increasing with no end in sight, because no country or overseas supplier now wishes to do business with Sri Lanka without an up-front payment, as the country has officially announced that it is bankrupt. Based on that announcement, the International Ratings Agencies have also placed Sri Lanka's sovereign debt rating at a default status, while also down-grading all Sri Lankan banks, further aggravating the situation.**

26. I state that the former Governors Professor W. D. Lakshman and I (6th and 7th Respondents) and former Treasury Secretary S. R. Attygalle (10th Respondent) had secured the required Forex inflows to pay loans and interest, as well as taken the required steps to roll-over maturing debt, while also sourcing Forex to buy fuel, coal, medicine, gas, and foodstuffs, and to clear the containers of imports, even with some delays. Not only did the Government settle the maturing ISB of USD 500 mn in January 2022 and all other maturing debts and interest in the months of January and February 2022, during the month of March 2022, the Government paid back and rolled-over sovereign Forex debt payments of a substantial sum of USD 1,166 million out of the total amount of repayments of approximately USD 7,100 million that was due in 2022. Thereafter, in April 2022, the Forex debt servicing was comparatively

less at only USD 244 million, while the Forex debt servicing for May and June was only another USD 789 million. The repayment and roll-over of these amounts were comfortably manageable with the likely inflows from the 25% export conversions to be mandatorily sold to the Central Bank by the commercial banks and the roll-over of maturing SLDBs being arranged as in the past, in addition to the new cash inflows expected from China and India.

27. I state that it is well known that when an ordinary person defaults on a loan to a bank and is named as a delinquent debtor in the Credit Information Bureau (CRIB), such person will not be able to get any more loans from any bank or from other lenders. Even if they do, it will be a very difficult endeavour. Shockingly, the Sri Lankan authorities did not seem to have anticipated that would happen to Sri Lanka as well, when it was hurriedly decided to unilaterally default on Sri Lanka's sovereign debt with an announcement being made to that effect.

28. I state that it must be appreciated that it is not possible to have selective defaults of particular sovereign loans, since many loan agreements with international creditors have "**cross-default**" clauses which are far-reaching. It is also likely that those persons who were calling for the sovereign default of the ISB of January 2022, including the Petitioners did not realise or appreciate the fact that, as per the Offering Circular for the ISBs, the Sri Lankan Government had solemnly assured all prospective investors that ***"the full faith and credit of the Democratic Socialist Republic of Sri Lanka will be pledged for the due and punctual payment of the principal of, and interest on, the Bonds."***

29. **I state that when a sovereign forex loan is not repaid, the credibility of the country will be lost, and investors will shun that country.** It will be very difficult for the defaulting country to obtain new forex loans thereafter. The access to International Bond Markets may be lost for at least 5 to 10 years after the default. The country's banking system will be placed under a lot of pressure and face very serious difficulties when opening letters of credit and carrying out forex transactions. Forex loans and investments that were previously forthcoming to the local banks would be halted or postponed. Most forex-funded infrastructure projects will stop. Foreign Direct Investors will adopt a "wait and see" attitude. Small and medium sized import-based businesses and entrepreneurs will face the risk of collapse. Hundreds of thousands of jobs and livelihoods will be in jeopardy. Inflation and interest rates will rise. The Government will be compelled to sell valuable assets at low prices. The country's foreign policy will be compromised. Certain forex creditors will file legal action to recover their dues and the Government will incur huge litigation costs. Some creditors may call for the re-structure of local debt, which, if done, could lead to serious socio-economic consequences. Issue of Treasury Bills to the Central Bank (money printing) may increase significantly. The local currency will lose value. The Government's local currency payments, including salary and pension payments, will be stressed. **In a nutshell, grievous prejudice will be caused to the economy and the country. In fact, almost all of the above outcomes have been experienced by**

the country already after the reckless announcement of the debt default by the 4th, 8th and 11th Respondents about 3 months ago.

30. I state that it would have been vital to have a well-structured strategy to deal with the challenge of default if there was a compelling need to default the external debt, and not do so hurriedly as the failure to do so will definitely lead to unmanageable problems. It is also likely that those persons who proposed default (including think-tanks and INGOs) will not, at a later stage, assume responsibility when the default repercussions arise, and it will be the Government and the people that will have to face the consequences. That is why if a sovereign debt default was contemplated, it was the responsibility of the authorities to initiate and undertake a discussion on the subject and thereafter take a considered decision. In fact, a decision to default by a country is so serious that it should have properly received the formal approval of the Monetary Board and the Cabinet of Ministers with the advice of the Attorney General as well. Further, in view of the fact that the Parliament had already voted the necessary funds for debt servicing at the time of approving the Budget and Parliament has the final responsibility for finances, obtaining Parliament's approval would have also been a pre-requisite for a default. Unfortunately, according to available information, Sri Lanka's unnecessary and reckless debt default had been carried out without any such prior approval.

31. **I state that as a consequence of Sri Lanka's debt default there is now an increasing likelihood of forex creditors calling for local debt also to be re-structured, since the major part of the Sri Lankan Government's debt servicing is that of local debt.** Their contention may be that for "debt sustainability" to be achieved, a local debt re-structuring must also be carried out. It is possible that the International Monetary Fund (IMF) may also agree with such a contention given their past record in responding to debt sustainability situations in other countries. The Government and the Central Bank have of course stated that there is no need or intention to re-structure local debt. However, if the Government is compelled to do so, perhaps at the behest of the IMF, the fall-out from such a decision could be quite challenging to handle socially, economically and politically.

32. I state that in any event, I cannot be held responsible for the current crisis which has arisen mainly from the hasty and reckless decision to default on the sovereign forex debt, and thereby putting Sri Lanka into an almost irretrievable position of despair and hopelessness, particularly because such default did <u>not</u> have the prior approval of the Monetary Board, the Attorney General, the Cabinet of Ministers or the Parliament.

(ii) DOWNTURN OF ECONOMY FROM 2015 TO 2019

33. I state that it has been averred that the unprecedented economic crisis driven by "debt unsustainability" has been due to, *inter alia,* the gross mismanagement of the economy by several Respondents including myself. However, it would be noted that the Sri Lankan economy had its most remarkable growth and progress during the period 2006 to 2014 when I was the Governor of the Central Bank of Sri Lanka. For purposes of record, a summary of the economic progress from 2006 to 2014 was as follows:
    - Gross Domestic Product (GDP) grew from USD 24 bn in 2005 to USD 79 bn in 2014, with an average growth of about 6.4% over the final 5 years, 2010 to 2014.
    - Local and Foreign Investment increased, year on year.
    - There was growing confidence in the economy, particularly after the conflict.
    - Single digit inflation was maintained an uninterrupted period for about 6 years.
    - The LKR was stable with a gentle appreciation of the LKR in 2013 and 2014.
    - A healthy forex reserve cover was achieved, where reserves increased from USD 2.6 bn in 2005 to USD 8.2 bn in 2014.
    - Public Debt to GDP ratio reduced sharply from 91% in 2005 to 72% in 2014. Low Forex debt-servicing was at manageable levels with only about USD 280 mn needed for ISB debt-servicing in 2014.
    - Modest growth was recorded in exports and remittances, on an yearly basis.
    - Tourism experienced exponential growth, particularly after the conflict.

34. I state that, in contrast, from 2015 to 2019 the economy suffered a continuous downturn, resulting in the IMF determining that the economy of Sri Lanka was "vulnerable" at the "eve" of the Covid-19 Pandemic. In particular, the forex borrowing of the Government ballooned by 65% from USD 23.4 bn to USD 38.7 bn from 2014 to 2019, as a result of a major forex borrowing blitz in 2018 and 2019: the ISBs volume grew from a modest level of USD 5.0 bn (6% of GDP) in 2014 to a highly vulnerable level of USD 15.0 bn (18% of GDP) by 2019. The average interest rate for ISBs also increased significantly and the ISB debt servicing rose to nearly USD 1 bn in 2020 from about USD 280 mn in 2014, although there was only a very slight improvement in the GDP over the five years. In addition, GDP Growth was sluggish and down to around 2% by 2019. High tax rates had been introduced, but the Fiscal Deficit remained high due to the high interest cost consuming the additional tax revenue. Further, Government revenue actually decreased in 2019 although the tax rates were high, due to the economic downturn. Even after a net ISB increase of USD 10 bn, other term loans of USD 2 bn, and inflow from Hambantota Port sale of USD 1 bn (total forex cash inflows of USD 13 bn), forex reserves were down to just USD 7.6 bn by end 2019 from USD 8.2 bn by end 2014. Only marginal growth in exports was recorded in the 5 years, and almost no growth in remittances. Tourism was badly affected after the Easter Sunday bombing. The IMF Article 4 Report-Press Release for 2022 (first paragraph) (True copy of the Document evidencing the aforesaid are marked as **Annex "7R3" and pleaded as part and parcel of these Limited Statement of Objections**) referred to Sri Lanka's economy being highly vulnerable at

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the eve of the Covid Pandemic, which means that the vulnerability was already prevalent at the beginning of 2020.

Please also see CBSL Road Map of 1st October 2021 (A True copy of the CBSL Road Map of 1st October 2021 is marked as **Annex "7R4" and pleaded as part and parcel of these Limited Statement of Objections**) *(where many of those matters have been explained), and where the Way Forward for different stakeholders had been communicated by the Central Bank, as soon as the 7th Respondent assumed duties as the Governor.*

In fact, the 7th Respondent also referred to many of these matters in his **Presentation to Cabinet on: "ශ්‍රී ලංකාවේ ණයබරතාවය, දැනට මුහුණ දෙන අභියෝග සහ යෝජිත විසඳුම්"** on 26th October 2020, while serving as the State Minister of Money Capital Markets and State Enterprise Reforms. (A true copy of the Document evidencing the aforesaid are marked as **Annex "7R5" and pleaded as part and parcel of these Limited Statement of Objections**)

I also made a Presentation as the Governor of the Central Bank at the All-Parties Conference on 23rd March 2022, which is found at the following web link: (https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/press/notices/notice_20220328_Governors_speech_in_all_party_conference_e.pdf)

35. I state that the following extracts from that presentation at the All-Party Conference may also be relevant.

Quote:

The current economic crisis

35.1 *The whole world is aware of the massive economic crisis we are facing today. We witnessed how economies of many countries were falling into massive crises over the past two years when hit by the COVID-19 pandemic. This was experienced by almost every country. When COVID-19 pandemic started to escalate gradually into a global crisis, some countries were on a strong economic foundation, but some countries were weak due to various reasons. Unfortunately, Sri Lanka belonged to the latter category as the economic growth rate in Sri Lanka had gradually fallen from 7 percent to 2 percent during 2015-2019. Forex reserves had dropped by almost USD 1 billion, despite the growth of foreign debt by a significant USD 15 billion. The GDP had grown to only USD 84 billion from USD 79 billion. The tourism industry had stalled following the Easter Sunday attack. The total of foreign debt servicing payable per year had increased from about USD 2 billion to nearly USD 6 billion. The Sri Lankan rupee had depreciated to Rs.182 from Rs.131 against the USD. Therefore, the already weakened Sri Lankan economy was not economically prepared to withstand the shock of the pandemic. Thus, the*

Government and the Central Bank of Sri Lanka had to face the crisis by implementing various innovative methods and new ways.

35.2 *As a result of the pandemic and its aftermath, Sri Lanka had to allocate large amounts of money for vaccines: a debt moratorium amounting to over Rs. 4 trillion had to be granted to the pandemic affected individuals and businesses. The loss of economic activities to the country due to the lockdown amounted to more than Rs. 1,000 billion: the drastic decline in government revenue compelled the Central Bank to finance government payments: the annual average foreign exchange inflows from the tourism industry fell from USD 4.5 bn per annum to near-zero levels: there was a severe decline in forex remittances since mid-2021 due to various reasons: a steep increase was experienced in crude oil prices to USD 130 per barrel due to the war between Russia-Ukraine: and inflation all over the world recorded its' highest rates over many decades.*

35.3 *As a result of these effects, it is no secret that prices in Sri Lanka have moved well beyond expectations due to supply side pressures coupled with the pick-up in aggregate demand. At the same time, due to the scarcity of foreign exchange, the scarce forex inflows had to be distributed among various needs, such as debt servicing, financing fuel and other essential imports, and other essential forex outflows. Unfortunately, at the same time, scarce foreign exchange had also been expended on financing non-essential and non-urgent imports that kept pouring into the country. Meanwhile, the electricity supply had been interrupted from time to time due to the declining water levels in the reservoirs and shortage of fuel for electricity generation.*

35.4 *The weakening financial conditions of the relevant state-owned business enterprises due to the continuous maintenance of prices and tariffs below cost, had also emerged as another crisis. Therefore, it was by supplying more than USD 1,800 mn in foreign exchange to the forex market since August 2021 to date, for the importation of essentials such as food items, medicine, fuel, coal and gas, even amidst severe difficulties, that the Central Bank was able to ease the severity of the situation to a certain extent. In the circumstances, we will be compelled to state without doubt that the current economic crisis is extremely severe.*

The primary reasons for this foreign exchange crisis: External debt crisis

35.5 *One of the main reasons for the present day external debt challenge in Sri Lanka is the steep rise in external indebtedness during the 5 years, from 2015 to 2019. In that regard, we need to acknowledge an increase in external debt is a lot riskier than an increase in domestic debt. During the 5 years from 2015 to 2019, Sri Lanka's external debt stock increased by a massive 65% from USD 23.4 billion to USD 38.7 billion. Even more seriously, International Sovereign Bonds outstanding, which is a form of commercial debt increased 200%, from USD 5 billion to USD 15 billion, even though the GDP increased only by 5.8%, from USD 79 to 84 billion.*

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35.6 *This huge mis-match made it very challenging to meet the payments on account of debt servicing amounting to nearly USD 6 billion from 2019 onwards, although in 2014, it was only about USD 2 billion. If the economy which was at USD 79 billion in 2014, had grown by 65% to around USD 131 billion by 2019, this challenge would not have been serious. However, by 2019, the economy had grown only up to USD 84 billion and therefore, this repayment of foreign debt and debt servicing had become extremely challenging.*

Table: Outstanding Foreign Currency Denominated Central Government Debt

(USD. million)

	31 Dec. 2014	31 Dec. 2019	31 Dec. 2020	31 Dec. 2021	28 Feb. 2022
Debt Instruments/ Types of Debt					
Sri Lanka Development Bonds	2,984	3,084	2,639	2,295	2,089
Foreign Currency Banking Unit Loans	150	925	1,220	695	449
Syndicated and Term Loans	-	1,333	1,500	2,223	2,224
Projects Loans	15,309	18,293	19,084	18,943	19,017
International Sovereign Bonds	5,000	15,050	14,050	13,050	12,550
Other		63	55	49	48
Total Foreign Currency Denominated Debt	23,443	38,748	38,548	37,255	36,377
Gross Domestic Production *(US Dollar. billion)*	79.4	84.0	81.0	n/a	n/a

USD million

	2014	2019	2020	2021	2022
Foreign Currency Denominated Debt Service Payments	2,102	5,560	5,940	6,366	7,024

Loss due to the COVID-19 pandemic and the imposition of lockdown measures

35.7 At the same time, the economic growth rate further decreased alongside the imposition of lockdown measures, and the GDP deteriorated significantly to USD 81 billion by the end of 2020, further worsening the situation. Therefore, arresting the continuing recession despite some modest growth in 2021, had become a very difficult proposition for the new government. In the face of the COVID-19 pandemic, many were of the view that the country should be in a strict lockdown to save the lives of the people. Accordingly, the country was in a lockdown in 2020 and 2021 for very long periods. As a result, industries and businesses were hit hard, while the small and medium-sized enterprises (SMEs) were also severely affected.

35.8 As a result, Sri Lanka's economy contracted by 3.5% by 2020, while in 2021, the growth rate is set to record a modest rate of around 4% only. It is true that this loss has led to serious economic downturn in the country, and the consequences were even more severe, since the economy had already been in a major downward spiral by the end of 2019. In fact, the challenge posed was severe, especially to the external sector, for several reasons. The first is that the amount of public debt borrowed in foreign exchange had increased by 65% during the 5-year period from 2015 to 2019._The second is that the regular foreign exchange inflows received by the tourism sector alone in 2020 and 2021 had declined by about USD 9 billion. Third, in 2021, the foreign exchange inflows through workers' remittances had declined by about USD 1.5 billion.

35.9 The lesson that could be learnt here is that while the lives of people are to be valued, it is important to value the livelihoods of the people as well. Although some persons may insist that the country should be in a lockdown in times of a pandemic, it should also be understood that the situation and the pressure which a country and the economy would have to face later as a consequence may be also extremely challenging. Therefore, going forward, it should be kept in mind that all persons must adhere to health guidelines while adapting to the new normal, as the country cannot afford any further lockdowns.

End of Quote

36 **I state that from the above it is clear that the down-turn the Sri Lankan economy had been ongoing since 2015, and that with the onset of the Covid pandemic in early 2020, the situation had worsened quite significantly.** In that context, it is very strange that the Petitioners had ignored this vital and significant aspect in relation to the downturn and not sought to hold the then key officials accountable for the decline. By deliberately attempting to place blame only upon those who assumed office from late 2019 onwards, the Petitioners have displayed their clear bias and an ulterior motive that their only focus is a "witch-hunt" to assign blame on certain selected individuals as specifically chosen by the said Petitioners which includes an "International" Non-Governmental Organization which is well-known for "selected" interventions.

(iii) EROSION OF RESERVES DURING 2015 TO 2019

37 I state that, if the Petitioners had carried out un-biased and professional evaluation of Sri Lanka's external sectors, they would have noted that the **Forex Reserves that should have been available at the Central Bank as at the end of 2019 should have been at least USD 25 bn higher if the external sector had been more prudently managed. In fact, by end 2019, the Forex Reserve was only USD 7.6 bn, although the Forex Reserve was USD 8.2 bn as far back as 5 years earlier as at end December 2014.** Of course, at various times, certain persons have attempted to make out that the Forex Reserve by end 2019 was substantial, and that it had been irresponsibly squandered by the subsequent administrations. However, when a deep analysis is done, it is clear that the Forex Reserve available by end 2019 was much less than what should have been available, and that **the deficiency in the Reserve would be as much as a staggering USD 25 bn.** A simple computation of specific inflows that would have impacted the Gross Forex Reserves in given below:

Sources of Forex Inflows /Savings from 2015 to 2019	**USD bn**
Benefit of global fuel prices decrease from 2015 to 2019 (minimum)	7.5
Net ISB issues (Issues of USD 12.0 bn – settlements of USD 2.0 bn)	10.0
Additional tourism receipts (minimum)	4.0
Hambantota Port - Sales proceeds	1.0
China Development Bank – Term loans	2.0
New inflows and savings that should have been added to the Reserves by 31.12.2019	24.5
Add: brought forward Forex Reserves on 01.01.2015	8.2
Forex Reserves that should have been available on 31.12.2019	**32.7**
Less: Actual Forex Reserves on 31.12.2019	(7.6)
Unexplained Short-fall of Forex Reserves as at 31.12.2019	**25.1**

38 I state that the above table indicates that Forex Reserves as at 31st December 2019 had only been an actual amount of USD 7.6 bn, instead of USD 32.7 bn which should have been the minimum amount at hand by that date. **Needless to say, if USD 32.7 bn had been available in the official Forex Reserves at end 2019, Sri Lanka would have possessed sufficient Forex Reserves to comfortably absorb and navigate the shock of the Covid 19 pandemic and its after-effects on the country's external account.** This significant "short-fall" was confirmed by the IMF Article IV Report in March 2022 which highlighted that Sri Lanka was "vulnerable" at the "eve" of the Pandemic and that there were "inadequate external buffers" at the time of the new Government taking office around the end of 2019.

39 I state that the above short-fall further confirms the IMF statement in March 2022 that there were "**inadequate external buffers**" at the time of the new Government taking office, around the end of 2019. In this background, the new Government had to follow a "non-debt" forex inflows strategy as there was very little policy space for Sri Lanka to increase its external borrowings any further. In fact, such strategy was prudently followed from 2020 onwards, and was re-iterated when the "CBSL Road Map" was announced in October 2021. **In any event, the market opportunities to issue new ISBs in the wake of Covid-driven inactivity in the global bond markets also made it almost impossible to issue any new Sovereign Bonds, as did the ratings downgrade that had been imposed on more that 100 countries in the wake of the economic uncertainty that arose after the onset of the Covid Pandemic.**

40 I state that if the officials who held office from late November 2019 to early April 2022 are being requested to explain their roles in the management of the economy during their period in office and even for outcomes after their terms of office, it is fair that those who held office prior to November 2019 should also be held answerable and responsible for the "vulnerability" of the economy (as also stated by the IMF) by that time. In such circumstances, it is suspicious, surprising and inexplicable that the Petitioners has carefully avoided any reference to those in office previously, and only alluded to the actions of a few selected individuals only.

(iv) CONSIDERATION OF MACRO-ECONOMIC FUNDAMENTALS IN A HOLISTIC MANNER

41 I state that it is observed that there is a tendency for many persons to consider specific economic macro-fundamentals in isolation, instead of considering the impact of each of the macro-fundamentals on the behaviour and function of other inter-connected macro-fundamentals. As a result, there is often a dis-connect *vis-à-vis* the commentaries regarding the overall behaviour of the macro-fundamentals since that aspect is often over-looked by certain analysts. Nevertheless, the Monetary Board and the Central Bank have to view and consider all macro-fundamentals in a holistic manner and not each one in isolation. In doing so, the country's and people's present and future vital needs have to be often balanced against Central Bank's own liquidity needs in the usage of the country's forex and local currency reserves. It must be noted that the Central Bank has a responsibility to secure both "economic and price stability" and "financial system stability" as per the Monetary Law Act. Accordingly, all competing issues have to be "balanced" against one another in working towards those objectives. For example, "excess" issues of Treasury Bills by the Government to the CBSL was at times a dire necessity to keep Sri Lanka from defaulting on its sovereign debt and for the Government to be able to make vital payments on many occasions, and had to be resorted to, even with a future risk of demand-driven inflation. On several occasions, forex also had to be directly provided by the CBSL to the two systematically important state banks to prevent those institutions from

defaulting, even when the CBSL reserves were at low levels, in keeping with the CBSL's "financial system stability" objective. There was also a vital and long-term need to keep the country solvent, in keeping with the 74-year old Government policy of honoring its debts, as otherwise obtaining new loans or even opening a simple letter of credit by a local bank would have been almost impossible.

42 I state that it is also noted that all matters and issues raised by the Petitioners are matters where the decisions had been taken by the 9th Respondent in a legal manner, based on the existing facts as presented, expectations of future events and the best judgement of the persons vested with decision-making authority in relation to the economy, including myself during the period I served as the Governor. Further, the decisions taken and actions implemented by the 9th Respondent while I was in office as the Governor, were not for my individual or personal benefit, but as an integral part of implementing Government or Monetary Board policies that were lawful. At the same time, it was always ensured that the decisions of the Monetary Board were taken either unanimously or by majority vote so that all decisions were lawful.

43 I am advised and accordingly I state that in the case ***Senasinghe vs Cabraal,*** Justice K. Sripavan has judicially pronounced that certain economic decisions will need to be taken at the ground level at the particular time, based on the information available and the reasonable expectation and judgement of the members of the decision-making authority, namely the Monetary Board. The following dicta in ***Senasinghe vs Cabraal*** is very relevant to explain this principle: *"We must not forget that in complex economic policy matters every decision is necessarily empiric and therefore its validity cannot be tested on any rigid formula or strict consideration. The Court while adjudicating the constitutional validity of the decision of the Governor or Members of the Monetary Board must grant a certain measure of freedom considering the complexity of the economic activities. The Court cannot strike down a decision merely because it feels another policy decision would have been fairer or wiser or more scientific or logical. The Court is not expected to express its opinion as to whether at a particular point of time or in a particular situation any such decision should have been adopted or not. It is best left to the discretion of the authority concerned".* (https://www.supremecourt.lk/images/documents/scfr_application_457_2012.pdf)

44 I state that any person could do a post-mortem on any matter with subsequent outcomes and post acquired information, in relation to a prior decision. However, it must be appreciated that the Monetary Board has to take decisions in real time, taking the then existing circumstances, exigencies, priorities and available information into consideration. Also, it must be remembered that many competing issues may need to be considered and suitably balanced from a national point of view as well, without only viewing a particular issue or subject in isolation or from a specific angle or view point. In any event, it is also noted that although the Petitioners have questioned the judgement of the decisions taken by me and 9th Respondents, not a single instance of *mala fide* or bad faith on the part of myself has been levelled by the Petitioners.

(v) ALLOWING FLEXIBILITY OF THE (SRI LANKAN RUPEE (LKR)

45 I state that the Petitioners have alleged that the depreciation of the Sri Lankan Rupee (LKR) was not done in an "orderly" manner. It is of course well known that different stakeholders have different view points about the value at which the currency should be maintained or traded, or what policy should be followed to determine the value of the currency, or the timing of those decisions, depending on their own preferences and circumstances. However, the Central Bank has to take a holistic view since the value of the currency will have a major impact on the debt stock, the debt repayments, cost of living, inflation, price and economic stability, financial system stability, exports, imports, remittances, forex inflows, forex outflows, etc. The Central Bank also has to be very conscious of the timing of these decisions as well. That is why the several factors that affect those decisions have to be carefully considered and the Monetary Board has to take such decisions after a proper and structured discussion.

46 **In that background, the decision to allow flexibility in the exchange rate was taken by the Monetary Board of the CBSL on 7th March 2022, and that decision was based on a Monetary Board Paper dated 7th March 2022 submitted by <u>all three Deputy Governors</u> (11th Respondent, Mahinda Siriwardene, Dammika Nanayakkara & Mrs Yvette Fernando), Director Economic Research Department Dr. Anil Perera and Director International Operations Department Dr. Sumila Wanaguru.** The Board Paper stressed the need for changing the exchange rate policy immediately in order that the exchange rate acts as a "shock absorber" in the face of adverse developments in the global front on Sri Lanka's already fragile Balance of Payments, including the increase of the crude oil price to nearly USD 140 per barrel and the worsening Russia-Ukraine war.

47 I state that based on that Board Paper and the discussion at the meeting, the Monetary Board accordingly decided to *"allow the market to have a greater flexibility in the exchange rate with immediate effect and communicate that the Central Bank is of the view that forex transactions would take place at levels which are not more than Rs. 230 per US dollar"*. From the above it will be clear that, while the Monetary Board had expressed its "view" as to the level at which forex transactions would take place as a market guidance, a clear decision had been taken to allow for the flexibility of the LKR in the forex market. On the same day, a statement was issued to the media in line with the above decision.

Refer:
https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/press/pr/press_20220307_policy_package_to_support_greater_macroeconomic_stability_e.pdf.

Further, within about a week of floating the LKR, the President Gotabaya Rajapaksa made a formal announcement that the government had initiated discussions with the International Monetary Fund for a programme.

48 I state that at the time of my resignation on 4th April 2022, the LKR was trading at Rs. 289.73/299.99 per USD in accordance with the new "flexible" exchange rate policy as announced by the Monetary Board. In fact, prior to the exit of the 7th Respondent as

Governor, there had been an assurance from the Sri Lanka Bank's Association that their intention is to maintain the LKR at a range between Rs. 294.00/299.00 per USD, and that arrangement had been somewhat instrumental in restoring stability in the exchange rate at that time. (True copies of Documents evidencing the aforesaid are marked as **Annex "7R6" and pleaded as part and parcel of these Limited Statement of Objections**). Even after the my exit as Governor, the Monetary Board chaired by the new Governor Dr. Weerasinghe (8th Respondent) continued with the "flexible" exchange rate policy whilst the Government and CBSL also took a series of far reaching decisions which included the hotly-debated decisions to sharply increase policy interest rates by 700 bps from 8th April 2022 onwards, and the sudden discontinuation of repayments of forex loans and interest from 12th April 2022 onwards. In the meantime, the LKR continued to depreciate to a range of Rs. 364.23/377.50 against the USD by 12th May 2022, at which point, the Monetary Board under the 8th Respondent had apparently once again decided to "fix" the exchange rate at a new range between Rs.355.00/Rs.365.00 per USD, with the move to "fix" the exchange rate being titled *"Middle Rate of USD/LKR Spot Exchange Rate and Variation Margin"* (True copies of the Documents evidencing the aforesaid are marked as **Annex "7R7" and pleaded as part and parcel of these Limited Statement of Objections**) although it was quite similar to the policy adopted by the Monetary Board chaired by Governor Professor W D Lakshman (6th Respondent) which "fixed" the LKR exchange rate at a range of Rs.199.00/203.00 per USD from 6th September 2021 onwards. Thereafter, on 6th June 2022, the Central Bank issued a statement explaining the new "exchange rate policy" (True copies of the Documents evidencing the aforesaid are marked as **Annex "7R8" and pleaded as part and parcel of these Limited Statement of Objections**) which "fixed" the exchange rate under Governor Dr. Nandalal Weerasinghe (8th Respondent). Hence, if the Petitioners have any concerns about the conduct of the exchange rate policy under the 7th Respondent, they would also need to refer to the policy adopted by the Monetary Board under the 8th Respondent which had resulted in the LKR depreciating from Rs. 294.00/299.00 per USD to Rs. 364.23/377.50 per USD, and for the increase in inflation from 18.7% in March 2022 to 54.6% in June 2022 fueled by the currency depreciation and the massive policy interest rate hike of 7% on 8th April 2022. The sharp increase in the Government's borrowing costs due to the resulting increase in the Treasury Bills and Bonds yield rates are also matters that have been impacted by the policies followed after 4th April 2022, as may be noted from the following table.

Period of T/Bills	**1st April 2022**	**8th July 2022**	**Increase**
91 – day (%)	12.92	28.08	15.16
182 – day (%)	12.25	28.74	16.49
364 – day (%)	12.28	28.11	15.83

Source: CBSL Weekly Indicators

49 I state that it is of course likely that if Sri Lanka pursues an IMF programme the IMF will insist that the "flexible" exchange rate policy must be continued once again. In any event, exports, remittances and other forex earnings have still not picked up

sufficiently, even through such an outcome was expected by the authorities when the exchange rate was allowed to float. Hence, even though the IMF will probably insist that the LKR "float" policy be restored, the Sri Lankan authorities will need to take a carefully considered position in this regard as inflation is presently expected to exceed 70% (as per the 8th Respondent), and further depreciation of the LKR could drive inflation to "hyper-inflation" unmanageable levels, with resulting dire consequences.

(vi) WHY WAS THE IMF NOT ACCESSED EARLIER?

50 I state that the Petitioners have also referred to an alleged continued "refusal" to seek the assistance of the IMF and that such action was wrong and misconceived. What the Petitioners have attempted to technically opine is that all economic problems of Sri Lanka would have been solved if the authorities had sought the assistance of the IMF, thereby giving the impression that the <u>only</u> course of action available to Sri Lanka was to have an IMF programme. In that regard, the Petitioners seem to have deliberately withheld a large number of instances and case studies where social tensions of serious proportion had erupted and the political systems had failed in certain countries in the face of IMF programmes. The Petitioners also seem to have conveniently overlooked the fact that there would be tough conditions (prior-actions, tight monetary and fiscal targets, unpopular structural reforms etc) that may need to be agreed to by the Government and CBSL in order to access new IMF funding, and that fulfilling those conditions could sometimes lead to serious social up-heavels as well. Some of disadvantages of an IMF programme which many persons including the Petitioners, often prefer not to discuss, would be:

- *The IMF is likely to require Sri Lanka to raise tax revenue by increasing taxes.*
- *The IMF is likely to require Sri Lanka to cut down expenditure. Given the rigidity of expenditure, there is likely to be an impact on welfare expenditure.*
- *The IMF is likely to require liberalization of pricing of public utilities and petroleum prices.*
- *The IMF is likely to request for adjustments in interest rates and exchange rates, which will amplify Sri Lanka's debt burden. Sharp and unpredictable adjustments of the exchange rate may hamper investor confidence.*
- *The above adjustments will increase cost of living, at a time when the increase in cost of living is already high.*
- *Debt renegotiations will be a tedious process with at least a 2-3 year adjustment period. External financial sector/legal experts will be required for this process.*
- *During the period of restructuring/reprofiling of debt, Sri Lanka is unlikely to be able to secure foreign financing. This will result in a significant overshooting of the exchange rate, along with further curtailment of spending of imported goods and services during this period.*
- *Sri Lanka may also be requested to restructure/reprofile domestic debt. This will have serious repercussions on mobilizing financing for day-to-day operations of the Government.*
- *Sri Lanka's impeccable track record will be broken, which will tarnish long term credibility of the country.*
- *Ability of the country to carry out home-grown reforms to support non-debt build up of reserves and reduce the current account gap may get hampered.*

From the above, it will be noted that the disadvantages set out above are extremely serious and some of the possible conditions could be almost impossible to implement. That would mean that it may even not be possible to fulfil the likely conditions given the political environment, which would, in turn, mean that the country could be completely starved of finances after an approach to the IMF. I further state that a possible new IMF programme, if pursued, will need to be managed and negotiated very skillfully and carefully, both politically and economically. Otherwise, the programme itself could lead to the serious de-stabilisation of the country and the economy and even widespread social unrest. Several countries have experienced severe challenges in recent times due to the negative fall-out of IMF programmes. These include experiences in Greece, Indonesia, Pakistan, and Argentina. Please also see following Annexes:

Annex 7R 9 (a) – IMF bailout – road to stability or recipes for disaster?
Annex 7R 9 (b) – Insights into the IMF bailout debate: A review and research agenda;
Annex 7R 9 (c) – China "sad" that Sri Lanka went to IMF and defaulted: envoy
Annex 7R 9 (d) – How to the IMF bungled the Greek debt crisis
Annex 7R 9 (e) – Government's discussions with IMF has affected SL's request for $ 2.5 billion from China: Chinese Envoy
Annex 7R 9 (f) – Sri Lanka and Argentina

True Copies of the aforesaid documents are annexed herewith marked **"7R9(a)", "7R9(b)", "7R 9(c)" , "7R 9(d)" , "7R 9(e)" and "7R 9(f)"** and pleaded as part and parcel of these Limited Statement of Objections

51 I that in any event, since early 2020, the government under President Gotabaya Rajapaksa has implemented a plan consisting of several components for the external sector. These components included:
(a) securing of multi-lateral and bi-lateral loans;
(b) monetization of selected assets;
(c) obtaining Central Bank SWAPs;
(d) promoting Hambantota Industrial & Pharmaceutical Zones, Colombo Port City and other FDIs; and,
(e) increasing non-debt inflows, remittances and exports that official government stance was well known and pursued quite diligently (although not all components were too successful) until the President announced that I was seeking an IMF programme on 15th March 2022.

52 I state that in the period upto March 2022, the analysis of publicly available data shows that the Government secured forex cash loans of almost USD 1,300 million from the China Development Bank while the Central Bank of Sri Lanka (CBSL) obtained a SWAP facility of USD 1,550 million from the Peoples Bank of China. The CBSL also secured "bridging finance" of over USD 1,500 million from India through the post-ponement of the Asian Clearing Union (ACU) settlements, and a further SWAP facility of USD 400 million from the Reserve Bank of India. In addition,

another SWAP facility from the Bangladesh Bank was obtained for USD 200 million. **The cumulative value of all those inflows was around USD 4,950 million.** Incidentally, such sum is well over the USD 3 bn that many have claimed as being the amount that would have been received by the Sri Lankan Government and the CBSL, had the Government embarked on an IMF programme. In fact, it was by using these new funds, and the "brought forward" forex reserves of USD 7.6 bn as at 31st December 2019 of the CBSL, that the three International Sovereign Bonds totaling USD 2,500 million were settled in 2020, 2021 and 2022, together with other maturing debt, while also providing significant liquidity support of nearly USD 2,000 million to the State Banks, and supplying forex for urgent essential imports of around USD 1,800 million for food, fuel, gas, coal, medicines, etc., at the request of the Government.

53 I state that, in addition, the Government finalized a trade credit line of USD 1,000 million for oil imports and USD 1,000 million for other essential imports from the Government of India and access to these facilities had commenced from late March 2022 onwards. Further, based on an appeal from the President of Sri Lanka to the President of the Peoples Republic of China in January 2022, China had also indicated that it was ready to provide a liquid finance facility of USD 1,000 million and another facility of USD 1,500 million for import financing. In fact, these facilities were officially referred to by China's Ambassador in Sri Lanka on 21st March 2022 and Sri Lanka's Ambassador in China on 12th April 2022. **On the basis of the above assurances from China and India, further commitments of USD 4,500 million were also assured.**

54 **I state that in the light of the materialized receipts of USD 4,950 million by end March 2022 (as set out elsewhere in this document) and credible commitments of USD 7,150 million, the decision taken by the Government to pursue its stated path could be justified.** In fact, the situation would have been grave from about 2021 onwards, if the aforementioned forex inflows had not been diligently planned and arranged by the authorities and the commitments not obtained, whilst only relying on a possible IMF programme, which could have been delayed or dragged on for whatever reason, even if the IMF had been approached earlier. In all probability, if Sri Lanka had reached out to the IMF, Sri Lanka would not have received the other finances (as seen and experienced today), where financing sources or other countries are not extending funds and merely stating that they are awaiting the "IMF talks outcome" which is very uncertain and unpredictable. In fact, already all possible funding agencies and traditional bi-lateral development partners have announced that they have decided to wait for the IMF programme to be in place, before any bi-lateral funds or "bridging finance" could be committed, and since Sri Lanka as the recipient country is dependent on such bi-lateral funds, the economy is now starved of new funds, and consequently, in serious jeopardy.

55 **I state that in any event, it must be clearly understood that seeking a programme with the IMF is a decision that has to be taken by the President and the Cabinet of Ministers, and not by an official such as myself.** If the Cabinet had taken a policy decision one year or even two years ago to approach the IMF and informed the country of the Government's intention to do so, the entire governmental machinery including

the CBSL and Ministry of Finance (MOF) would have complied with that decision. In fact, that happened on 15th March 2022, when the President made the official announcement that the Government would seek an IMF programme.

56 I state that it is now 4 months since the Government approached the IMF on 15th March 2022, and that since then, most "bridging financing" and other arrangements have not been forthcoming since all such possible lenders are awaiting the outcome of the discussions and negotiations with the IMF. Meanwhile, the country is facing a serious shortage of forex and the present authorities are struggling to even provide for the basic necessities, even after defaulting on the forex debt. Inflation has risen to over 50%, and is expected to exceed 70% according to the 8th Respondent. The cut-off levels of Treasury Bill interest rates have already soared beyond 35% per annum. Rumours abound about certain drastic likely IMF conditions and many persons are highly apprehensive as to what may happen, if those conditions are to be met by the Government and the CBSL. In any case, there appears to be no finality of a Programme, and conflicting statements emanate from various authorities at intervals, eroding what little confidence that is left. If, as the Petitioners claim, the IMF was the panacea for all Sri Lankan economic ills, even after 4 months of approaching the IMF, there does not appear to be any encouraging signs of such a benefit, although many negative outcomes could of course be pointed out. The limited progress seems to also indicate that Sri Lanka is slowly but surely being strangled by outside forces on whom the Government is now compelled to rely upon, and needless to say, over a very short period, the economy is likely to shrink further, and the country will be at risk of plunging towards despair and destruction. It is also now observed that fresh conditions are being proposed by powerful and influential IMF members which may make it even more challenging for Sri Lanka to ever access an IMF Programme and its funds, without first making contentious social and foreign policy changes as well.

(vii) SETTLEMENT OF THE ISB OF USD 500 MN IN JANUARY 2022

57 I state that the Petitioners have gone to great lengths to suggest that Sri Lanka should not have serviced its Sovereign debt, including the maturing ISB of USD 500 mn on 18th January 2022. In fact, the 1st Petitioner had been one such proponent who had actively and publicly canvassed that Sri Lanka should not honour its ISB maturities and other commitments. At the same time, there are many others, including the present Prime Minister and Finance Minister (5th Respondent), who have clearly stated that it would be highly counter-productive if Sri Lanka were to default. **In that context, I re-iterates that it was quite possible for Sri Lanka to service its debt even with certain difficulties and that it is only by defaulting its forex debt that the country and economy had been subjected to most grievous prejudice and catastrophe.**

58 I state that the International Sovereign Bond settlement of USD 500 million on 18th January 2022 was a routine and Parliament-approved budgeted debt repayment out of a total of approximately USD 7,100 million forex debt-servicing payments and Rs.3,000 billion local debt-servicing payments that were maturing in the year 2022. According to

published information, that amount of USD 500 million accounts for about 7% of the Government's forex debt-servicing and about 2.3% of the total debt-servicing in 2022.

59 I state that as per Section 113 of the Monetary Law Act, the Central Bank of Sri Lanka *via* its Public Debt Department (PDD) manages the public debt as the Agent of the Government. It is therefore the primary responsibility of the Government, and not the CBSL to borrow and to repay the Government Debt. As the Agent, the Central Bank has to act on the direction and instructions of the Government in relation to public debt management and cannot unilaterally decide to pay or not to pay any debt of the Government. Further, it is the Government that makes funds available for local and foreign debt-servicing from the funds which have been specifically appropriated by Parliament for that purpose.

60 **I state that, if therefore for any reason, the Government were to decide to default on its debt repayments, that would have to be a decision of the Government.** If the Government so decides, the Government, through the Ministry of Finance (MOF) must instruct the Central Bank not to re-pay any or all of the Government's debts. Further, if such a far-reaching and vital decision were to be taken, it will obviously have to be the Government that would have to take the responsibility for the repercussions that would follow such a default as well. **The above position is clearly confirmed by the fact that it was the MOF that announced the new *"Interim External Public Debt Servicing Policy"* on 12th April 2022.** Through the enunciation of that new policy, all forex debt repayments due to be settled by the Government upto that day, were to be stopped immediately, and restructured eventually. That announcement, inter alia, stated: *"It shall therefore be the policy of the Sri Lankan Government to suspend normal debt servicing of All Affected debts (as defined below), for an interim period pending an orderly and consensual restructuring of those obligations in a manner consistent with an economic adjustment program supported by the IMF. The policy of the Government as discussed in this memorandum shall apply to amounts of Affected Debts outstanding on April 12, 2022. New credit facilities, and any amounts disbursed under existing credit facilities, after that date are not subject to this policy and shall be serviced normally".* The entire MOF statement is reported by Daily FT at : https://www.ft.lk/top-story/Sri-Lanka-declares-bankruptcy/26-733409

61 **I state that it should therefore be clear that until the above decision to default with effect from 12th April 2022 was taken by the Government, it was the bounden duty and solemn responsibility of the Borrower (i.e, the Government) and its Agent (i.e, the Central Bank) to take all steps to honour the repayments of all Government debts falling due upto that date.** In addition, Finance Minister Basil Rajapaksa (3rd Respondent) had also specifically given a re-assurance in Parliament about the repayment of the ISBs when winding up the Budget debate on 10th December 2021 (as reported in the Hansard page 2830) a translation of which is as follows: *"Frankly, we are facing a massive economic crisis. We are facing a foreign reserves crisis as well. However, as the Finance Minister, with the permission of the President and the Prime Minister, I must very solemnly confirm in this august assembly that we would pay every dollar that is due to be paid next year. I give that assurance with responsibility. First, we have to pay 500 million dollars in January. Next, we have to pay 1000 million dollars in July. In between, we have to pay other interest and capital repayments in our*

debt servicing. I hereby confirm to this august assembly that we will pay all that. We have a plan to do that. We will implement that plan".

62 I state that it must be appreciated that defaulting sovereign debt is a very complicated matter with grave consequences. It must also be understood that settling or not settling the country's sovereign debt or a specific part of it, is not a matter where a single individual or even the Monetary Board (9th Respondent) can unilaterally decide. Nevertheless, there have been claims by various persons including the Petitioners and even some Members of Parliament, that the settlement of the maturing ISB of USD 500 million on 18th January 2022 was done at the behest of, and/or the sole discretion of the 7th Respondent as the then CBSL Governor in order to enable certain unspecified investors to make undue profits, ignoring the advice of various so called "experts". Ironically, when it was initially believed that the Sri Lankan Government may default on the January 2022 ISB, most of those same so-called experts had warned about the grave consequences and grievous prejudice of a possible default and urged the Government not to default, but to source the funds through any means to avoid such a default. However, when it was subsequently known that the Government had secured the funds to settle the ISB, the same persons robustly and publicly advised sovereign default, and inexplicably found fault with the then Governor (7th Respondent) when their new amended "advice" to default was not heeded. In that context, the *bona fides* of some of those persons would need to be questioned.

63 **I state that in any event, at the time in question (January 2022), the official Government policy was to pay its sovereign debt, which policy, the MOF and the CBSL (as Agent) had followed faithfully and diligently, since independence.** Needless to say, such deep-rooted policy could not, and should not have been unilaterally or legally abrogated by myself and the Monetary Board (9th Respondent) on 18th January 2022, as lobbied and advised by certain persons and politicians. In fact, during the month of March 2022 alone, the government honoured and/or rolled-over sovereign Forex debt payments as stated elsewhere in this "Limited Statement of Objections". It that context, it must also be noted that the repayment exercise is mainly dependent on the cash/funds inflows and outflows, and not only dependent upon the quantum of the available reserves. If the only criteria for debt repayment was the availability of liquid funds in possession , it would have not been possible to manage the debt repayment programmes of the government over the past many years. The simple example of this phenomenon is the settlement of Treasury Bills and Bonds of the Government where each week about Rs.100 bn matures and is <u>rolled-over</u> without the Treasury having to advance any new funds from its own coffers towards its settlement. Therefore, it is vital that the authorities ensure public confidence in the financial system and carefully arrange the cash flows in anticipation of the payments due, and thereby skillfully manage the inflows and outflows of funds efficiently, particularly in times of financial stresses. That was what was done over the past several months and years under previous Governors, Treasury Secretaries and Finance Ministers until early April 2022, and that was what was needed to be done thereafter as well, without jeopardizing the entire nation's future by defaulting on the loan

repayments and interest payments to international creditors. In fact, it is reported that the Forex debt servicing was only about USD 244 million in April 2022, while the Forex debt servicing for May/June 2022 was only another USD 789 million, adding to a total of USD 1,033 million. The repayment and roll-over of these amounts were therefore comfortably manageable with the likely inflows into the Central Bank reserves from the 25% export conversions, other planned inflows that were expected to materialize in the next few months, together with the successful roll-over of maturing SLDBs and FCBU loans.

(viii) PRIORITY IS TO MEET THE OVERALL OBJECTIVES OF THE CENTRAL BANK

64 I am advised and accordingly I state that the Petitioners have, at various points of their Petition, referred to comments or statements of certain persons who are claimed to be experts in order to suggest various responsibilities and specific duties relating to the 9th Respondent's functions, duties and responsibilities. In this regard, I state that the 9th Respondent's functions, responsibilities and objectives are set out clearly in **Section 5 of the Monetary Law Act** which reads as follows:

> ***Section 5:*** *An institution, which shall be called and known as the Central Bank of Sri Lanka (hereinafter referred to as "the Central Bank") is hereby established as the authority responsible for the administration, supervision and regulation of the monetary, financial and payments system of Sri Lanka, and without prejudice to the other provisions of this Act, the Central Bank is hereby charged with the duty of securing, so far as possible by action authorised by this Act, the following objectives, namely -*
>
> ***(a) economic and price stability; and***
>
> ***(b) financial system stability,***
>
> *with a view to encouraging and promoting the development of the productive resources of Sri Lanka.*

6

65 I state during the period I held office as the Governor of the 9th Respondent organization, I had made every effort to enable the 9th Respondent to deliver the above objectives in a holistic, practical and legal manner and that I had also been assured by the relevant officials of the Central Bank that the 9th Respondent had taken all steps to achieve its objectives to the maximum extent possible, in a holistic manner in the very difficult and challenging circumstances. At the same time, all statutory obligations to keep the government hierarchy notified of the economic situation was duly observed, and all such communications as required by the Law were made in a formal and official manner as well. At the same time, it must also be stated that many differing strategies had been implemented from time to time based on the need and availability of resources, and the desired overall outcomes. At certain times, such strategies may have even appeared to be in conflict with certain pre-determined values, notions or concepts of various analysts or outside "experts" who sometimes may not have sufficiently appreciated the stresses experienced by the economy as the result of the massive global and local economic crises.

66 I am advised and accordingly I state that throughout the Limited objections I have clearly explained that the Petitioners' Fundamental Rights had not, in any way, been violated by the execution of the functions under my purview, as claimed by the Petitioners.

67 Therefore, I am advised and accordingly I state that based on the above facts, the Petition of the Petitioners cannot be maintained, and that the Petitioners are not entitled to the reliefs prayed for and that this Petition shall be dismissed *in limine.*

68. I state that grave and irreparable loss and damage would be caused if the interim reliefs prayed for in the Petition of the Petitioners is granted.

69. Therefore, I respectfully ask Your Lordships' Court to be pleased to grant the reliefs as prayed for in Limited Objections dated 15th July 2022.

The foregoing affidavit having been read over and explained to the deponent within named and he appearing to have understood the contents thereof and sworn to and signed at Colombo on this 15th day of July 2022.

Sgd. /

BEFORE ME

Sgd. /

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Saravanan Neelakandan Law Associates
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7R2(a)

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Sri Lanka hopeful for $2.5bn rescue loan from China

The country's top diplomat said China has reassured him that arrangements for loans, credit lines were underway.

Streets protests have been fueled by severe shortages of most essentials [File: Ishara S. Kodikara/AFP/Getty Images]

By **Bloomberg News** | **Bloomberg**

12 Apr 2022

Sri Lanka's top diplomat in Beijing said he's very confident that China will come through on $2.5 billion in financial support as the island nation's inflation-driven crisis becomes more dire.

Ambassador Palitha Kohona said that he'd received reassurances as recently as last week from authorities in China that arrangements for loans and credit lines were progressing. Sri Lanka is looking to borrow $1 billion from Beijing so that it can repay existing Chinese loans due in July, as well as a $1.5 billion credit line to purchase goods from the world's No. 2 economy such as textiles needed to support the apparel export industry, he said.

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"For us, it can't come any sooner," Kohona said, adding that it could be a matter of weeks. He wasn't able to give a precise timeframe, and didn't disclose the terms of the funding.

"Given the current circumstances, there aren't that many countries that can step out to the pitch and do something," he said. "China is one of those countries that can do something very quickly."

Sri Lanka is embroiled in its worst economic crisis in decades, as consumer prices rose the fastest in Asia at about 19% last month. Soaring costs, widespread power outages, and shortages of food and medicine have fueled street protests and left President Gotabaya Rajapaksa with a minority in parliament.

Beijing has long enjoyed warm relations with Colombo but has yet to deliver a much needed lifeline to Sri Lanka. Rajapaksa had recently written to Chinese President Xi Jinping directly to seek credit support, Kohana said, and Sri Lanka officials are still encouraging Beijing to address the issue as soon as possible.

"Our request will be honored, but they have to go through the Chinese system," he said. "We are very confident that sooner than later, these two facilities will be made available to us."

Kohana said that Sri Lanka had also sought China's help to buy items such as fuel that it was struggling to secure because of the nation's foreign-currency shortage. He said he was unsure whether China could provide such support, given that it is a net importer of such goods.

Separately, Sri Lankan officials will meet with counterparts from the International Monetary Fund later this week to iron out details of a potential financial package to help it meet $8.6 billion worth of debt payment due this year. Kohana said he was hopeful to secure Chinese support that would enhance its chances for closing the deal.

"Given the nature of our relationship — this very close and warm relationship — and Sri Lanka's dire situation, I would say that I am confident that China will respond positively to our request," Kohona said of his nation's overall efforts to secure funding from Beijing.

SOURCE: BLOOMBERG

7R2(b)

Sri Lanka's Beijing envoy confident of getting assistance from China

Sri Lankan ambassador to China, Palitha Kohona says that China is ready to support the island nation with almost $2.5 billion in finances.

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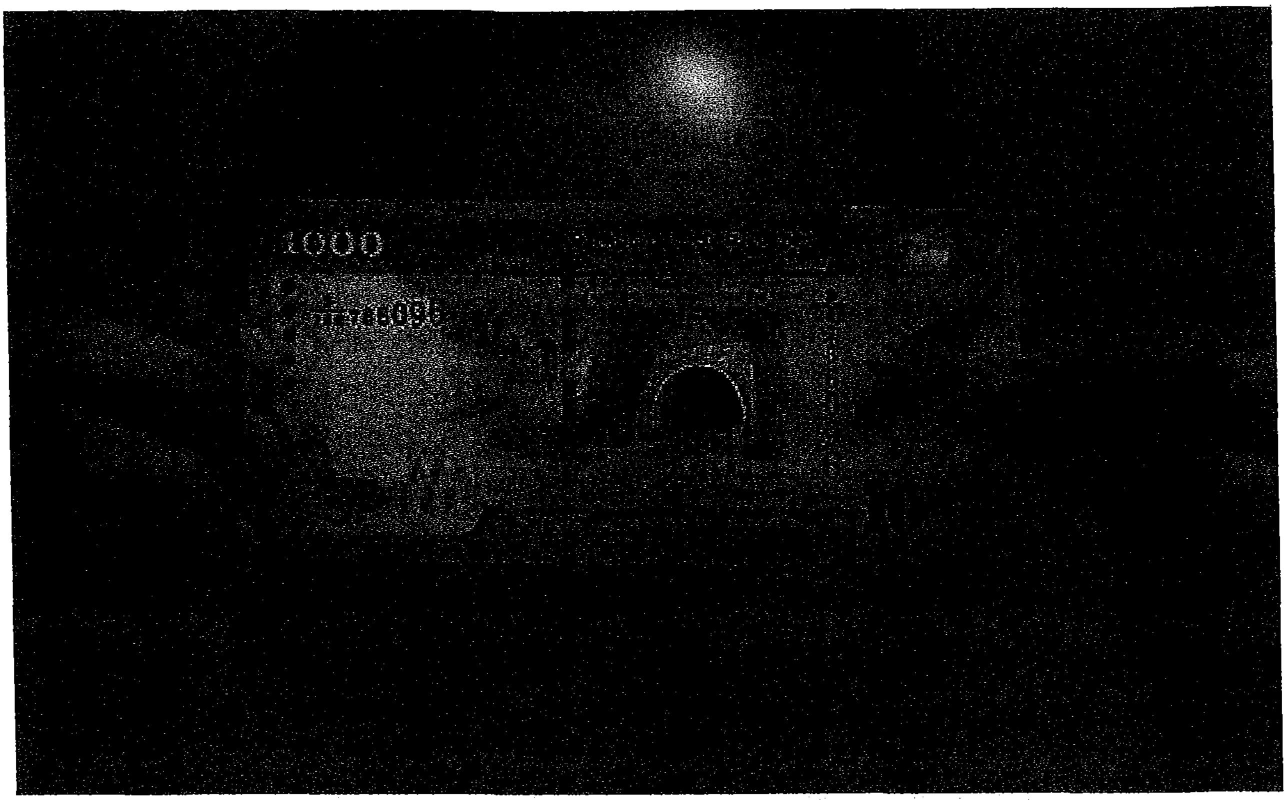

Photo: Reuters

New Delhi, April 13: Sri Lankan ambassador to China, Palitha Kohona says that China is ready to support the island nation with almost $2.5 billion in finances. Sri Lankan President Gotabaya Rajapaksa had written to his Chinese counterpart Xi Jinping recently to bail out the country from its serious financial downturn.

Sri Lankan news website Ada Derana quoted Kohona as saying that authorities in China had given assurances last week that the country was making arrangements for loans and credit lines. The Indian Ocean nation seeks to borrow $1 billion to repay the upcoming July loan to China and a $1.5 billion line of credit to purchase Chinese goods to support its apparel export industry.

Under the Rajapaksa family, the two nations enjoy strong diplomatic and economic relations. China has liberally funded mega projects--the Hambantota port, the Colombo Port City and the Mattala Rajapaksa International Airport (MRIA), also known as the world's emptiest airport. Critics say that these giant infrastructure projects have made China rich but not brought anything to Sri Lanka.

Justifying Chinese help, Kohona said: "Given the current circumstances, there aren't that many countries that can step out to the pitch and do something. China is one of those countries that can do something very quickly".

Sri Lanka is caught in a spiralling crisis of rising foreign debt, runaway food inflation, massive shortages of fuel and daily power cuts. People are camping on the streets asking for President Rajapaksa to resign and his family members to stay away from running the country.

The Sri Lankan ambassador's statements come on the heels of Prime Minister Mahinda Rajapaksa's television address on Monday night, where he pleaded with the demonstrators to go back home. "Each minute of the day, the President and the Cabinet are discussing ways to address this situation. Though we cannot do it in a day or two, we are working to solve this problem as soon as possible," the Prime Minister said in his address.

Sri Lankan newspaper Daily FT reported that Mahinda Rajapaksa told protestors that every moment they stay on the streets, they are disrupting the flow of dollars into the country. He said: "I believe the people of this country are aware of the economic problems the country has had to face after the Covid pandemic. Although we were able to save people's lives, we can feel the country has fallen into an abyss. There is no need for me to repeat how, after the lockdown of the country, we lost sources of foreign exchange and how the foreign reserves dried up".

The President and Prime Minister have, however, not accepted the demands of the opposition and from the public that they take responsibility for the socio-economic crisis and step down. The Rajapaksa's political allies in the parliament too are asking the Rajapaksa family to resign amid rising public anger and one-point agenda--that the president resigns and hands over the government to a joint political administration.

(The content is being carried under an arrangement with indianarrative.com)

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(Only the headline and picture of this report may have been reworked by the Business Standard staff; the rest of the content is auto-generated from a syndicated feed.)

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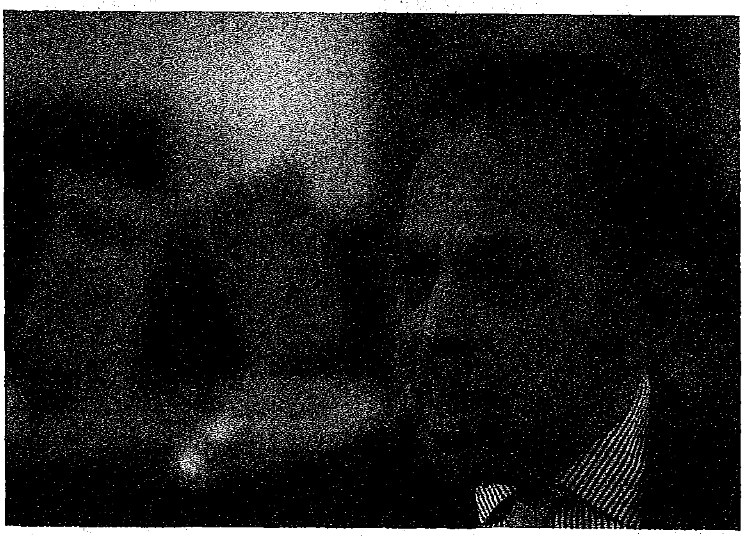

Sri Lankan envoy confident China will provide debt relief

April 12, 2022 10:11 am

Sri Lanka's top diplomat in Beijing said he is very confident that China will come through on US$2.5 billion (S$3.4 billion) in financial support as the island nation's inflation-driven crisis becomes more dire.

Ambassador Palitha Kohona said that he had received reassurances as recently as last week from authorities in China that arrangements for loans and credit lines were progressing.

Sri Lanka is looking to borrow US$1 billion from Beijing so that it can repay existing Chinese loans due in July, as well as a US$1.5 billion credit line to purchase goods from the world's No. 2 economy such as textiles needed to support the apparel export industry, he said.

"For us, it can't come any sooner," Dr Kohona said, adding that it could be a matter of weeks. He was not able to give a precise timeframe, and did not disclose the terms of the funding.

"Given the current circumstances, there aren't that many countries that can step out to the pitch and do something," he said. "China is one of those countries that can do something very quickly."

Sri Lanka is embroiled in its worst economic crisis in decades, as consumer prices rose the fastest in Asia at about 19 per cent last month.

Soaring costs, widespread power outages, and shortages of food and medicine have fuelled street protests and left President Gotabaya Rajapaksa with a minority in parliament.

Beijing has long enjoyed warm relations with Colombo but has yet to deliver a much needed lifeline to Sri Lanka.

Mr Rajapaksa had recently written to Chinese President Xi Jinping directly to seek credit support, Dr Kohana said, and Sri Lanka officials are still encouraging Beijing to address the issue as soon as possible.

"Our request will be honoured, but they have to go through the Chinese system," he said. "We are very confident that sooner than later, these two facilities will be made available to us."

Dr Kohana said that Sri Lanka had also sought China's help to buy items such as fuel that it was struggling to secure because of the nation's foreign-currency shortage. He said he was unsure whether China could provide such support, given that it is a net importer of such goods.

Separately, Sri Lankan officials will meet with counterparts from the International Monetary Fund later this week to iron out details of a potential financial package to help it meet US$8.6 billion worth of debt payment due this year.

Dr Kohana said he was hopeful to secure Chinese support that would enhance its chances for closing the deal.

"Given the nature of our relationship - this very close and warm relationship - and Sri Lanka's dire situation, I would say that I am confident that China will respond positively to our request," Dr Kohona said of his nation's overall efforts to secure funding from Beijing.

Source: Bloomberg
-Agencies

7R2(d)

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13 Apr, 2022

SRI LANKA HOPEFUL FOR US$ 2.5 BILLION RESCUE LOAN FROM CHINA

Al Jazeera : 12 April 2022

Sri Lanka's top diplomat in Beijing said he's very confident that China will come through on $2.5 billion in financial support as the island nation's inflation-driven crisis becomes more dire.

Ambassador Palitha Kohona said that he'd received reassurances as recently as last week from authorities in China that arrangements for loans and credit lines were progressing. Sri Lanka is looking to borrow $1 billion from Beijing so that it can repay existing Chinese loans due in July, as well as a $1.5 billion credit line to purchase goods from the world's No. 2 economy such as textiles needed to support the apparel export industry, he said.

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« THE YEAR IN REVIEW

CPI 2021 FOR ASIA PACIFIC: GRAND CORRUPTION AND LACK OF FREEDOM HOLDING BACK PROGRESS »

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Do you expect the shortage of fuel and gas to be resolved by the end of July?

Yes No

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Do you believe the Sri Lankan Rupee will lose more value during this year?

Yes No

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E-Paper

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the sunday morning the morning

April 12, 2022
Online edition

NEWS

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Saravanamuttu Mutalalintam Law Associates
ATTORNEYS-AT-LAW

7R2(e)

Sri Lankan envoy confident China will provide debt relief

APRIL 12, 2022 BY RUWANI FONSEKA   0 COMMENTS

Sri Lanka's top diplomat in Beijing said he is very confident that China will come through on US$2.5 billion (S$3.4 billion) in financial support as the island nation's inflation-driven crisis becomes more dire.

Ambassador Palitha Kohona said that he had received reassurances as recently as last week from authorities in China that arrangements for loans and credit lines were progressing.

Sri Lanka is looking to borrow US$1 billion from Beijing so that it can repay existing Chinese loans due in July, as well as a US$1.5 billion credit line to purchase goods from the world's No. 2 economy such as textiles needed to support the apparel export industry, he said.

"For us, it can't come any sooner," Dr Kohona said, adding that it could be a matter of weeks. He was not able to give a precise timeframe, and did not disclose the terms of the funding.

"Given the current circumstances, there aren't that many countries that can step out to the pitch and do something," he said. "China is one of those countries that can do something very quickly."

Sri Lanka is embroiled in its worst economic crisis in decades, as consumer prices rose the fastest in Asia at about 19 per cent last month.

Soaring costs, widespread power outages, and shortages of food and medicine have fuelled street protests and left President Gotabaya Rajapaksa with a minority in parliament.

Beijing has long enjoyed warm relations with Colombo but has yet to deliver a much needed lifeline to Sri Lanka.

Mr Rajapaksa had recently written to Chinese President Xi Jinping directly to seek credit support, Dr Kohana said, and Sri Lanka officials are still encouraging Beijing to address the issue as soon as possible.

“Our request will be honoured, but they have to go through the Chinese system,” he said. “We are very confident that sooner than later, these two facilities will be made available to us.”

Dr Kohana said that Sri Lanka had also sought China’s help to buy items such as fuel that it was struggling to secure because of the nation’s foreign-currency shortage. He said he was unsure whether China could provide such support, given that it is a net importer of such goods.

Separately, Sri Lankan officials will meet with counterparts from the International Monetary Fund later this week to iron out details of a potential financial package to help it meet US$8.6 billion worth of debt payment due this year.

Dr Kohana said he was hopeful to secure Chinese support that would enhance its chances for closing the deal.

"Given the nature of our relationship – this very close and warm relationship – and Sri Lanka's dire situation, I would say that I am confident that China will respond positively to our request," Dr Kohona said of his nation's overall efforts to secure funding from Beijing.

Source: Bloomberg

7R3

PRESS RELEASE NO. 22/54

IMF Executive Board Concludes 2021 Article IV Consultation with Sri Lanka

March 2, 2022

Washington, DC: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation [1] (file:///C:/Users/MCuscanaBernales/OTmp/Sri%20Lanka%20-%202021%20Article%20IV%20PR.docx#_ftn1) with Sri Lanka on February 25, 2022.

Sri Lanka has been hit hard by COVID-19. On the eve of the pandemic, the country was highly vulnerable to external shocks owing to inadequate external buffers and high risks to public debt sustainability, exacerbated by the Easter Sunday terrorist attacks in 2019 and major policy changes including large tax cuts at late 2019. Real GDP contracted by 3.6 percent in 2020, due to a loss of tourism receipts and necessary lockdown measures. Sri Lanka lost access to international sovereign bond market at the onset of the pandemic.

The authorities deployed a prompt and broad-based set of relief measures to cope with the impact of the pandemic, including macroeconomic policy stimulus, an increase in social safety net spending, and loan repayment moratoria for affected businesses. These measures were complemented by a strong vaccination drive. GDP growth is projected to have recovered to 3.6 percent in 2021, with mobility indicators largely back to their pre-pandemic levels and tourist arrivals starting to recover in late 2021.

Nonetheless, annual fiscal deficits exceeded 10 percent of GDP in 2020 and 2021, due to the pre-pandemic tax cuts, weak revenue performance in the wake of the pandemic, and expenditure measures to combat the pandemic. Limited availability of external financing for the government has resulted in a large amount of central bank direct financing of the budget. Public debt [2] (file:///C:/Users/MCuscanaBernales/OTmp/Sri%20Lanka%20-%202021%20Article%20IV%20PR.docx#_ftn2) is projected to have risen from 94 percent of GDP in 2019 to 119 percent of GDP in 2021. Large foreign exchange (FX) debt service payments by the government and a wider current account deficit have led to a significant FX shortage in the economy. The official exchange rate has been effectively pegged to the U.S. dollar since April 2021.

The economic outlook is constrained by Sri Lanka's debt overhang as well as persistently large fiscal and balance-of-payments financing needs. GDP growth is projected to be negatively affected

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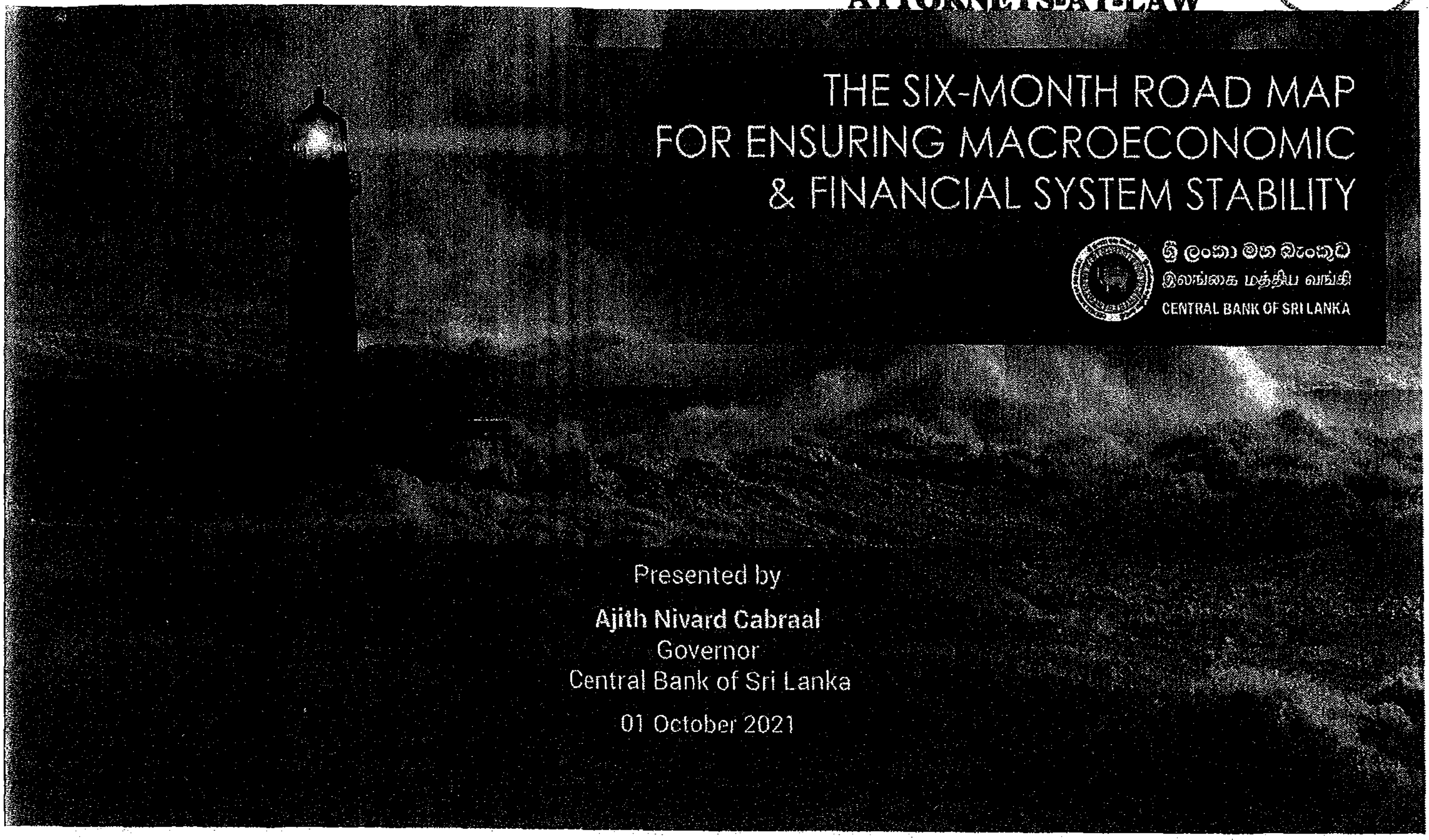


SRI LANKA,

once graciously referred to as the

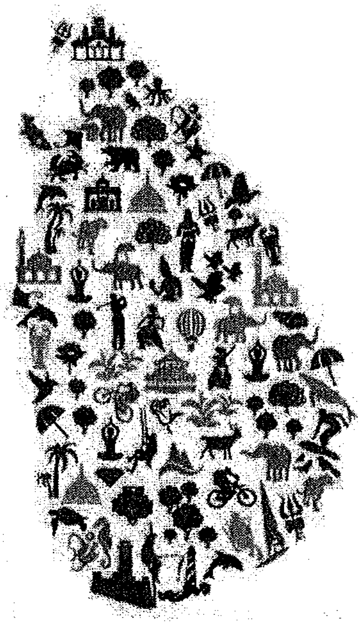
"Wonder of Asia"

and

"the Next Miracle of Asia",

has been severely challenged

in the past few years...



There is fear about the present economic challenges...

Sluggish growth and struggling businesses

Severe COVID-19 lockdown impact

Shortage of foreign exchange and fears about a sharp depreciation of the Sri Lankan Rupee

Possible increase in non-performing loans

Increase in Central Bank's Treasury bill holdings

Concerns about debt sustainability, particularly with the large outstanding values of ISBs

Low levels of official foreign exchange reserves

Weakened revenues

Increase in unauthorised remittance flows

Unfavourable sovereign ratings

Concerned consumers

Stockpiling of imported goods by importers

Hostile international and local media reports

Stockpiling of Forex by exporters

Regular doomsday reports by the opposition and other interest groups have also contributed to the negative sentiment...

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MP notes a hidden aspect of Sri Lanka's debt

රසායනික පොහොරවලින් ඉවත් වීම එක්වරම ක්‍රියාත්මක කළොත් ගොවීන් ගොවිතැනින් ඈත් වේවි

Current lockdown imposed by Govt. is a failure - Opposition Leader

- Those who have succumbed to COVID in SL has become twice as many as those who have died of the pandemic in China
- Ministers are putting the lives of people in this country on auction

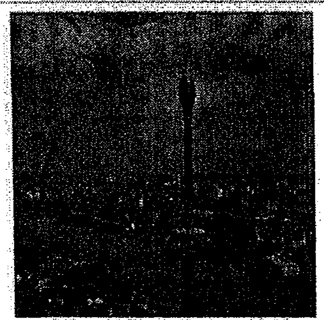
"Be careful of pump and dump in stock market"

"This govt. printed Rs. 880 billions"

This is the roadmap of Zimbabwe

- Economy a step closer to bankruptcy

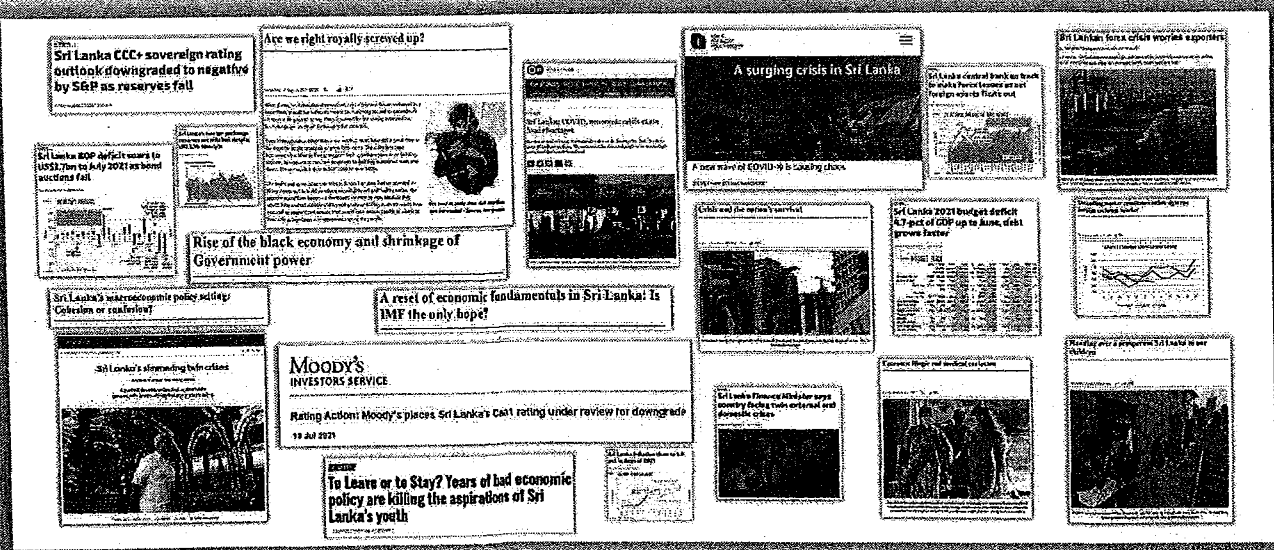
Change the doctor rather than changing the medication to resolve country's problems



At the same time, we have to admit that the economy has shown little positive progress over the past few years...

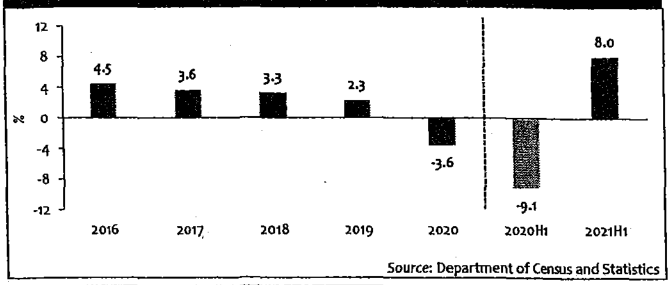
	2005	2014	2019	2020
GDP at Current Prices (USD mn)	24,406	79,359	83,976	80,707
GDP Per Capita at Current Market Prices (USD)	1,242	3,819	3,852	3,682
Merchandise Exports (USD mn)	6,347	11,130	11,940	10,047
Merchandise Exports (as a % of GDP)	26.0	14.0	14.2	12.4
Services Exports (USD mn)	1,539	5,605	7,474	3,035
Services Exports (as a % of GDP)	6.3	7.1	8.9	3.8
External Current Account Balance (as a % of GDP)	(2.7)	(2.5)	(2.2)	(1.3)
Overall Fiscal Balance (as a % GDP)	(7.0)	(5.7)	(9.6)	(11.1)
Central Government Debt (as a % GDP)	90.8	72.3	86.8	101.0
Central Government External Debt (as a % GDP)	39.0	30.0	41.3	40.4
Outstanding International Sovereign Bonds (as a % of GDP)		6.3	17.9	17.4
Avg. Exchange Rate (Rs./USD)	100.50	130.56	178.78	185.52
Year End Exchange Rate (Rs./USD)	102.12	131.05	181.63	186.41
Gross Official Reserves (USD mn)	2,735.0	8,208.4	7,642.4	5,664.3
Inflation (Change in CCPI)	11.0	3.3	4.3	4.6
All Share Price Index (1985=100)	1,922.2	7,299.0	6,129.2	6,774.2
Stock Market Capitalisation (USD bn)	5.7	23.7	15.7	15.9

Weakening of the economy, along with the effect of the COVID-19 pandemic, has recently caused anxiety about the macroeconomic stability and the sustainability of the Sri Lankan economy...

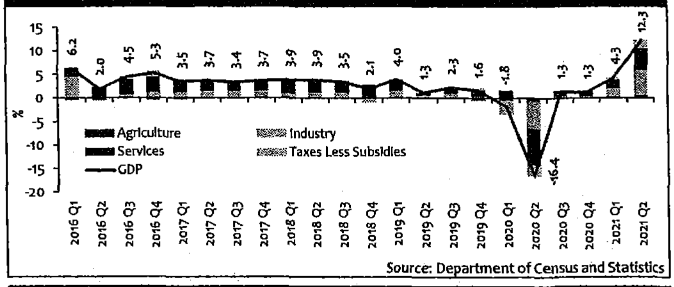


Although the economy grew by 8.0% in H1 2021, disruptions to labour market outcomes have been observed with the Pandemic...

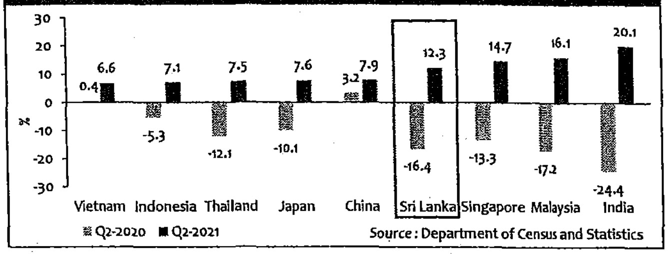
Annual Real GDP Growth (Y-o-Y)



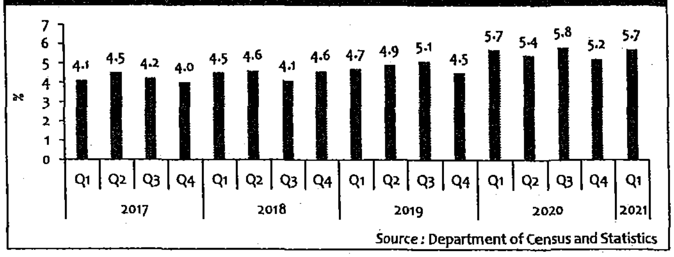
Contribution to Quarterly Real GDP Growth (Y-o-Y)



Extent of Rebound across Peer Economies (2020Q2 Vs. 2021Q2)

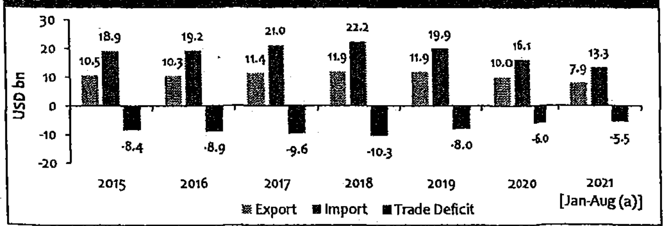


Unemployment



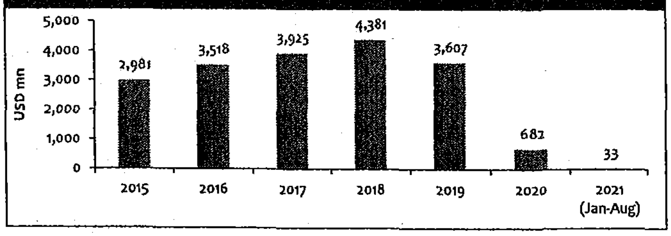
The external sector has experienced unprecedented challenges amidst the adverse effects of the COVID-19 pandemic...

Imports increasing at a higher pace than exports leading to a significant deficit in the trade account...

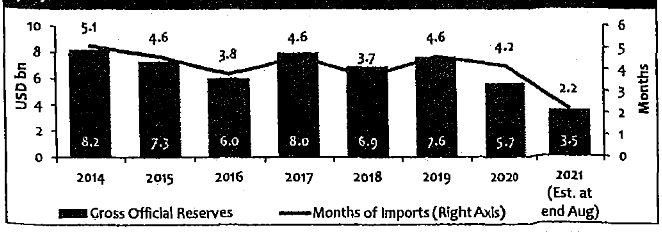


(a) August 2021 export and import data are preliminary unadjusted data from Sri Lanka Customs.

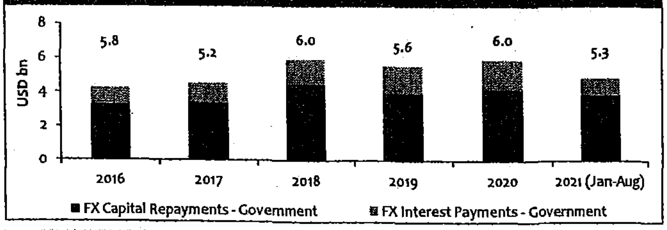
Drastically reduced earnings from tourism since Easter Sunday attacks...



Gross official reserves declining with continued large debt service payments...

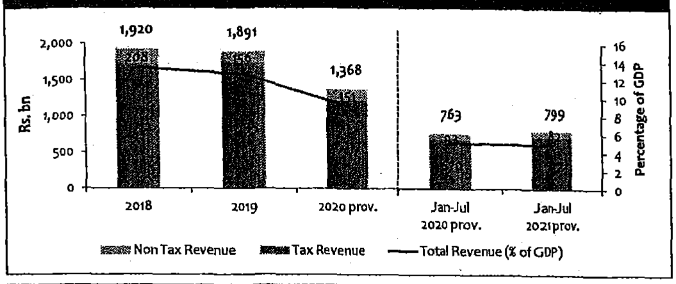


Despite the multitude of challenges, Sri Lanka continued to honour the country's debt service obligations...

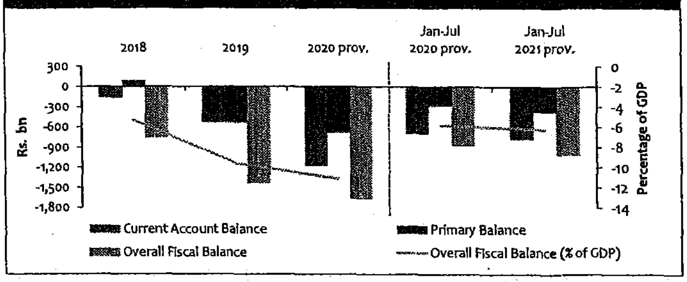


The budget deficit has increased in nominal terms, due to rise in recurrent expenditure and weakened revenue amidst the COVID-19 pandemic...

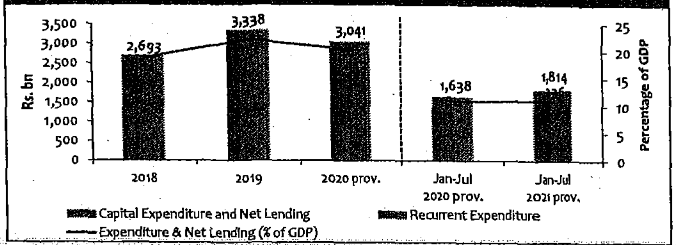
Government Revenue



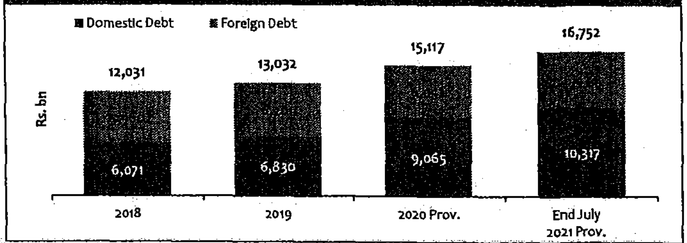
Key Fiscal Balances



Government Expenditure

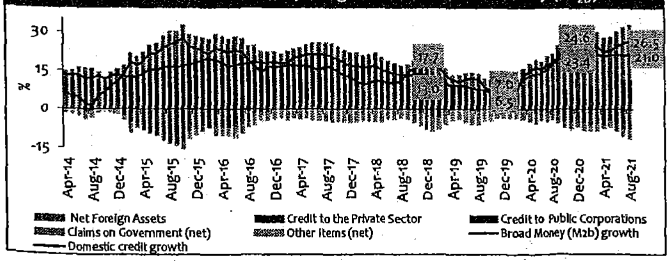


Central Government Debt

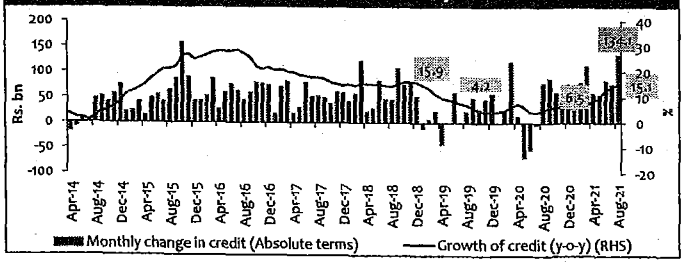


Although inflation has remained broadly subdued, a notable expansion of money and credit has been observed...

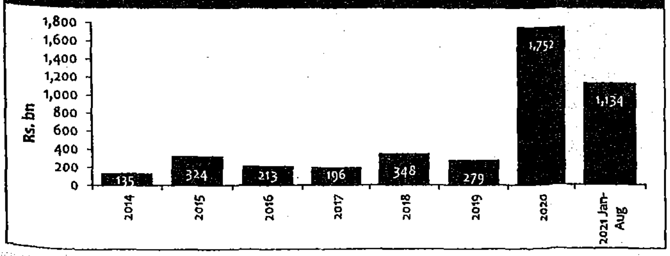
Contribution to Year-on-year growth of Broad Money (M_{2b})



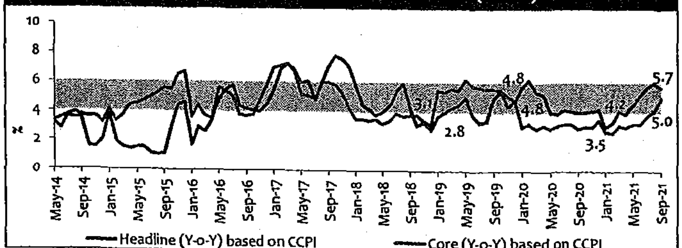
Credit to the Private Sector by LCBs



Net Claims on Government - Annual Increase



Movements in Headline and Core Inflation (Y-o-Y) - CCPI



When quantified, the official responses have been quite impressive and perhaps not received sufficient acknowledgement...

Government Support*

- Proactive vaccination programmes
- Fiscal stimulus and financial assistance to needy families
- Movement related control measures
- Tax exemptions for medical equipment
- PCR and rapid antigen tests
- Provision of healthcare facilities
- Community awareness programmes

Rs. 209 bn

* Includes Govt. support in 2020 and up to 07 September 2021

CBSL Support

COVID-19 Saubagya Refinance Scheme	Rs. 165.5 bn (1.1% of GDP)
Financial support to the Government**	Rs. 2,002 bn (13.4% of GDP)
Savings to the Private Sector in the form of reduced interest cost***	Rs. 365 bn
Saving in terms of reduced interest cost to the Public Sector***	Rs. 313 bn (2.1% of GDP)
Monetary Policy Easing Measures	
Extended Debt Moratoria**** Capital fallen due (Banks & NBFIs)	Rs. 780 bn

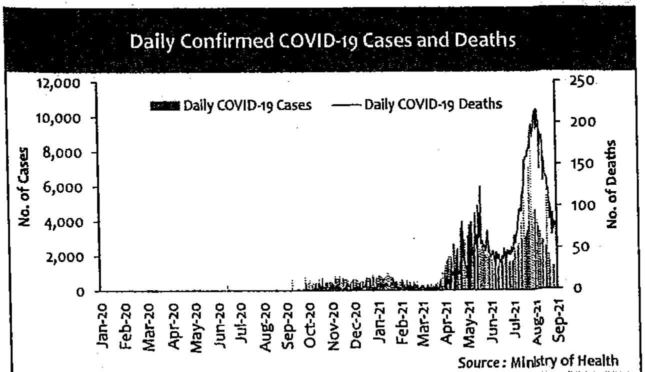
** Support in 2020 and up to 24 September 2021
*** Savings in 2020 and up to end July 2021
**** Same borrower may have obtained concessions under different schemes/ phases

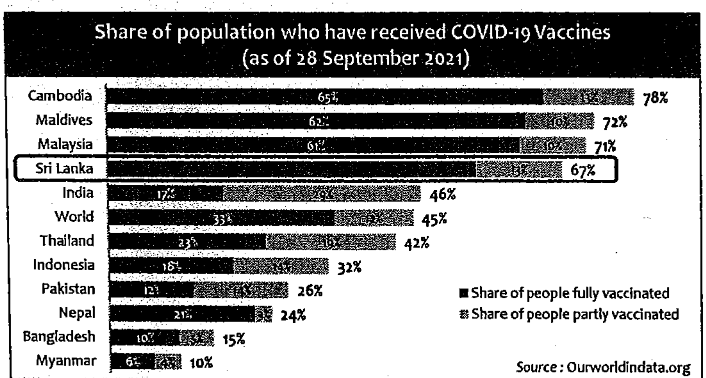
In fact, the rapid progress of the vaccination drive and the gradual lifting of global travel restrictions provide hope for better prospects...

- The rapid vaccination rollout has started to pay off with rapidly declining COVID-19 cases and hospitalisations

Sri Lanka : (by 30 Sep 2021)
- 97.9% of the population above 20 years received at least one dose
- 79.4% of the population above 20 years is fully vaccinated
- 53.5% of the total population was fully vaccinated

World : (by 28 Sep 2021)
- 44.9% of the population received at least one dose
- 33.0% of the total population was fully vaccinated



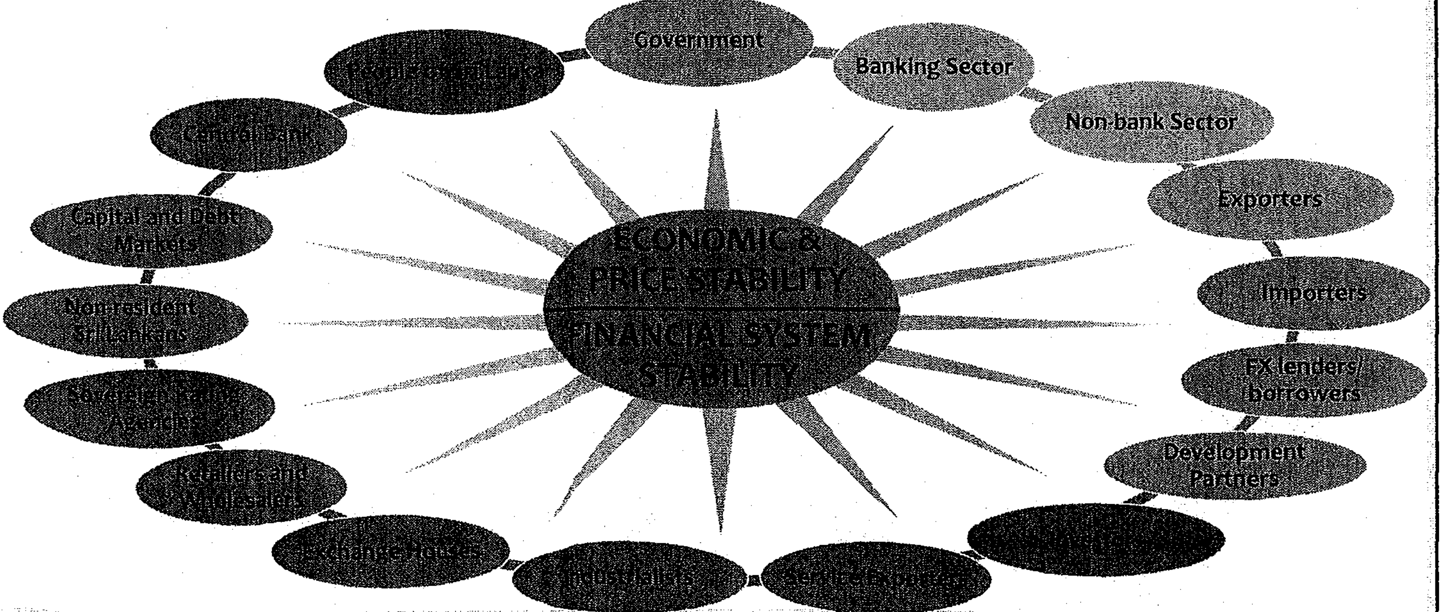


We have faced tough challenges even in the past…

- 443 years of foreign rule from 1505 to 1948
- A three-decade long internal conflict and two insurrections
- Power and energy crises from time to time
  - Power cuts
  - Fuel crises (shutdown of refineries, substandard fuel imports)
- Severe droughts, major floods and Natural disasters (including a Tsunami)
- A Global Pandemic
- Double digit rates of inflation prior to 2009, requiring high market interest rates
- Depletion of forex reserves
- External sector imbalances and forex controls: Rating downgrades
- Sustained periods of debt levels being over 100% of GDP

But, as a nation, we have always overcome…

In that background, we now need to give clarity to all stakeholders on their expected role to address these challenges in a sustainable manner…



We propose a three-pronged framework to strengthen the economy and deliver macroeconomic stability...

#1

- Six-month Road Map from 01 October 2021 to 31 March 2022
  - Focused efforts on Macroeconomic and Financial System Stability
  - Near-term measures to ensure continued timely debt servicing
  - Increase forex liquidity in the market
  - Create framework for all enterprises to recover from the Pandemic-effect

#2

- One-year horizon from 01 January 2022 to 31 December 2022 *(to be announced on 04 January 2022)*
  - Improve the external debt profile while concentrating on non-debt inflows
  - Deliver the fiscal and external targets
  - Promote a fast recovery in the real economy
  - Improve the Sovereign ratings and Ease of Doing Business

#3

- Medium- to long-term horizon
  - Build stable "cushions" in all macro-fundamentals to absorb any shock
  - Strengthen the domestic production economy
  - Strive for higher growth within a low inflation environment
  - Ensure the achievement of fiscal and monetary targets

The Central Bank will take immediate steps to ensure stability of the external sector by closely focusing on the near-term horizon, i.e., the next six-month period...

- The rationale for this short-term focus is that, given the forex challenge and debt service concerns, the proper management of this period will result in clarity and certainty being restored which will enable the economy to rebound
- By the end of that six-month horizon, the current efforts to enhance merchandise and services exports inflows will also show significant achievements, while a normalisation in tourism cashflows is also likely
- The FDI pipeline is expected to increase with the Port City and industrial zones taking off

Such outcomes will provide a stable foundation for the external sector by the end of the targeted six months

This new effort will require coordinated efforts of all stakeholders of the external sector, with vital, but moderate contributions by each stakeholder...

- Policy guidance by the Government and the Central Bank will help the required adjustments to take place gradually during the period of transformation of the economy to greater stability
- These efforts will also prompt positive actions of international investors and international rating agencies. Actions of global central banks will also influence the way forward

A single sector would not be overly burdened, but ALL will need to contribute

Key set of outcomes expected from major stakeholders:

Government: A business-friendly budget; Improved non-debt inflows; Active support to raise funds in order to change the debt mix

Central Bank: Macroeconomic and Financial System Stability as demanded in the Monetary Law Act; Ensure stable exchange rate and interest rate structure

Banking sector: Greater transparency in domestic foreign exchange transactions; New funds and credit lines from abroad; Close co-operation with the Central Bank to ensure export proceeds conversion

Merchandise and Service Exporters: Avoidance of adverse speculation on exchange rate, and remit and convert export proceeds on time; Growth in export businesses

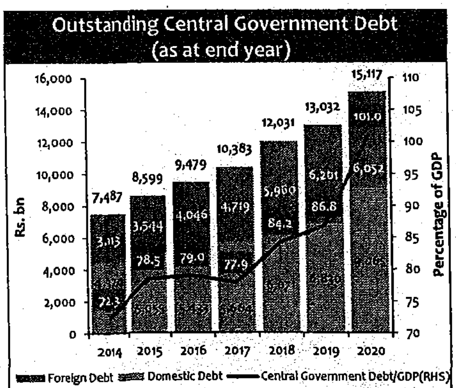
Importers: Curtail non-essential and non-urgent imports

Retailers and wholesalers: Avoidance of hoarding essential imported and local goods; Avoid attempt to earn supra-normal profits by raising margins and charging exorbitant prices

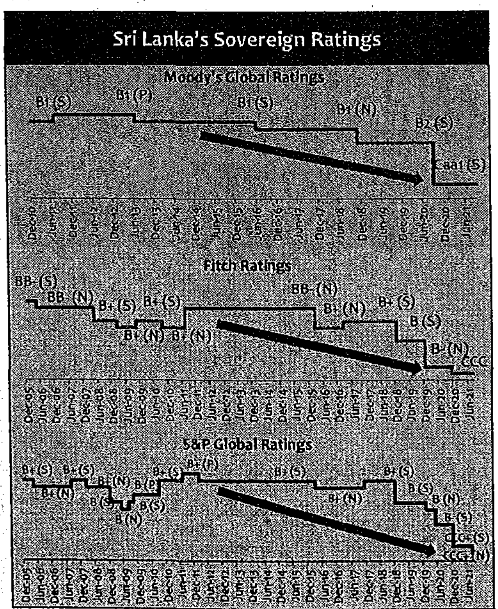
Global Sri Lankans: Increase remittances and non-debt creating inflows

Several key issues around government debt would need some clear policy responses...

- Significant pressure on fiscal operations amidst the Pandemic
- Accumulation of external debt over the years has raised sustainability concerns
- Debt raised through ISBs between April 2018 to June 2019 (15 months) amounted to a staggering USD 6.9 bn
- The COVID-19 pandemic impacted tourism, investment flows, other forex earnings and inflows
- Rating downgrades and adverse speculation impacted access to conventional financing
- Confidence on the debt servicing ability was restored with successful payments of two ISBs amounting to USD 2 bn since the Pandemic

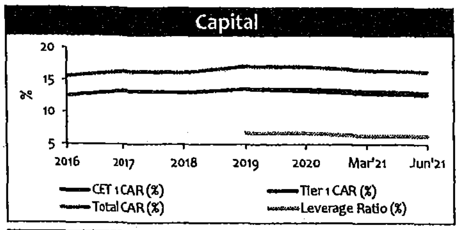


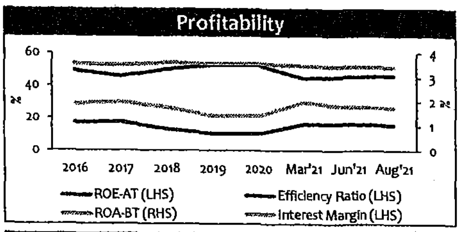
- Lenders are fully aware of the country's unblemished debt servicing record for over 70 years post independence with reassured willingness to honour debt
- High yields prevail in the ISB secondary market, but minimal quantities available

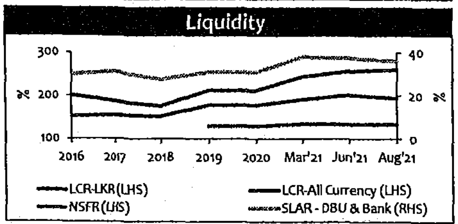


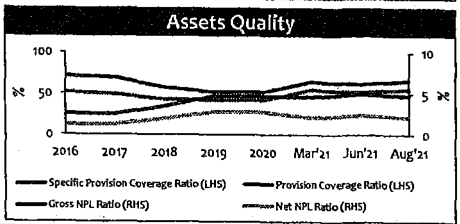
The banking sector has been resilient, but will need to deal with a few issues...

- Pressures on foreign currency liquidity condition
- Prolonged moratoria to the Pandemic-affected borrowers and potential drawbacks to the sustainable recovery of the post-Pandemic economy
- Increasing stock of credit to Government and SOBEs by licensed banks
- Emerging threats to operational resilience including IT and cybersecurity





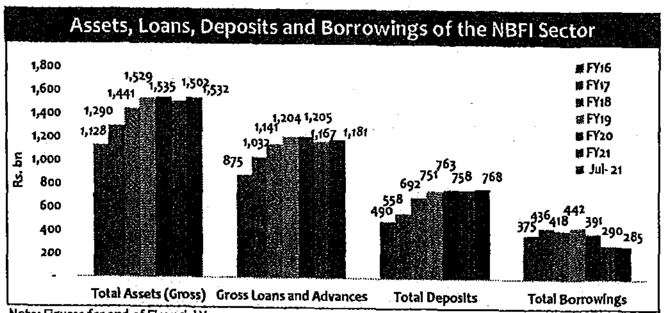




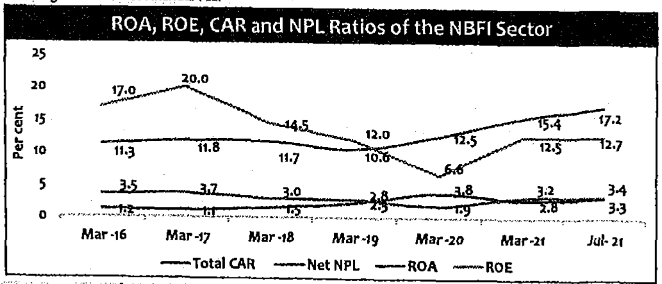
Item	Amount as at end (Rs. tn)		Y-o-Y Growth (%)	
	Dec '20	Aug '21	Dec '20	Aug '21
Assets	14.7	16.4	17.1	18.9
Loans	9.1	10.4	11.9	18.0
Investments	4.2	4.5	21.7	23.8
Deposits	11.1	12.5	21.6	20.6
Borrowings	1.7	2.0	0.8	13.9
Capital Funds	1.3	1.4	11.0	16.2

The Non-banking sector also had to deal with several challenges that have escalated in the past few years...

- Implementation of the Consolidation programme has been slow
- The plight of depositors of the failed finance companies has to be addressed
- Possible revival of failed finance companies has to be seriously considered
- Continuation of concessions for NBFI customers and NBFIs have to be supported by the authorities
- Strong regulatory framework has to be established to address structural and business model issues in the sector



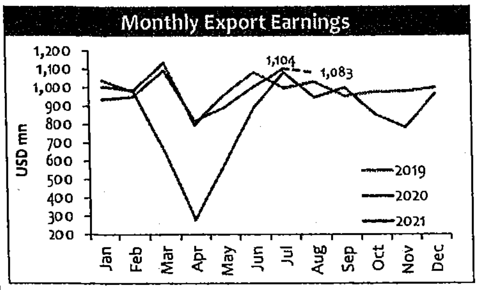
Note: Figures for end of Financial Year

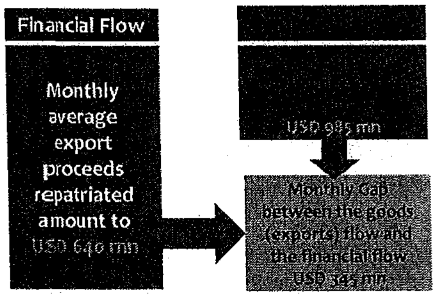


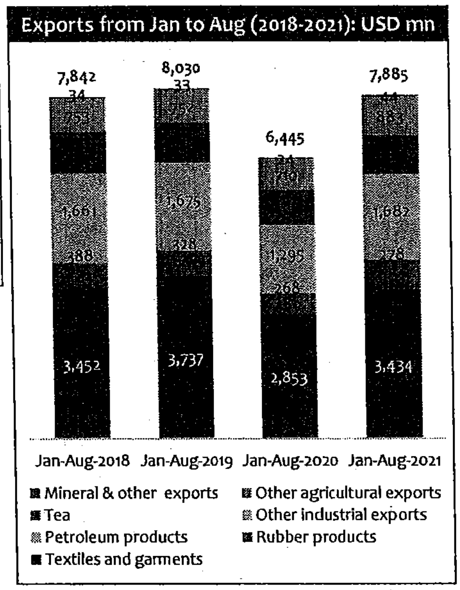
In the case of exporters, the goods flow has taken place, but financial flows have not kept pace...

- A wide gap exists between the goods flow and financial flow of exports
- Due to an undue speculation on exchange rate movements, there has been a reluctance to convert export earnings, thereby limiting inflows to the domestic foreign exchange market
- Inadequate repatriation/conversion of proceeds by exporters capitalising on interest rate arbitrage has constrained Government efforts to support the economy and the export sector itself

- There is a necessity to ensure that the foreign exchange generated through export activities are duly repatriated into the country and converted to Sri Lankan Rupees



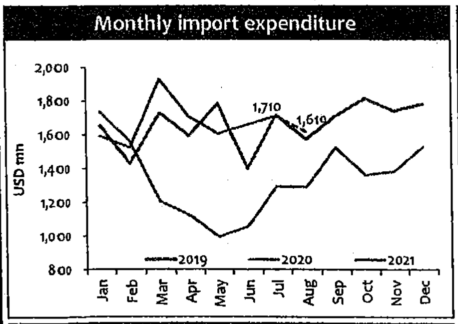


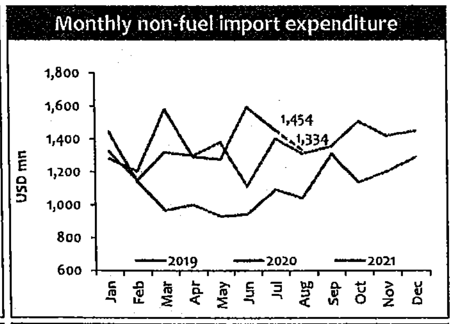


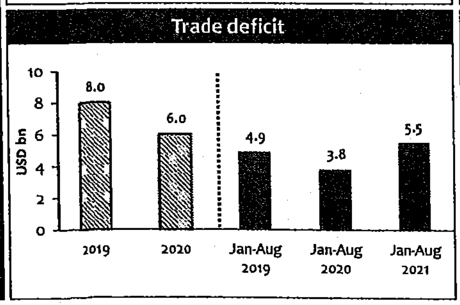
Note: August 2021 data are unadjusted and preliminary

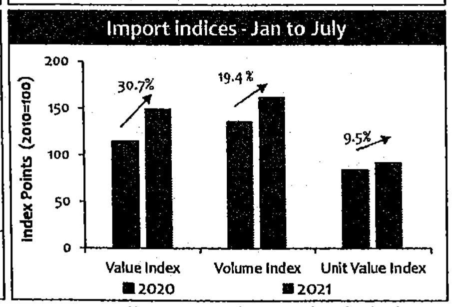
A few pressures have built up in the case of importers and imports as well...

- Speculative imports are on the rise
- Total non-fuel import expenditure has surged, despite continuation of some import controls
- Monthly average gap between the conversions of export proceeds (with an incomplete repatriation) and expenditure on imports has been worrisome







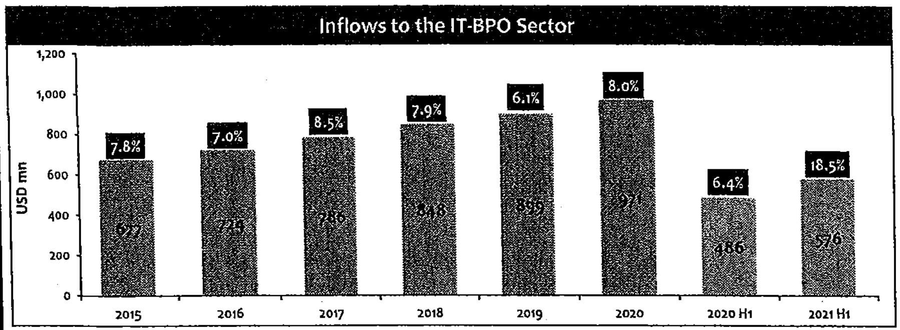


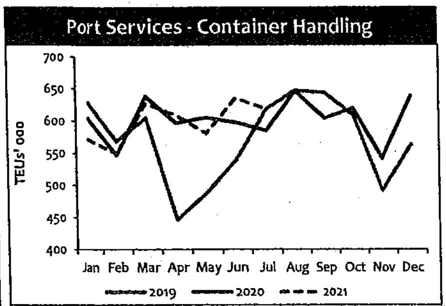
Note: August 2021 data are unadjusted and preliminary

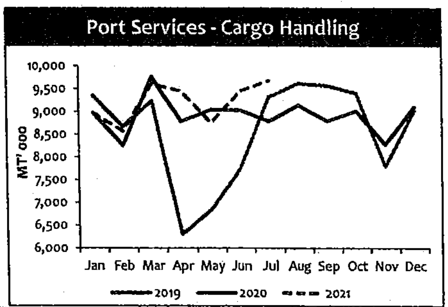
Service exporters (other than Tourism) seem to have been less affected by the Pandemic...

- Despite the impact of the Pandemic on the tourism sector, other services exporters, especially the IT/BPO sector, have performed well
- Transportation sector also shows signs of improvement

- Currently there are no requirements on the repatriation of *"export proceeds"* in trade in services



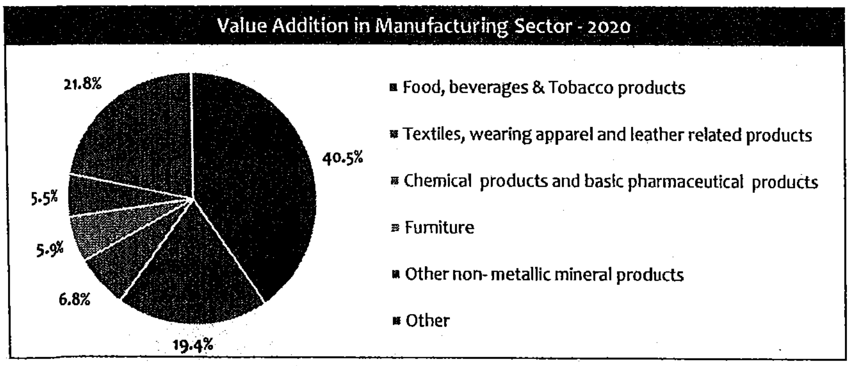


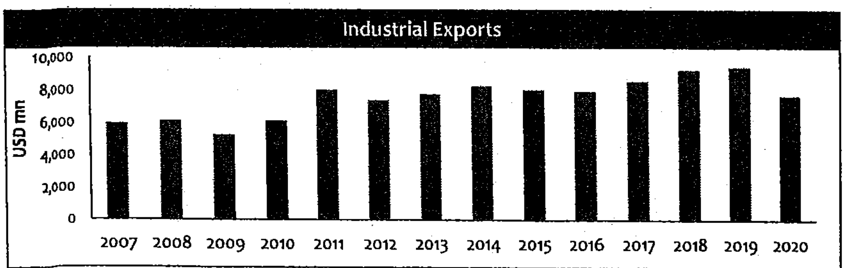


Industrialists have also faced several challenges...

- Diversification of industry sector, particularly manufacturing sector, has been limited
- Industrial exports growth has been less than satisfactory

- Import content of production for domestic market is often high, and this is also a matter that will require special attention



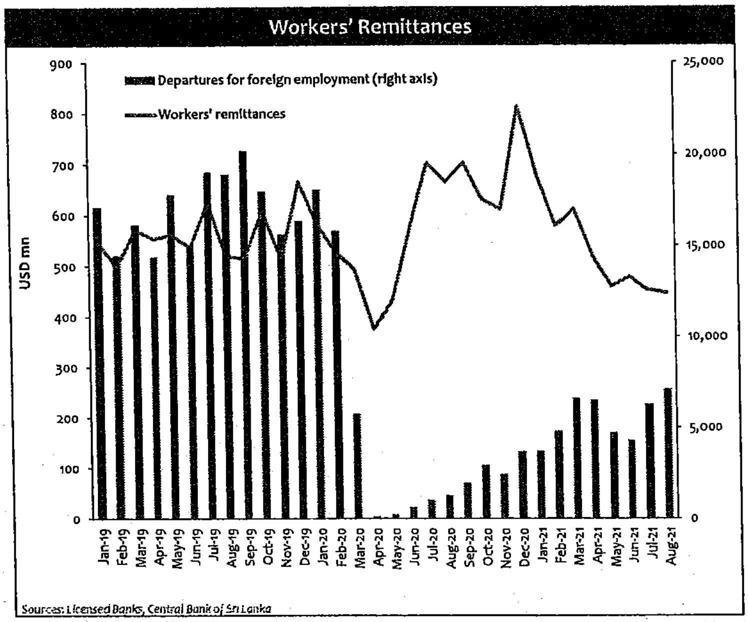


Foreign Exchange Houses have faced serious problems due to lockdown and dearth of tourists...

- The almost-zero tourist arrivals have affected the turnover requirements of the authorised money changers
- Licenses of some authorised money changers have been cancelled for non-performance
- Rise in "parallel" exchange rate market activities is hindering forex liquidity in the banking system

- Unofficial forex channels seem to be thriving, while official remittance flows are on the decline due to a wide margin between the official exchange rates and the "grey-market" exchange rates

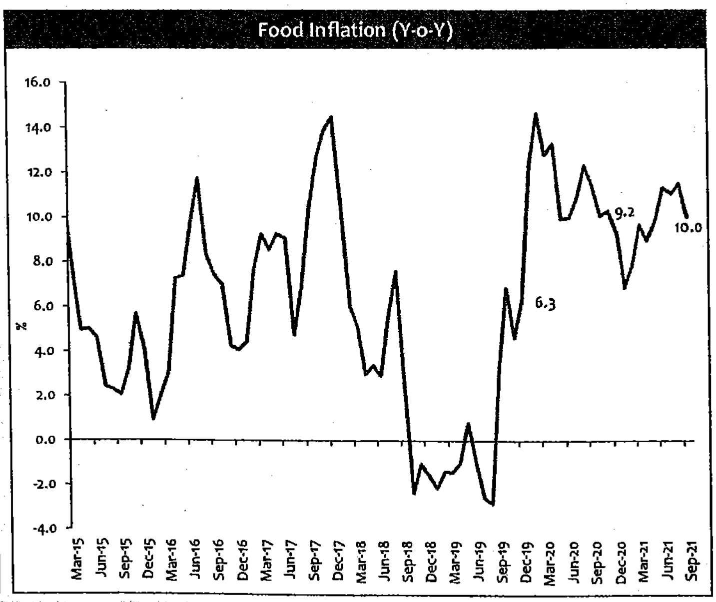
- Urgent need to re-commence departures for foreign employment



Responses of Retailers and Wholesalers who are affected by the uncertainty have aggravated the situation...

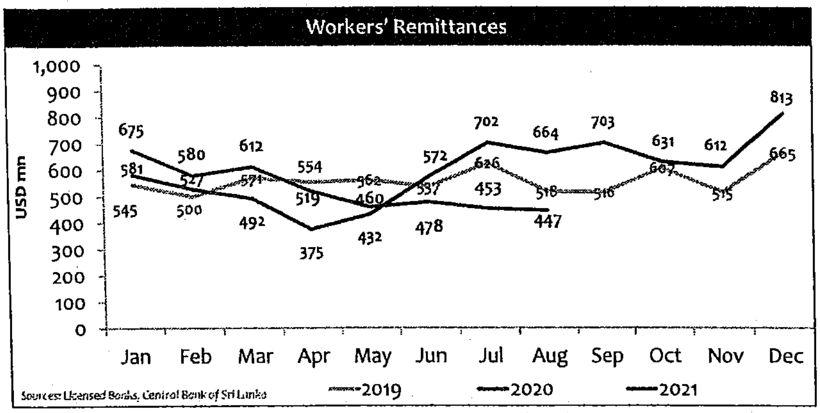
- Stockpiling by the wholesalers and retailers has resulted in tension in food distribution which had to be dealt with by the Government with strong responses
- Unreasonable escalation in retail and wholesale prices, especially for essential food items and consumer durables has occurred
- Producers have however unfortunately not benefitted by such higher consumer prices
- Higher wastage of perishable items has occurred during periods with mobility restrictions

- These matters have warranted several price ceilings in the market, thereby distorting the market mechanism



Workers' Remittances by Non-resident Sri Lankans have recorded mixed results...

- Despite recording more than USD 500 mn per month consecutively from June 2020 till April 2021, workers' remittances moderated in recent months
- The prevailing large exchange rate anomaly between official and unofficial channels, which drives foreign exchange earners to use unofficial channels, and the dwindling number of departures could be the major contributing factors for this behaviour

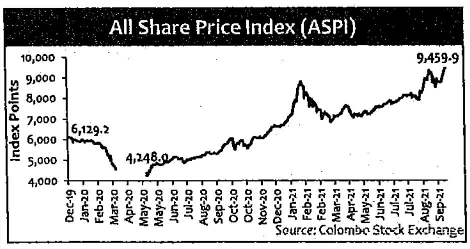


- 2021 Aug : USD 447 mn (-32.8%, y-o-y)
- 2021 (Jan-Aug) : USD 4,224 mn (-2.8%, y-o-y)
- 2020 (Jan-Aug): USD 4,346 mn
- 2020: Workers' remittances increased by 5.8% (y-o-y)

Sri Lankan stocks and securities have performed well, albeit with foreign participation reducing...

- Foreigners have gradually withdrawn from investing in Equity and G-secs
- Unwarranted fear of default triggered by rating downgrades despite Sri Lanka's unblemished track record of debt repayment, has aggravated the situation
- Fear of depreciation in the LKR has also been a factor

- Nevertheless, CSE remains one of the best performing equity markets in the region with heightened local investor interest
- The new SEC Act is bound to re-kindle interest



Foreign Holdings of G-Secs and Equity (in USD)

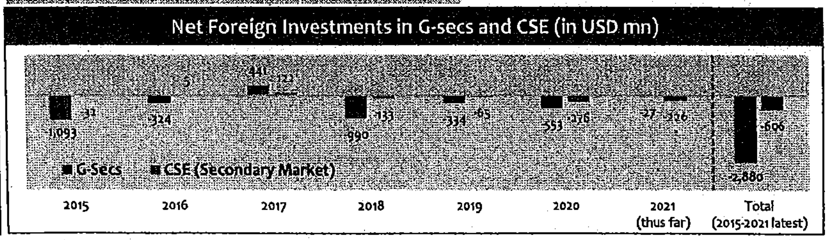
	End 2014	End Sep 2021
G-Secs	3,489 mn	9 mn
Equity (CSE)	6,806 mn	3,970 mn

Movements of Key Stock Indices - 2021

	YTD* (%)
Sri Lanka (ASPI)	+39.6%
India (Sensex)	+23.8%
US (S&P 500)	+16.1%
Germany (DAX)	+11.9%
Australia (ASX 200)	+11.3%
Japan (Nikkei)	+7.3%
UK (FTSE)	+10.4%
Korea (KOSPI)	+6.8%
Singapore (STI)	+8.5%
Hong Kong (HSI)	-9.8%

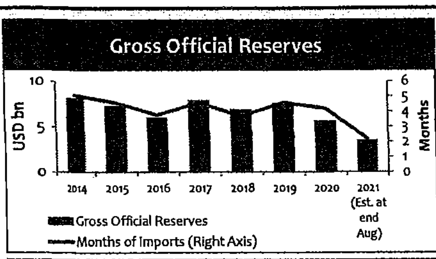
*30 Sep 2021

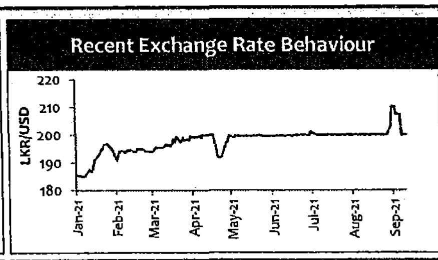
Source: marketwatch

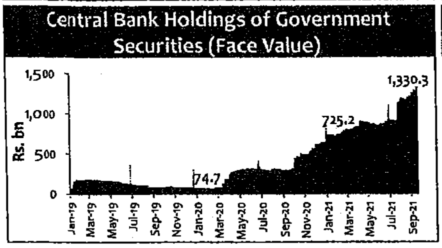


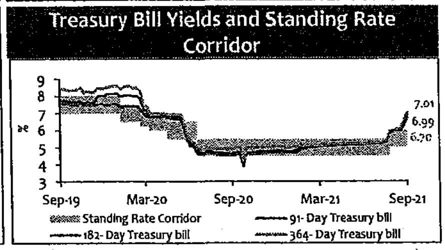
The Central Bank has also faced challenges in delivering its stability objectives owing to the prevailing difficult economic conditions…

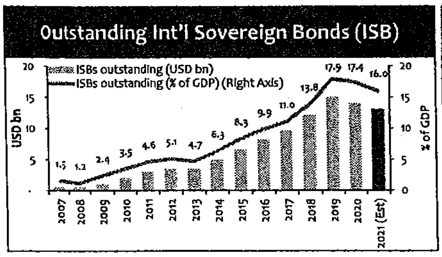
- Depletion of foreign reserves
- Pressure on exchange rate
- Need to support monetary stimuli and deal with the possible inflationary pressures in the medium term
- Hindrances to the monetary transmission mechanism

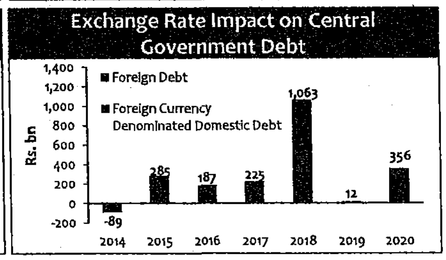






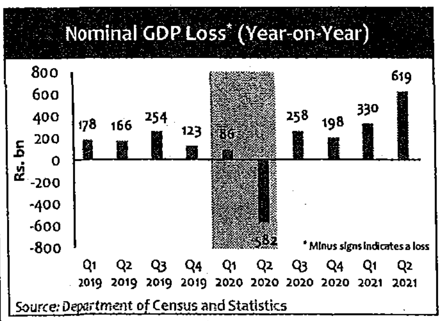


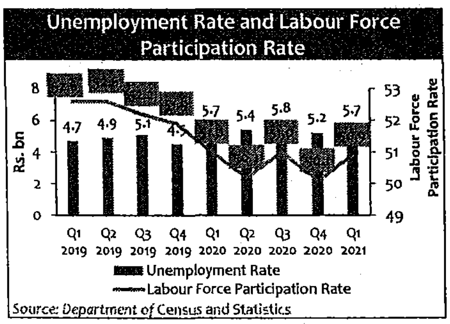


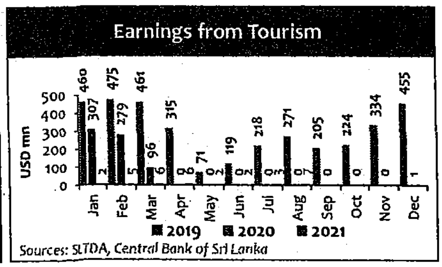


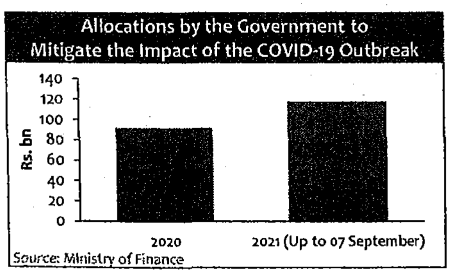
People of Sri Lanka have faced challenges due to the Pandemic, although several Governmental policy responses have been helpful…

- Speculative demand has driven up imports
- Resistance to change (e.g., Organic Fertiliser Policy)
- Ongoing lockdown and the slow recovery in international travel has affected the informal sector workers, especially in the tourism sector
- Reduction of inward remittances
- Lockdown effect
  - 2020: 66 days of stringent lockdown
  - 2021: 42 days of less stringent lockdown so far









The framework that we will outline today in a *TO-DO-LIST* form will help Sri Lanka to reset its course to face the challenges in the next six months and thereafter...

The *TO-DO-LIST* will respond to the main challenges and include the main stakeholders...

- The Government
- The Central Bank
- Banking/ Non-bank Sector
- Merchandise Exporters
- Services Exporters
- Importers
- Industrialists/ Property Developers
- Borrowers/ Savers
- Foreign Exchange Houses
- Those Remitting Their Earnings
- Share Market/ Corporate Debt Market Participants

The *TO-DO-LIST* will focus on the Critical Issues that threaten Economic and Price Stability and Financial System Stability...

Critical Issues

- Debt and Forex Concerns
- Financial Sector Concerns
- Macroeconomic Stability Concerns

Critical Issues

- **Debt and Forex Concerns**
- Financial Sector Concerns
- Macroeconomic Stability Concerns

Resolving debt and forex issues: Government

To-Do-List

- Monitor forex flows (exports and investments) through the Presidential Task Force (Target to increase exports to above USD 1.0 bn per month, on average during the remainder of 2021) - (ongoing)
- Arrange high-level discussions with respective Governments to secure short to medium term G2G financing to buttress inflows (Short-term target: USD 1.0 bn; Next 3 months: USD 500 mn) - (ongoing)
- Monetise selected non-strategic and under-utilised assets (Target: USD 1.0 bn) - (ongoing)
- Publish Port City Commission by-laws to attract FDIs into the Colombo Port City - (to be done)
- Promote the dedicated industrial zones for Pharmaceutical and other industries in several areas to attract new FDIs - (ongoing)
- Facilitate inflows from the implementation of the Tax Amnesty through the Finance Act (Target: USD 100 mn) - (to be done)
- Rebase GDP (which is overdue by 1½ years) without further delay, to reflect the true size of the economy - (to be done)
- Announce a business-friendly budget with detailed financing strategies - (to be done)

Resolving debt and forex issues: Government

To-Do-List

- Introduce appropriate tax adjustments to promote domestic value addition of exports and ensure conversion of export earnings; Discourage forex leakages through online and informal channels - (to be done)
- Encourage import alternatives - (ongoing)
- Introduce a mechanism to allow the import of motor vehicles to Sri Lanka using foreign earnings or FDI, with relevant taxes being paid to the Government in forex - (suggest to consider)
- Immediately prepare the entire country for the resumption of tourism - (ongoing)
- Continue the scheme to pay an extra Rs. 2 per USD remitted and converted by workers abroad - (ongoing)
- Continue the payment of addition interest on Special Deposit Accounts (SDAs) - (ongoing)

Resolving debt and forex issues: Central Bank

To-Do-List

- Provide forex liquidity to the market to part-finance energy bills - (ongoing)
- Negotiate short-term currency swaps with international counterparts (Target: USD 1.5 bn) - (ongoing)
- Facilitate Government-to-Government foreign inflows - (ongoing)
- Gradually reduce ISB exposures towards 10% of GDP by 2024 and maintain that ratio thereafter - (ongoing)
- Facilitate non-debt creating foreign exchange inflows - (ongoing)
- Issue Directions to exporters to convert export proceeds after allowing permitted debits (Target of approximately USD 0.5 bn inflows per month) - (ongoing)
- Issue Directions to exporters to convert export proceeds that have accumulated from 2020 onwards, on a staggered basis in the next six months (approximately USD 0.3 bn per month) - (ongoing)

Resolving debt and forex issues: Central Bank

To-Do-List

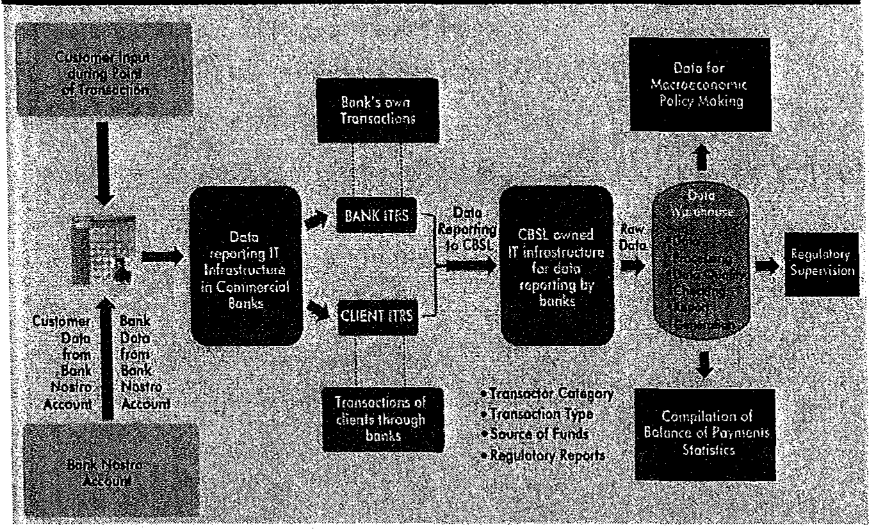
- Install systems to monitor forex flows and strengthen compliance with Repatriation and Conversion regulations - (ongoing)
- Pursue efforts to attract foreign investments into government securities (Target: USD 1.0 bn) - (ongoing)
- Diversify SLDB investor base and attract foreign investments to SLDBs – arrange for the complete roll-over of SLDBs over the next six months - (to be done)
- Gradually ease Central Bank purchases of government securities - (to be done)
- Facilitate the improvement of the country's sovereign credit ratings - (to be done)
- Considering the REER, maintain the Rupee at the very competitive level of Rs. 199 to Rs. 203 against the USD over the next three months, and review thereafter - (ongoing)

...some of these are elaborated in the next few slides

Systems to be put in place to ensure the close monitoring and conversion of financial flows...

- The Central Bank has already initiated the implementation of an International Transaction Reporting System (ITRS) to track banking sector forex inflows and outflows
  - The ITRS system will track performance of different export-oriented sectors, their funds repatriations and conversions
  - ITRS will provide better data that will enable informed-decision making related to the external sector
  - ITRS will be in force from 01 January 2022 onwards

Proposed ITRS system and envisaged outcome



Efforts to attract foreign investments into government securities is expected to gather momentum...

- Concerted efforts to engage domestic and international financial intermediaries to tap potential investments for Treasury bills/ bonds will be pursued
- Attractive returns and opportunity to SWAP forex with the Central Bank will remove the forex risk (zero cost SWAPs) and will facilitate new investments in the near term
- Access for subscriptions either in the secondary market and/or through direct issuances at prevailing rates for sizable volumes will be made available
- Efforts to market Sri Lanka's investment opportunities in the Middle East and Asia will commence in early October 2021 with direct meetings in the respective regions
- Virtual meetings and possible direct meetings in Europe and USA are also envisaged

The SLDB Investor base will be diversified to attract foreign investments to SLDBs…

Recent SLDB issuance indicators…

- SLDBs amounting to USD 1,002.4 mn will mature in the next six months
- 88.9% of the SLDB maturities in the next six months are being held by domestic banks
- Concentration of SLDBs favour domestic banking sector investments
- Gradual increase in corporate sector investor preference was observed in recent offerings
- Average Time to Maturity (ATM) of recent issuances tilted in favour of shorter-tenure maturities
- Investor preference seems to be for fixed rate SLDBs

Immediate focus on SLDB investments…

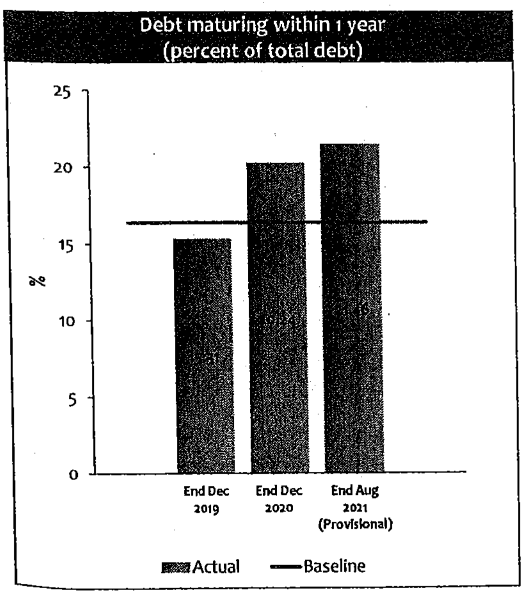
- Attract government and private institutional investors for SLDBs from the Middle East, Asia and rest of the world as well as eligible domestic investors
- Diversify the concentrated SLDB investor base
- SLDBs to be marketed in parcels ranging from USD 50 mn and multiples of USD 50 mn as well
- SLDBs to be also directly negotiated with investors ahead of maturities in the pipeline
- Applicable yield rates and maturities to be determined in line with most recent primary auction offerings and market conditions

Expected outcome; raise around an additional USD 300 mn in the next six months

Debt Service Payments on behalf of SLDBs (USD Mn)

Period	SLDB Principal	SLDB Interest
Oct 2021 to Mar 2022	1,002.4	65.5
2022	1,404.8	98.7
2023	606.7	34.9
2024	206.1	10.1
2025	20.9	1.2
2026	6.9	0.5

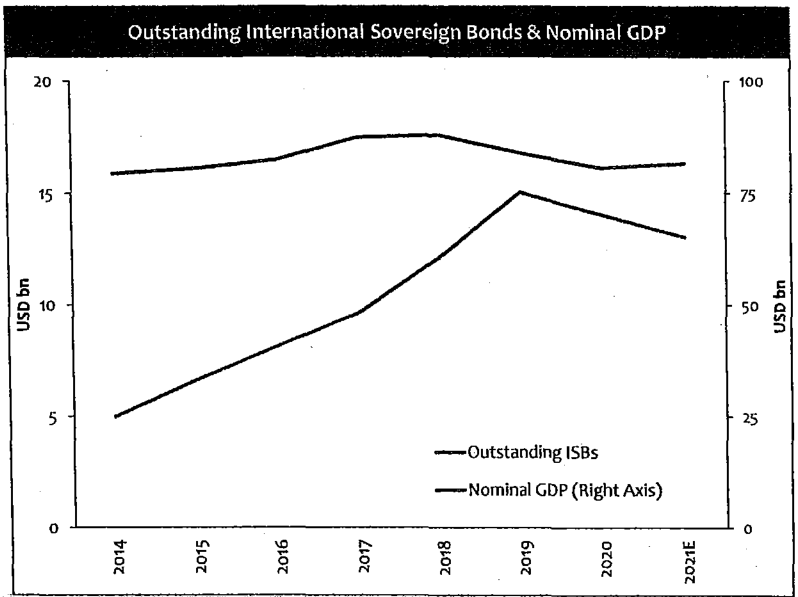
In the domestic market, financing efforts will be aligned with market developments, while gradually reducing debt maturing within 1 year…



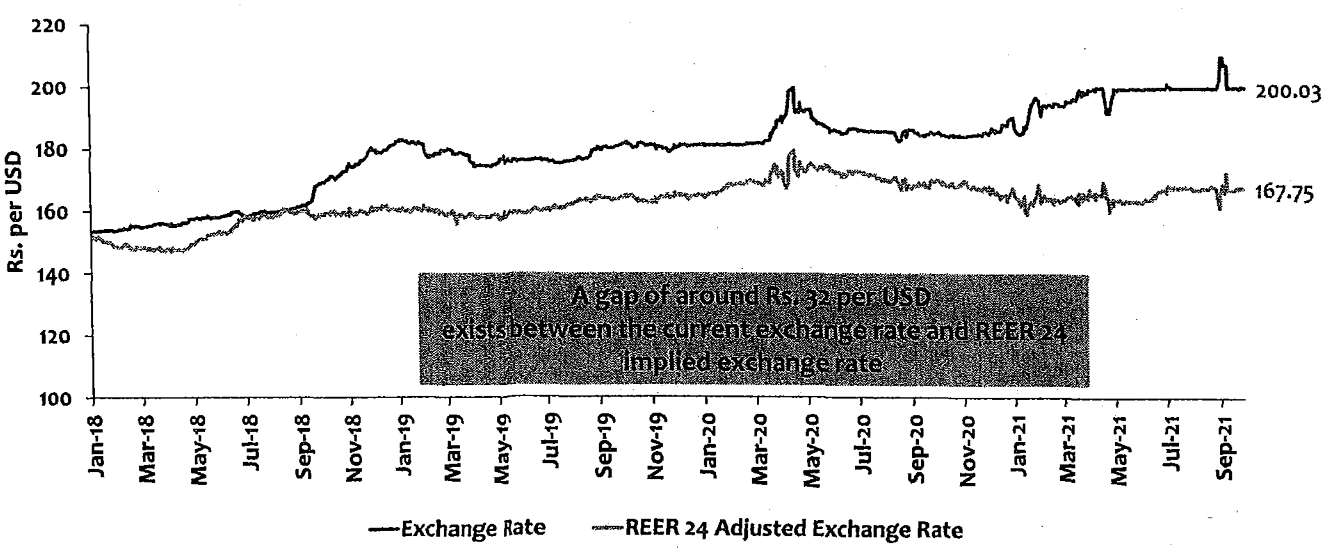
- **The increase in short-term debt has been mainly driven by Pandemic circumstances and reliance on Treasury bills to meet the Government's financing requirements**
- **In the near-term, possible options to convert part of maturing Treasury bills to Treasury bonds will be explored**
- **The direct issuance window of Treasury bonds and new Treasury bill auction system is expected to build opportunities to trim rollover volumes of Treasury bills and near-term Treasury bonds**
- **The Central Bank will also explore the avenues to introduce a tap-based Treasury bond issuance for benchmark maturities of 5, 10, 15, 20 and 30-year maturities**
  - **The volume on offer will be limited and the yields will be linked to 364-day maturity benchmark Treasury bill rate plus a margin**
  - **Both domestic and foreign investors will be invited to subscribe**

The quantum of International Sovereign Bond debt stock will be gradually reduced in the medium term and linked to the GDP...

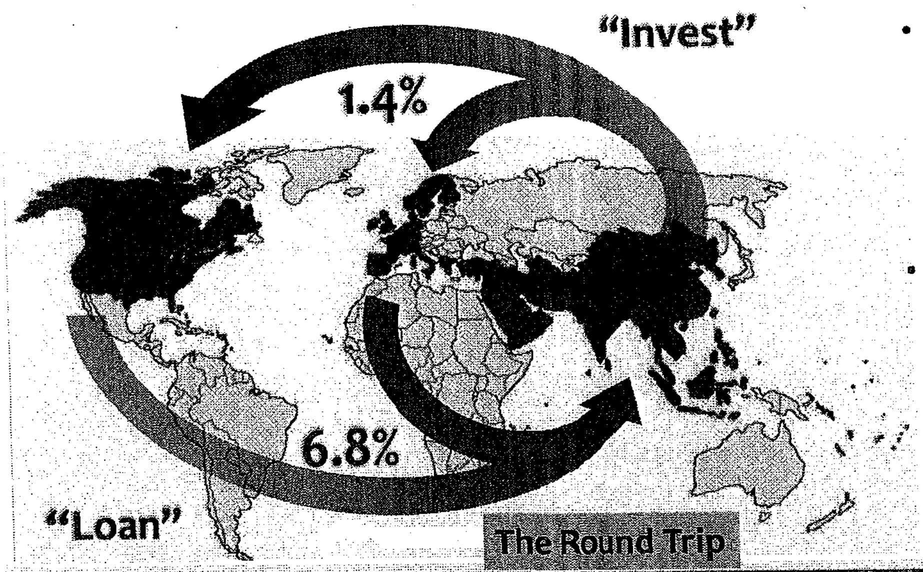
- The policy of the Government and the Central Bank would be to reduce the ISB exposure to around 10% of GDP over the next three years from around 18% of GDP by end 2019, around 17% of GDP by end 2020, and to around 16% of GDP by end 2021



Considering the REER, efforts will be taken to maintain the Rupee at the very competitive level of Rs. 199 to Rs. 203 against the USD over the next three months, and review thereafter...



In managing the forex reserve, due regard will be paid to the differential between building reserves through borrowing and investing in low-yielding global assets...



- Sri Lanka pays **6.8%** on average on borrowing through ISBs, while earning a return of **1.4%** in reinvesting such earnings in Western countries
- Ties with regional economies will be strengthened further with greater focus on:
  - South Asia
  - Middle East
  - East and South East Asia

Resolving debt and forex issues: Banking/ Non-bank Sector

To-Do-List

- Mobilise fresh forex funding on competitive terms based on the strength of the bank's/ financial institution's own balance sheets (Target: USD 1.5 bn) - (to be done)
- Closely monitor forex positions while prudently screening the forex outflows - (to be done)
- Facilitate inflows expected with the implementation of the Tax Amnesty through the Finance Act - (to be done)
- Encourage forex investments in Sri Lanka G-Secs and SLDBs - (to be done)
- Facilitate essential imports, wherever possible - (ongoing)
- Engage with counterparties to dampen undue speculation on the debt situation and enhance their knowledge on the Sri Lankan economy and the financial system - (ongoing)
- Support foreign investors to invest in non-bank sector institutions - (to be done)
- Support the establishment of equity funds for SMEs - (to be done)

Resolving debt and forex issues: Merchandise Exporters

To-Do-List

- Ensure repatriation of export proceeds within the stipulated periods - (ongoing)
- Convert repatriated export proceeds into LKR after deducting the permitted amounts of forex for intermediate and investment inputs - (to be done)
- Convert export proceeds already accumulated in forex deposits with banks from 2020 onwards in accordance with the Central Bank Directions - (to be done)
  - It is expected that exporters will proportionately convert accumulated balances within six months
  - The introduction of dedicated non-interest bearing foreign currency accounts for export proceeds will encourage conversions
- Expand export businesses through product and market diversification - (ongoing)
- Lay the foundation to move to more value added / high end products - (ongoing)
- Attract foreign investments for business expansion and to enhance domestic value addition - (ongoing)
- Promote branding Sri Lanka - (ongoing)

NO CHANGES

WHATSOEVER WILL BE MADE TO

PERSONAL FOREIGN CURRENCY ACCOUNTS (PFCA)

(previously referred to as NRFC/RFC accounts of individuals)

AND THOSE WILL ENJOY THE CURRENT FACILITIES AND PRIVILEGES WITHOUT ANY CHANGE!

Resolving debt and forex issues: Services Exporters

To-Do-List

- Expand services exports and grow global presence, particularly ICT services - (ongoing)
- Ensure repatriation and conversion of proceeds of services exports, and adhere to systems that monitor forex flows related to services - (to be done)
- Prepare for the resumption of tourism, and ensure the repatriation and conversion of earnings - (ongoing)

Resolving debt and forex issues: Importers

To-Do-List

- Avoid speculative demand for imports and build up of large inventories - (ongoing)
- Supply goods to the domestic market with a reasonable profit, rather than generating super-normal profits through speculative price increases - (ongoing)
- Diversify businesses with a greater focus on utilising domestic inputs
- Cash margin deposit requirements on "non-essential/non-urgent imports" will be lifted based on expected foreign inflows

Resolving debt and forex issues: Industrialists/ Property Developers

To-Do-List

- Avoid speculative purchases of imported inputs for domestic production - (ongoing)
- Explore new opportunities through investment in production for the domestic and export markets - (ongoing)
- Utilise the dedicated industrial zones for Pharmaceutical and other industries through increased domestic investment and partnerships with foreign investors - (to be done)
- Expand campaigns to attract foreign investors for Sri Lankan real estate, including condominiums - (to be done)
- Promote foreign investment in Sri Lankan real estate, based on the resident/long-term visa incentives, as well as investment in Warehousing, Plug & Play Services, and Dedicated Zones for IT - (to be done)

Resolving debt and forex issues: Foreign Exchange Houses

To-Do-List

- Ensure forex inflows into formal channels with the use of the existing and restored licenses - (to be done)
- Avoid informal, and/or illegal channels of forex inflows and outflows - (ongoing)
- Refrain from parallel market activity at diverse exchange rates - (ongoing)
- Modernise shop fronts with secured presence in shopping complexes and with digital displays, in preparation for resumption of tourism - (to be done)

Resolving debt and forex issues: **Those Remitting Their Earnings**

To-Do-List

- Remit earnings and savings through formal channels - (ongoing)
- Make use of high-interest rate opportunities domestically in LKR - (ongoing)
- Work closely with local banks and use conveniences that are now provided by them - (ongoing)
- Avoid risky unauthorised channels when remitting hard earned money - (ongoing)

Resolving debt and forex issues: **Share Market & Corporate Debt Market Participants**

To-Do-List

- Make use of opportunities for investment and expansion with the return of stability in the forex markets and the interest rates
- Promote equity and corporate debt instruments and offerings globally, with the passing of the new SEC Act
- Attract investments into the equity market with the passage of the Finance Act - (to be done)
- Attract investments into listed corporate debentures - (to be done)

Critical Issues

Debt and Forex Concerns

Financial Sector Concerns

Macroeconomic Stability Concerns

Financial Sector Concerns: Government

To-Do-List

- Support the efforts to strengthen the financial sector through the introduction of appropriate tax reforms to facilitate non-banking sector consolidation
- Reduce dependence on state-owned banks to fulfil financial requirements
- Encourage State Owned Business Enterprises (SOBEs) to diversify their borrowing sources
- Stop funding of certain losses in SOBEs by state banks
- Reduce dependence on state banks to finance petroleum bills

Financial Sector Concerns: Central Bank

To-Do-List

- Unwind moratoria gradually and devise long-term plans to support businesses affected by the Pandemic-related lockdown
- Provide liquidity support of up to Rs. 15,000 mn to finance interest accrued in loans that have been given the moratorium, so that FIs could deal with the moratorium effect in a sustainable manner
- Put in place an Emergency Lending Facility Framework
- Immediately suspend Parate Execution and forced repossession of leased assets up to 31.03.2022 for pandemic-affected borrowers
- Cancel all penalties imposed by FIs during the moratorium period
- Implement consolidation plan for FIs to create FIs with better economies of scale
- Implement a comprehensive plan to deal with the six failed finance companies and actively pursue the revival of those that could be revived with new investment
- Ensure that all FIs develop "Post-COVID" Revival Units
- Stop multi-exchange rates taking place in the market
- Review governance and share ownership rules

Expeditious Consolidation of the non-bank financial sector...

- Fine tune the Master Plan for Consolidation of the Financial sector to overcome the longstanding issues in the sector and to support the growth of the economy
- Encourage mergers and acquisitions as well as new capital infusions to the sector
- Aim at 25 strong NBFIs to comply with the medium-term targets of the Masterplan
- Ensure that all LFCs are listed at the Colombo Stock Exchange before 30 September 2022
- Facilitate the Consolidation programme by providing expeditious regulatory approvals

Dealing with the six failed finance companies with a Comprehensive Plan...

- NBFIs whose finance business license has been suspended or cancelled, are being reviewed to assess the way forward - (ongoing)
- If such NBFI is considered possible to be revived, develop plans to enable infusion of capital investment for revival, subject to a feasible business plan - (to be done)
- Make necessary interventions in the court proceedings based on the respective plans of action - (to be done)
- Negotiate with potential investors for those LFCs that had their licenses suspended - (to be done)

Supervising Banks in the "New Normal" would be a new challenge...

- Establish "monitoring groups" combining on-site and off-site surveillance teams - (ongoing)
- Implement Forward-looking approach to the potential long-term impact of the crisis on licensed banks' balance sheets and business models, and on the market's structures and practices - (to be done)
- Prioritise supervisory activities considering Systemically Important Banks (SIBs) and nature of supervisory concerns - (ongoing)
- Shift to virtual platforms for meetings/discussions with senior officials of banks, enabling uninterrupted communication - (ongoing)
- Explore avenues for SupTech and Artificial Intelligence to improve data analysis and risk-based supervision, workflow management, and customer inquiry management - (to be done)
- Consider macroeconomic challenges and spillover effects to the banking sector - (to be done)
- Implement flexible measures in terms of Capital, Liquidity, Moratoria, and Reporting and facilitate the timely unwinding of such relaxations - (ongoing)

Strengthening and safeguarding the integrity of the financial system in Sri Lanka...

- Complete the National Risk Assessment (NRA) in order to identify ML/TF risk profile of the country and prepare the country's AML/CFT framework for next 5 years (2022 to 2027) - (ongoing)
- Update national AML/CFT strategy in accordance with the results of NRA, and strengthen risk-based AML/CFT supervision - (ongoing)
- Increase awareness among relevant stakeholders in order to develop an investor friendly environment within the country - (ongoing)
- Improve the country's overall AML/CFT compliance with relevant international standards - (ongoing)

Continuing to improve the Payments and Settlements platform...

- Publish the National Digital Payments Road Map 2022-2024 developed by the National Payments Council (NPC)
- Provide policy signals and operational targets for Sri Lanka's Payments Industry with a view to increasing the adoption of digital payment methods
- Aim at creating a "less-cash" society
- Increase digital financial inclusion, and use digitalisation as a means to encourage the informal sector to join the formal economy
- Regulate Money or Value Transfer Services (MVTS)
- Formulate regulatory and governance framework for "Open" Banking
- Initiate use of Artificial Intelligence in Banking in Sri Lanka
- Assess the possibility of the introduction of Central Bank Digital Currency in Sri Lanka
- Initiate a shared KYC solution for eKYC from the Blockchain-based "Shared KYC Proof of Concept Project"
- Continue working towards obtaining PayPal facility

Financial Sector Concerns: **Banking Sector**

To-Do-List

- Maintain adequate levels of capital and liquidity buffers
- Transact forex transactions in a transparent manner
- Improve operational risk resilience
- Set up Revival Units to assist customers tide-over the Pandemic-related difficulties
- Widen regional expansion and attract more off-shore business
- Explore new opportunities in the Colombo Port City
- Consider financing models to support equity participation in businesses under moratorium or non-performing categories with a view to reviving such businesses

Financial Sector Concerns: **Share Market & Corporate Debt Market Participants**

To-Do-List

- Encourage LFCs and SLCs to raise capital via equity as well as listed debt to improve resilience of the sector
- Encourage diversification of investment opportunities with the enactment of the new SEC Act

Critical Issues

Debt and Forex Concerns

Financial Sector Concerns

Macroeconomic Stability Concerns

Macroeconomic Stability Concerns: Government

To-Do-List

- Introduce an "investor-friendly" budget with a tax structure designed for easy compliance
- Contain the fiscal deficit in a sustainable manner
- Present a credible medium-term debt management strategy with clear targets, in consultation with the Central Bank - (ongoing)
- Work towards extending the Average Time to Maturity of the debt stock - (ongoing)
- Improve the business environment for domestic and foreign investors by considering all factors influencing the Doing Business environment
- Rationalise non-essential expenditure

A comprehensive directory of physical investment opportunities in Sri Lanka has been finalised by the Government...

Urban Development

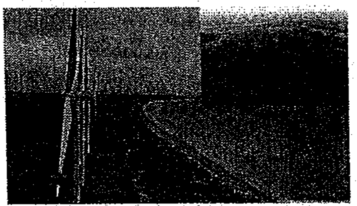
Downtown City Centre, Battaramulla	USD 75 mn
Golden Gateway to Port City (Development at Charmers Granaries)	USD 1.0 bn
New Township, Narahenpita (High Rise Mixed Development)	USD 170 mn

Fisheries and Aquaculture

Development of Karainagar Boat Yard	TBD
Expansion of sea cucumber farming: Up to 5,000 acres	Rs. 500,000 (USD 2,500) per acre
Farming sea weeds as raw material for manufacturing organic fertiliser	Rs. 50 mn

Real Estate

Luxury hotel development in Port City / Colombo	USD 229.0 mn
Port City villa development	USD 362.5 mn
Mixed development in close proximity to Port City	USD 355 mn
Convention Centre of Port City	USD 300 mn



Power and Energy

100MW wind power plant in Poonarin	USD 130 mn
100MW wind power plant in Mannar – Phase II	USD 100 mn
100 MW solar power project in Siyambalanduwa	USD 100 mn

Pharmaceuticals

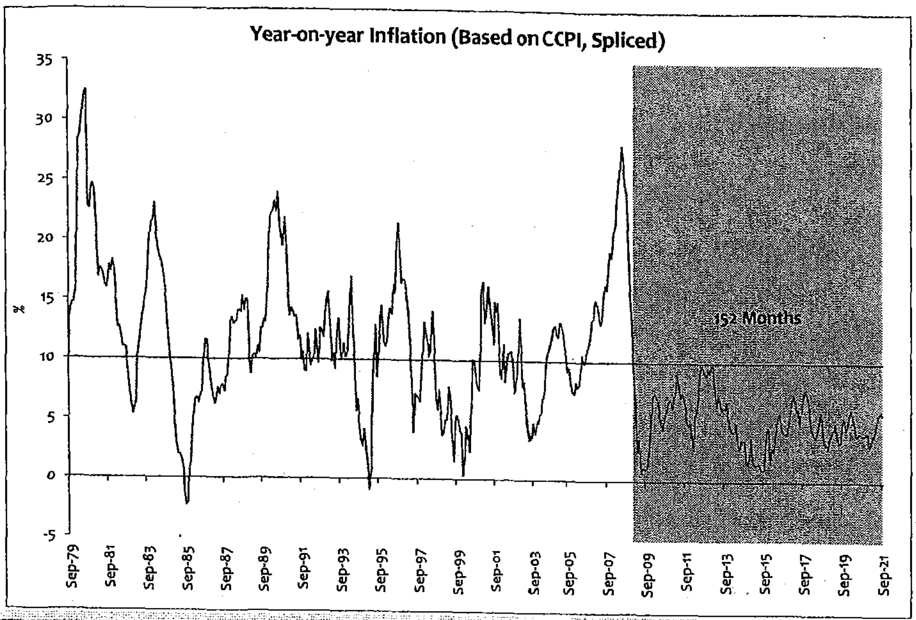
Pharmaceutical Zone in Hambantota	USD 5 mn onwards
Pharmaceutical Zone in Oyamaduwa, Anuradhapura (Only local investors are allowed)	LKR 28.2 bn (USD 141 mn)

Macroeconomic Stability Concerns: Central Bank

To-Do-List

- Ensure the maintenance of mid-single digit inflation
- Ensure stability of interest rates and the exchange rate
- Continue steps to curb prohibited pyramid schemes and other financial scams
- Strengthen the Central Bank balance sheet with gradual rollback measures and the buildup of external reserves
- Introduce Directions on IT Risk Resilience of Licensed Banks
- Strengthen off-site surveillance and improve risk management framework including Governance in FIs
- Increase the frequency and modes of public awareness
- Launch a green financing facility
- Strengthen regional development initiatives
- Develop new Regulations on Financial Consumer Protection under the Monetary Law Act
- Introduce user friendly online complaint submission portal through the CBSL website and social media
- Establish 'Credit Counselling Centres' and 'Investment Advisory Centres' at Regional Offices
- Facilitate the setting up of "Equity Funds" to support stressed businesses and thereby avoid the increase of NPLs
- Discontinue cash margin deposit requirements on "non-essential/non-urgent imports" with immediate effect
- Consider the possibility of buying back the entire issue of ISBs maturing in January 2022 and/or July 2022, if high discounts are prevalent in the market

On the monetary front, the priorities will include maintaining inflation within the target band of 4-6%...

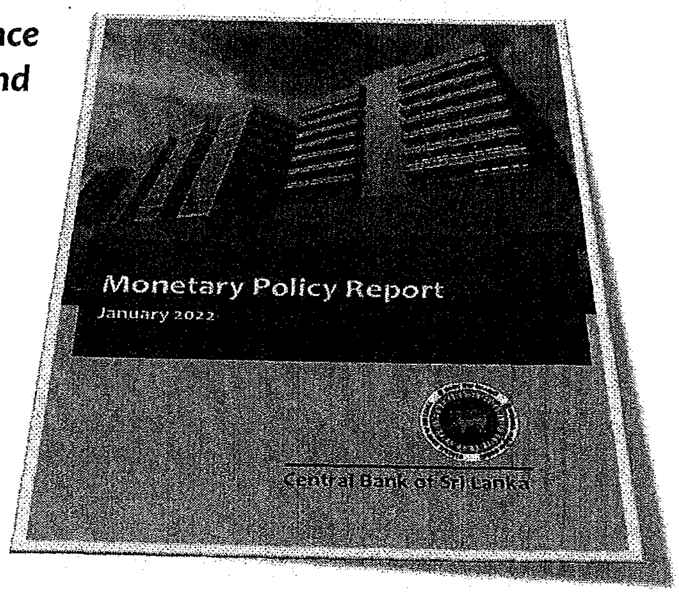


- Recent monetary tightening measures will help preempt any buildup of inflationary pressures in the medium term
- Targeted measures will be recommended to the Government to arrest food inflation, which has been a concern globally

The record of over 150 consecutive months of *single digit inflation* will be maintained with appropriate policy measures

The Central Bank will commence publishing a comprehensive ***Monetary Policy Report*** from early 2022...

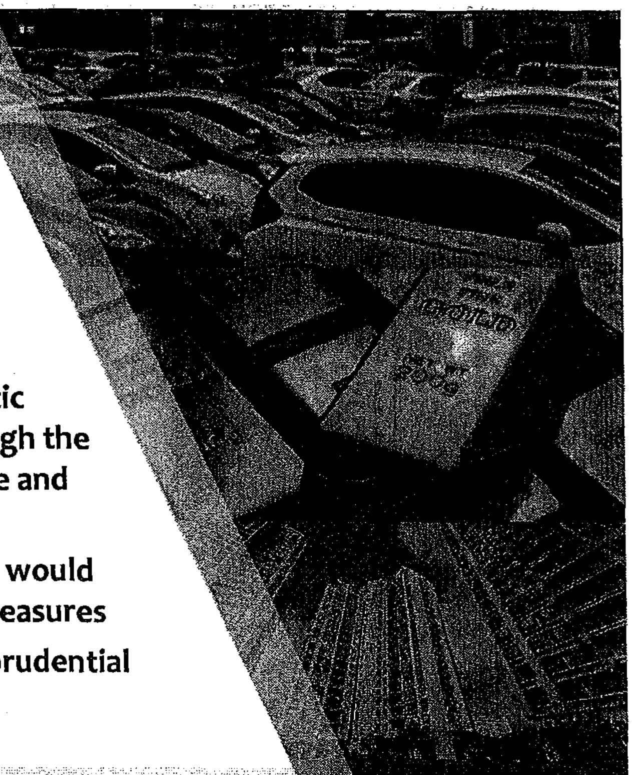
This would enhance accountability and transparency...



... while providing greater clarity on future trajectories to all stakeholders of the economy!

Macroprudential policy tools would be used as necessary to ensure the overall stability of the financial system and to support monetary policy...

- The Central Bank has observed volatile and rising asset prices, particularly of automobiles
- Any potential buildup of sustained upward price pressures and its potential to destabilise the domestic financial system would be dealt pre-emptively through the use of macroprudential tools, including loan-to-value and loan-to-income ratios, and countercyclical measures
- Any buildup of systemic risks in the financial system would be addressed through the use of other prudential measures
- Measures are being taken to strengthen the macroprudential surveillance framework of the Central Bank



Green financing options to mobilise domestic and foreign resources will be explored, with a long-term view on sustainable development...

- Promote Green/ Sustainable Finance Initiatives
- Guidelines will be issued to banks to promote lending to the following sectors:
  - Renewable energy projects (solar power projects, hydropower projects, wind power projects, solid waste power projects, etc.)
  - Climate adaptation and mitigation projects (flood reduction projects, coastal conservation projects, etc.)
  - Eco friendly/sustainable agriculture (organic farming, smart agriculture solutions)
  - Energy saving machinery/equipment and purchasing of environment friendly vehicles for public transport
  - Water supply/management projects
  - Green construction projects (green buildings, climate resilient construction projects, etc.)
  - Waste management projects

The Central Bank will release funds equivalent to a 1% increase in SRR, for new Green Projects funded by banks

Multilateral agencies and the 'climate friendly' international investor community are invited to be an integral part of Sri Lanka's sustainable development journey

The completion of the taxonomy on sustainable/green finance will assist Green Projects further

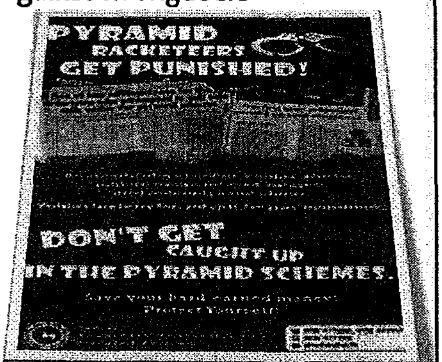
Regional development initiatives will also be continued to promote inclusive growth...

- Implementation of first-ever National Financial Inclusion Strategy under the theme of "Better Quality Inclusion for better lives."
- Work towards promoting an eco-friendly village environment by transforming selected villages as green villages to improve healthy living standards and best practices among the community
- Strengthen the regional development function with the support of six Regional Offices
- Implementing and introducing Agriculture Development Value Chain support and enhancement programmes to connect all demand-side and supply-side market linkages to a single pipeline
- Continue concessionary loan schemes to raise the income level of micro and small-scale entrepreneurs, providing formal financial sector support, whilst generating more employment opportunities among the rural community and reducing regional income disparity
- Islandwide MSME support financing expansion and improvement of access to finance
- Continue to improve financial literacy through financial literacy and capacity building programmes
- Maintaining relationships with international affiliations and conducting international programmes with regard to financial inclusion, credit supplementation, etc.

Taking necessary measures to curb prohibited/ pyramid schemes, including those operating through online platforms...

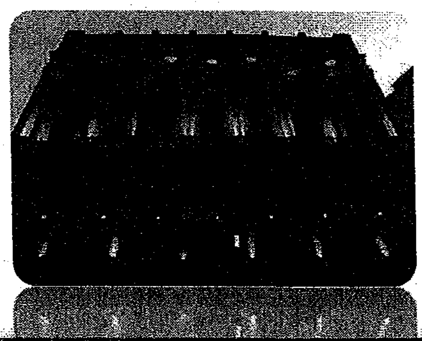
The Central Bank will continue to take measures through the powers vested under the Banking Act No. 30 of 1988 to prevent general public from investing with prohibited schemes will include:

- Conducting fact finding inquiries on complaints and information on alleged prohibited schemes and other financial scams - (ongoing)
- Investigate and report to law enforcement authorities to take legal action against wrongdoers - (ongoing)
- Educate general public on Prohibited/Pyramid Schemes - (ongoing)
  - Awareness programmes/ seminars/ webinars throughout the country
  - Press notices and press releases through print and electronic media
  - Radio and television discussions
  - Newspaper discussions and articles
  - Poster, YouTube and other social media campaigns
  - Responses through telephone and email inquiries



The Central Bank will meet the demand for currency to facilitate the smooth functioning of the payment system while managing the high level of cash requirement from the general public due to the prevailing COVID-19 pandemic...

- Improve the efficiency of the cash cycle and enhance the quality of currency in circulation through the ongoing Currency Department Revamping Project
- Establish an efficient mechanism for the disposal of unfit and obsolete coins
- Improve the Currency and Economic History Museums to attract more visitors



The Central Bank will carefully guide stakeholders to tide-over the Pandemic-driven difficulties...

- Ensure continued credit flows
- Maintain competitive and fair pricing for both lending and deposit products
- Strengthen monitoring of transactions
- Waive-off early settlement charges and future interest presently imposed by certain FIs

We will be "OUTCOME-ORIENTED"...

In summary, we will use several key measures and tools as set out here, and implement these measures simultaneously...

- Intervene in the FX market by providing the funds to finance the country's energy bills, and thereby to infuse liquidity
- Promote investments in Rupee denominated government securities with a guarantee on the exchange rate
- Strengthen mandatory conversion of export proceeds
- Request the Government to tax profits of Exporters at 28% and not 14% where forex is not repatriated and converted
- Expand the moratorium while also providing liquidity support to affected Finance Companies
- Stop Parate executions and repossession of vehicles in the next six months for pandemic-affected borrowers
- Share the burden of Pandemic losses suffered by local SMEs by allocating Rs. 15,000 mn towards interest accrued, through a mechanism which is to be worked out
- Use monetary policy tools to unwind monetary stimulus extended during the pandemic
- Use macroprudential tools as well as microprudential regulation and supervision to guide the financial sector towards sustained stability
- Facilitate Education and Health related forex outflows immediately
- Lift the ceiling imposed on Outward Investment and Migration allowances in January 2022
- Discontinue cash margin deposit requirements on "non-essential/non-urgent imports" with immediate effect
- Establish the International Transactions Reporting System (ITRS) to monitor foreign exchange transactions commencing 01 January 2022
- Monitor services related foreign exchange inflows and ensure due repatriation and conversion
- Replace maturing debt obligations with new inflows through non-debt sources, wherever possible
- Consider the possibility of buying back the entire issue of ISBs maturing in January 2022 and/or July 2022, if high discounts are prevalent in the market
- Replace maturing ISBs with Government-to-Government loans until ISBs/GDP ratio declines to 10% or less
- Take measures to improve Sovereign ratings
- Strengthen workers' remittances through official channels
- Encourage forex transactions through formal channels with the restoration of licenses of Money Changers

The measures implemented will ease the difficulties currently faced by the public...

- Direct benefits will accrue to the general public through:
  - Facilitating education and health related forex outflows, including those made using credit cards
  - Lifting of restrictions on the migration allowance in January 2022
  - Facilitating fuel and other essential imports, thereby ensuring uninterrupted supplies
  - Enhancing real returns to savers with the correction in deposit interest rates
  - Supporting credit availability at reasonable lending interest rates
  - Maintaining stable price levels, thereby easing cost of living
  - Ensuring the stability of the financial system, thereby protecting savings of the public

These outcomes will complement the measures that have been already taken by the Central Bank and the Government to assist the businesses and individuals to recover from the effects of the COVID-19 pandemic

We will aim for the following results by end March 2022...

- Gross Official Reserves to be enhanced to cover a minimum of 4 months of imports
- Foreign holding of 2.5% in Rupee denominated government securities (USD 1,000 mn)
- Diversified SLDB investor base
- Stable exchange rate and stable interest rates
- Stronger Central Bank Balance Sheet with an improved Net Foreign Assets/Net Domestic Assets ratio
- Stronger banking and non-bank sector
- Weekly Treasury bill auction size of below Rs. 50 bn
- Real GDP growth of around 5% in 2021 and 6.5% in 1Q-2022
- Stabilised inflation at mid single digits

Summary timeline of targeted fresh forex inflows and rollovers – *Government and the Central Bank*

Stakeholder	Oct-Dec 2021	Jan-Mar 2022
Government		
G-2-G Loans	USD 1,000 mn	USD 500 mn
Multilateral Loans	USD 300 mn	USD 400 mn
Syndicated Loans	USD 300 mn	
Investments in LKR denominated G-Secs	USD 250 mn	USD 750 mn
SLDB parcels		USD 1,000 mn
Monetisation of Under-utilised Assets	USD 500 mn	USD 500 mn
Other FDIs (excluding Colombo Port City)	USD 300 mn	USD 500 mn
Rollovers of OBU loans	USD 200 mn	USD 750 mn
Central Bank		
SWAPs with other Central Banks	USD 1,000 mn	USD 500 mn
Domestic short/long-term swaps	USD 500 mn	USD 500 mn
Sales to facilitate fuel/essential imports (approximately)	(USD 600 mn)	(USD 300 mn)
Purchases of remittances/export proceeds	USD 150 mn	USD 250 mn

Summary timeline of targeted forex inflows - *in Forex Market*

Stakeholder	Oct-Dec 2021	Jan-Mar 2022
Banking sector		
Fresh credit lines	USD 500 mn	USD 1,000 mn
Forex deposits	USD 300 mn	USD 500 mn
Inflows to the Colombo Port City		USD 300 mn
CSE		USD 200 mn
Merchandise exporters	USD 3,300 mn	USD 3,600 mn
Workers abroad	USD 1,800 mn	USD 2,000 mn
Services exporters (excluding tourism)	USD 1,000 mn	USD 1,200 mn
Tourism	USD 50 mn	USD 300 mn

Strategies to achieve these targets will be instrumental in driving the trajectory of the economy in the desired path in the medium to long run...

- With the success of the vaccination rollout, gradual opening up of the country under strict adherence to health guidelines is expected to help all sectors to return to normalcy gradually
- The recovery will be widespread and will include vulnerable groups such as the SME sector, informal businesses and daily wage earners who will effectively engage in economic activities, leading the economy to recover faster in the forthcoming period
- Investment climate will gradually improve with the implementation of the new legislation applicable to capital markets
- More direct investments are expected with the implementation of the Port City Economic Commission Act and proposed monetisation of under-utilised assets
- Once the tourism industry starts to pick up, the pressure in the external sector will gradually normalise and greater stability in the exchange rate and improvements in the current account balance and forex reserves are envisaged

The new measures will bring in greater stability to the economy with stable prices and sound macroeconomic fundamentals that will lead to a stronger and a disciplined economy

Having tackled the near-term obstacles, we aim to progress with greater confidence towards 2022 & beyond...

By end 2022, we expect further positive outcomes:

- Normalcy in economic activity with the COVID-19 pandemic being under control, resulting in a real GDP growth of around 6%
- Inflation to stabilise in the middle of the desired 4-6% target range
- Interest rates to stabilise further
- Revival of tourism to lead to a better business sentiment
- Higher investment flows
- Improved macroeconomic fundamentals, resulting in improved Sovereign ratings
- Stronger and disciplined economy

This is a DYNAMIC PLAN...
We will *tweak* it,
***fine-tune* it, or**
even *change* some parts,
as we move on...!

TRUE COPY
Samarawera Weerawardena Law Associates
ATTORNEYS-AT-LAW

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13/07/2022

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2

පවතින තත්ත්වය සළකා බලන විට, ණය කළමණාකරණයේදී දැනට පවතින අවදානම් වලට මුහුණ දීමට නම්, නව "out-of-the-box" විකල්ප යෝජිත මාර්ග කීපයකට අප යොමුවිය යුතුයි...

විචක්ෂණශීලී ණය පාලනයක්, අනිකුත් සාර්ව ආර්ථික සාධක හා සම්බන්ධව සිදුවිය යුතු නිසා, මෙවැනි උපායමාර්ග (Strategies) දැන් සළකා බලමු..

19

රාජ්‍ය මූල්‍ය ඒකාග්‍රතාවය (Fiscal Consolidation) ඉලක්ක සපුරා ගැනීම ඉතා වැදගත්ය...

- "සෞභාග්‍යයේ දැක්ම" ප්‍රතිපත්ති රාමුව තුළ සඳහන් ආකාරයට 2025 වන විට අයවැය හිඟය ද.දේ.නි. යෙහි ප්‍රතිශතයක් ලෙස 4% දක්වා අඩු කර ගැනීම සඳහා රාජ්‍ය මූල්‍ය ඒකාග්‍රතා වැඩසටහන අඛණ්ඩව පවත්වාගෙන යාම.
- 2025 වන විට, රජයේ ණය තොගය, ද.දේ.නි. යෙහි ප්‍රතිශතයක් ලෙස 70% ක මට්ටමකට අඩු කර ගැනීම.
- විදේශීය ණය ගැනීම්, හැකිතාක් දුරට දැනට පවතින විදේශීය ණය සේවාකරණ (Loan Repayments) ගෙවීම් අගයන්ට සීමා කෙරෙන ආකාරයට හසුරුවා ගනිමින්, වසර 3 ක් තුළ දේශීය: විදේශීය ණය අනුපාතය 60:40 බවට පත් කොට, වසර 5 කින් 67:33 අනුපාතය දක්වා පිවිසීම.

20

විදේශ ණය ගැනීමේදී, ඒ හා සම්බන්ධ ඍජු හා වක්‍ර පිරිවැය, පරිණත වන කාලය සහ ආපසු ගෙවීම් හා සම්බන්ධ කොන්දේසි පිළිබඳව සැලකිලිමත් වීම..

- විදේශ ව්‍යාපෘති මූල්‍යනය (foreign project financing), ආර්ථික ශක්‍යතාවයෙන් (economically viable) යුතු, රජය විසින් ප්‍රතිපත්තිමය ලෙස අත්‍යාවශ්‍ය ලෙස හඳුන්වනු ලබන ව්‍යාපෘතිවලට (essential projects) පමණක් සීමා කිරීම.
- අන්තර්ජාතික වෙළෙඳපොළෙහි දැනට පීඩනයට ලක්වී ඇති ශ්‍රී ලංකාවේ ජාත්‍යන්තර ස්වෛරීත්ව බැඳුම්කරවල ඉහළ ඵලදා අනුපාතිකයක් පවතින නිසා, ඒවායේ ආයෝජනය කිරීමට ශක්තියක් ඇති දේශීය ආයතන දිරිමත් කිරීම.
- 2021 අග භාගයේදී හෝ 2022 මුල් භාගයේදී ජාත්‍යන්තර වෙළෙඳපොළෙන් ඇ.ඩොලර් බිලියන 1 ක් පමණ නිකුතුවක් සිදු කිරීමට දේශීය බැංකු දිරිමත් කිරීම.
- වෙළඳපොළ තත්ත්වයන් හිතකරවූ විට, ඇ.ඩොලර් බිලියන 1 ක පමණ ජාත්‍යන්තර ස්වෛරීත්ව බැඳුම්කරයකට වෙළඳපොළ වෙත ප්‍රවේශ වීමට රජයට හැකි වන අතර, 2021 දී ගෙවීමට නියමිත බැඳුම්කරය ගෙවීමෙන් මතුවන සංචිත හිඟය එමගින් පියවීමට සලකා බැලීම.

21

ඉදිරියේදී විදේශීය ණය ලබා ගැනීමට වඩාත් පුලුල් "ණය මිශ්‍රණයක්" (funding-mix) ස්ථාපනය කිරීම සඳහා නව මාර්ග වලට පිවිසීම..

- "සමුරායි" බැඳුම්කර සහ "පැන්ඩා" බැඳුම්කර (Samurai and Panda Bonds) හරහා ඇමරිකානු ඩොලර් බිලියන 1 ක් පමණ ණය ලබා ගැනීම සළකා බැලීම.
- රජයේ රුපියල් සුරැකුම්පත්වලට ඇ.ඩොලර් බිලියන 1 ක පමණ විදේශ ආයෝජන ආකර්ශනය කර ගැනීම සඳහා දැනුවත් කිරීමේ වැඩ පිළිවෙලක් දියත් කිරීම. (2014 අග වන විට මෙම ආයෝජන ඇ.ඩොලර් බිලියන 3.4 ක් පමණ තිබුණි)
- පරිණත වන අක් වෙරළ බැංකු ඒකක ණය (FCBU Loans) සහ ශ්‍රී ලංකා සංවර්ධන බැඳුම්කර (SLDB) ණය නැවත නිකුත් කිරීම.
- විදේශ සේවා නියුක්තිකයන්ගේ ප්‍රේෂණ මගින් ගලා එන විදේශ විනිමය පදනම් කර ගනිමින්, ප්‍රතිමූල්‍යනය කිරීමේ මෙවලම් දියත් කිරීමට උත්සාහයක් සලකා බැලීම.

22

ජාත්‍යන්තරව, විවිධ ආයතන සහ රටවල් සමග සමීප සම්බන්ධතා දිගටම පවත්වා ගැනීමද වැදගත්ය...

- නුදුරු අනාගතයේදී තවදුරටත් ශ්‍රේණිගත කිරීම්වල පහළ දැමීමක් සිදු නොවන පිණිස, ජාත්‍යන්තර ශ්‍රේණිගත කිරීමේ ආයතන සමඟ පවත්නා සම්බන්ධතාවය අඛණ්ඩව පවත්වා ගැනීම.
- ශ්‍රී ලංකා ජාත්‍යන්තර ස්වෛරීය බැඳුම්කර ආයෝජකයින් නිරන්තරව දැනුවත් කිරීම හරහා ඔවුන්ගේ විශ්වාසය දිගින් දිගටම පවත්වාගෙන යාම.
- ජාත්‍යන්තර මූල්‍ය අරමුදල සමග පවත්නා සම්බන්ධතාවයත්ද අඛණ්ඩව පවත්වාගෙන යාම සහ අවශ්‍ය අවස්ථා වලදී ඔවුන්ගේ තාක්ෂණ සහාය (Technical Assistance) ලබා ගැනීම.
- මිත්‍ර රටවල්, ජාත්‍යන්තර ආයතන සහ විදේශීය මහ බැංකු සමඟ සාකච්ඡා කොට, නව SWAP පහසුකම් දියත් කිරීම. මේ සම්බන්ධයෙන් දැනටමත් චීනයේ මහ බැංකුව සමග චීන රෙන්මින්බි (Chinese Renminbi) බිලියන 10 ක (ඇ.ඩො. බිලියන 1.5 ක් පමණ) SWAP පහසුකමක් පිළිබඳව සාකච්ඡා පවත්වමින් තිබේ.
- දැනට, චීන සංවර්ධන බැංකුව (China Development Bank) සමඟ සාකච්ඡා පවත්වමින් ඇති ඇ.ඩොලර් මිලියන 500 ක ව්‍යාපෘති ණය ලබා ගැනීමට කටයුතු කිරීම.

23

විදේශීය මෙන්ම දේශීය ආයෝජකයන්ට ද හිතකර වන අයුරින් ව්‍යාපාර කිරීමට සුදුසු පරිසරයක් සැකසීම.

- ශ්‍රී ලංකාවේ ව්‍යාපාර කටයුතු කිරීම පහසු කිරීම සඳහා වන ශ්‍රේණිගත කිරීම (Doing Business Ranking) වැඩිදියුණු කිරීමට විශේෂ අවධානයක් යොමු කිරීම.
- සෘජු විදේශ ආයෝජන (Foreign Direct Investment) සඳහා වඩාත් ආයෝජක හිතකාමී ගමනාන්තයක් ලෙස ශ්‍රී ලංකාව ප්‍රචලිත කිරීම සඳහා වරාය නගරය (Port City) ආවරණය වන පරිදි අදාළ නීති ඉතා ඉක්මනින් ක්‍රියාත්මක කිරීම.
- විදේශීය සහ දේශීය ආයෝජකයන්ට ව්‍යාපාර හා සේවාවන් සඳහා දවසේ පැය 24 පුරාම ප්‍රවේශය (24 hour service) ලබා දීම.
- ශ්‍රී ලංකා භාණ්ඩාගාර බිල්පත් සහ බැඳුම්කර වෙළඳපොළට විදේශ ආයෝජන ගෙන්වා ගැනීමට විනිමය අනුපාතික අවදානම අවම කර ගැනීමට විදේශ විනිමය හුවමාරු කිරීමේ ගිවිසුම (SWAP Arrangement) තව දුරටත් ආකර්ෂණමත් කරන අතර, එය නව වසර 2 කට ක්‍රියාත්මක කිරීම.

24

දේශ සේවා නියුක්තිකයන්ගේ ප්‍රේෂණ අඛණ්ඩව ඉහළ මට්ටමක පවත්වා ගැනීමටත්, හැකි ඉක්මනින් විදේශීය සංචාරකයින් ආකර්ෂණය කර ගැනීමටත්, පියවර ගැනීම...

- විදේශ සේවා නියුක්තිකයන්ගේ ප්‍රේෂණ ආශ්‍රිත පිරිවැය **(cost of remittances)** අඩු කිරීමට සහ විදේශයන්හි දී ප්‍රේෂණ රැස් කිරීමේ සේවාවන් **(consolidation of remittances)** වැඩි දියුණු කිරීමට බැංකු සක්‍රියව දිරිමත් කිරීම.
- විදේශ සේවා වල යෙදෙන ශ්‍රමිකයින් ඉහළ වේතන ලැබෙන රැකියා සඳහා පුහුණුව ලබා දීම. උදාහරණ: **Nurses, care-givers, etc.**
- 2021 වසරේ සිට ශ්‍රී ලංකාවේ ගෙවුම් තුලනය සඳහා සංචාරක ඉපැයීම් වලින් ලැබෙන අදායම නැවත වර්ධනය කිරීමට අවශ්‍ය හැකි සෑම පියවරක්ම ගැනීම

25

තෝරාගත් අත්‍යවශ්‍ය නොවන භාණ්ඩ සහ සේවාවන් ආනයනය සඳහා දැනට ක්‍රියාත්මක වන සීමාවන් අඛණ්ඩව පවත්වාගෙන යාම තුළින් දේශීය ආර්ථික වර්ධනයට සහාය දැක්වීම.

- දේශීය කෘෂිකර්මාන්තය, කෘෂි පාදක සහ ස්වාභාවික සම්පත් මත පදනම් වූ කර්මාන්ත සහ සේවා වර්ධනය කිරීමට දේශීය ව්‍යාපාරිකයින්ට මූල්‍ය සහ වෙළඳපොළ අවස්ථා සපයා දීම.
- රජයෙන් කිරීමට බලාපොරොත්තු වන සියලුම නව යෝජිත ව්‍යාපෘති, තියුණු පසු විපරමකට භාජනය කොට පමණක් අනුමැතිය ලබා දීම.
- නව ව්‍යාපෘති, රජය ණය හරහා දියත් කරනවා වෙනුවට, පෞද්ගලික හෝ විදේශ අංශ වල <u>ආයෝජන</u> වශයෙන් ආකර්ශණය කිරීමට සියලු සහායක්ම ලබා දීම.

26

මූල්‍ය ක්ෂේත්‍රය (Monetary Sector) සහ බාහිර අංශය (External Sector) විචක්ෂණශීලීව පාලනය කිරීම...

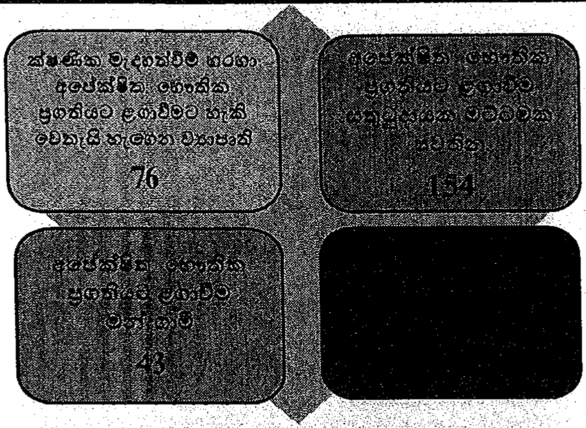
- රුපියල මනාව කළමණාකරණය කිරීම තුළින් සහ විනිමය අනුපාතිකය ස්ථාවරව පවත්වාගෙන යාම තහවුරු කිරීම තුළින් විදේශ සංචිත ක්‍රමානුකූලව ගොඩ නැංවීම.
- විචක්ෂණශීලී ණය කළමනාකරණය (Debt Management) සහ මූල්‍ය ප්‍රතිපත්තිය (Monetary Policy) තුළින් දේශීය පොලී අනුපාත පහළ මට්ටමක පවත්වාගෙන යාම. (ඒ තුළින් රජයට අත්වන වාසිය ඉමහත්ය).
- 2021 වසරේ සිට ආර්ථිකය ඉහළ වර්ධන මාවතකට යොමු කිරීම.
- දැනට රජය විසින් සිදු කරනු ලබන සියලු ව්‍යාපෘති, නියුණු සැළකිල්ලකට සහ පසුවිපරමකට භාජනය කරමින්, ඒවා "ප්‍රමාදයෙන් තොරව - ඇස්තමේන්තු ඉක්ම නොවූ" "on-time, on-budget" ව්‍යාපෘති බවට පත් කිරීම.

රජය විසින් ක්‍රියාත්මක කරන ව්‍යාපෘති හරහා සැළකිය යුතු ආර්ථික වර්ධනයක් ලඟා කර ගත හැක...

- 2020 වර්ෂයේ තෙවන කාර්තුව අවසානය වන විට රේඛීය අමාත්‍යාංශ යටතේ සංවර්ධන ව්‍යාපෘති 617 ක් ක්‍රියාත්මක වුනි.
- එයින් 289 ක්ම රේඛීය අමාත්‍යාංශ 38ක් යටතේ ක්‍රියාත්මක වන අතර, ඒවායේ පිරිවැය පහත දැක්වේ:

ව්‍යාපෘති පරිමාණය	සංඛ්‍යාව	පිරිවැය
මහා	289	රු. මිලියන 1000 ට වැඩි
මධ්‍ය	232	රු. මිලියන 100 සිට 1000
කුඩා	96	රු. මිලියන 100 අඩු

මේ වන විට, රජය විසින් ක්‍රියාත්මක කරන මහා පරිමාණ ව්‍යාපෘති වල භෞතික ප්‍රගතිය.. මිශ්‍ර ප්‍රතිඵලයකි..



	සමස්ථය	විදේශ ණය හරහා	විදේශ ප්‍රදාන හරහා	දේශීය බැංකු ණය හරහා	දේශීය අරමුදල් හරහා
මහා පරිමාන ව්‍යාපෘති සංඛ්‍යාව	289	140	17	12	120
වාර්ෂික ප්‍රතිපාදන (රු. බිලියන)	452	327	7	32	86

29

ව්‍යාපෘති ක්‍රියාත්මකරණය සම්බන්ධයෙන් වාර්ථා වී ඇති ගැටළු කඩිනමින් නිරාකරණය කර ගැනීම ඉතා වැදගත්ය..

ගැටලු	ව්‍යාපෘති සංඛ්‍යාව
ඉඩම් අත්පත් කර ගැනීමේ ප්‍රමාදයන් හේතුවෙන් සැලසුම් කළ ක්‍රියාකාරකම් ආරම්භ කිරීමට නොහැකි වීම	27
තෙවන පාර්ශව අනුමැතීන් ප්‍රමාද වීම හේතුවෙන් සැලසුම් කළ ක්‍රියාකාරකම් ප්‍රමාද වීම	38
කොන්ත්‍රාත්කරුවන්ගේ/ උපදේශකවරුන්ගේ ඌන කාර්යසාධනය	29
ප්‍රසම්පාදන කටයුතු ප්‍රමාදයන් හේතුවෙන් සැලසුම් කළ ක්‍රියාකාරකම් ප්‍රමාද වීම	11
අයවැය ප්‍රතිපාදන කළමණාකරන ගැටලු	29
අත් මුදල් ලැබීම් ප්‍රමාදයන්	10
මහජන විරෝධතා/ සමාජීය ගැටලු	21

මෙම ව්‍යාපෘති, ඉතා ඉක්මනින් ක්‍රියාත්මක කළහොත්, ඒ හරහා සැළකිය යුතු ආර්ථික වර්ධන වේගයක් ලබා ගත හැක.

30

තවද, ව්‍යාපෘති ක්‍රියාත්මකකරණය කඩිනම් කිරීමට කළ යුතු දෑ...

- රේඛීය අමාත්‍යාංශවලින් සිදු කරන සමීප අධීක්ෂණය හා වාර්තාකරණය ශක්තිමත් කිරීම
- වෙළෙඳපොළේ පවතින අමුද්‍රව්‍යවල ප්‍රමාණවත් තොග පෙර සැලසුම් කර පවත්වා ගැනීම
- ව්‍යාපෘති ආරම්භ වීමට ප්‍රථම අවශ්‍ය අනුමැතීන් හා නිර්දේශ ලබා ගැනීම සහ ඉඩම් අත්පත් කර ගැනීමේ කටයුතු සිදු කිරීම
- සංවර්ධන ව්‍යාපෘතීන් අතර සිරස් හා තිරස් සම්බන්ධීකරණය ශක්තිමත් කිරීම සහ අංශ අතර ඒකාබද්ධ සැලැස්මක් සකස් කිරීම
- හැකිතාක් දුරට දේශීය විශේෂඥයින්, සම්පත් සහ අමුද්‍රව්‍ය මඟින් ව්‍යාපෘති කළමනාකරණය කර ගැනීමට පියවර ගැනීම
- ඒකාබද්ධ ක්‍රියාකාරකම් පවතින ව්‍යාපෘති කොන්ත්‍රාත් ප්‍රදානයේ දී හැකිතාක් දුරට එකම උපදේශකවරුන් හා කොන්ත්‍රාත්කරුවන් වෙත ප්‍රදානය කිරීම
- ප්‍රසම්පාදනය කල් ඇතිව සැලසුම් කිරීම
- දුර්වල කාර්යසාධනයක් ඇති කොන්ත්‍රාත්කරුවන්ගෙන් ප්‍රමාද ගාස්තු අයකිරීම හා අසාදු ලේඛනගත කිරීම ක්‍රමවත් කිරීම

31

2021 වසර ආර්ථිකමය අතින් අභියෝගාත්මක වසරක් වන අතර, එම අභියෝග ජය ගන්නට දැඩි මූල්‍ය විනයක් සහිතව පුලුල් සැලැස්මක් අනුව කටයුතු කළ යුතුයි..

- වර්ධන වේගය වැඩි කර ගන්නට ප්‍රමුඛත්වය ලබා දීම.
- රාජ්‍ය මූල්‍ය කටයුතු දැඩි විනයක් සහිතව ක්‍රියාත්මක කිරීම.
- විශේෂයෙන්ම රුපියලේ අගය, පොලී අනුපාතය, අය-වැය හිඟය, මූල්‍ය ක්ෂේත්‍රයේ ස්ථායීභාවය ඇතුළු සියලු සාර්ව ආර්ථික සාධක යහපත් දිශාන්තයකට යොමු වන ලෙස කටයුතු කිරීම.
- සුළු සහ මධ්‍යම පරිමාණ ව්‍යාපාරිකයන් ඇතුලු දේශීය ව්‍යාපාරිකයන්ට ප්‍රමුඛත්වය ලබා දෙන අතර, විදේශීය ව්‍යාපාර වලටද හැකිතාක් සහය ලබා දීම.
- ආහාර සුරක්ෂිතභාවය රැකෙන ආකාරයට කෘෂිකාර්මික ක්ෂේත්‍රයට විශේෂ ශක්තියක් ලබා දීම.
- සියලු රටවල් සහ ජාත්‍යන්තර ආයතන සමග විශ්වාසය තහවුරු වන ආකාරයකට ගණුදෙනු කිරීම.
- ජාත්‍යන්තර සහ දේශීය මාධ්‍ය සමග විවෘත සහ සුහදශීලී ආකාරයකින් කටයුතු කරන අතරම, ආර්ථික විශ්වාසනීයභාවය පළුදු වන ප්‍රකාශ වලින් වැළකී සිටීම.

32

13/07/2022

ශ්‍රී ලංකාවේ මෑත ඉතිහාසයේ පෙනෙන්නේ 2015 සිට 2019 දක්වා ණය තත්ත්වය දිගින් දිගටම පිරිහී ගිය බවයි

ශ්‍රී ලංකාව: ණය සහ ණයබරතාවය

වසර	මුලු ණය (රු.බි)	ණය/ දදේනි	වසර	මුලු ණය (රු.බි)	ණය/ දදේනි
1979	35	67.7	1999	1,051	95.1
1980	51	77.2	2000	1,211	96.9
1981	65	76.1	2001	1,452	103.3
1982	81	81.2	2002	1,670	105.6
1983	98	81.0	2003	1,864	102.3
1984	105	68.5	2004	2,139	102.3
1985	130	80.2	2005	2,222	90.6
1986	156	86.8	2006	2,583	87.9
1987	191	97.0	2007	3,042	85.0
1988	224	101.0	2008	3,589	81.4
1989	274	108.7	2009	4,161	86.2
1990	311	96.6	2010	4,590	71.6
1991	367	98.5	2011	5,133	71.1
1992	406	95.4	2012	6,000	68.7
1993	484	96.9	2013	6,793	70.8
1994	551	95.1	2014	7,487	72.3
1995	636	95.2	2015	8,599	78.5
1996	716	93.3	2016	9,478	79.0
1997	764	85.8	2017*	10,702	81.0
1998	925	90.8	2018	12,030	83.7
			2019	13,031	86.8

* විගණකාධිපතිට අනුව

- 2005 අග රාජ්‍ය ණය රු.බි 2,222 වුනි. එවිට, දළ දේශීය නිෂ්පාදනයට සාපේක්ෂව, ඉතා ඉහල ණයබරතාවයක් වන 91% ක පැවතුනා.
- 2014 අග දක්වා අවුරුදු 9 ක කාලය තුළදී රාජ්‍ය ණය රු.බි. 5,265 කින් වැඩිවී රු.බි. 7,487 බවට පත් වුවද, ණයබරතාවය 72% දක්වා අඩු වුනා.
- 2019 අග දක්වා අවුරුදු 5 ක කාලය තුළදී රාජ්‍ය ණය රු.බි. 5,544 කින් වැඩිවී, රු.බි. 13,031 බවට පත්වී තිබෙනවා; ණයබරතාවය 87% දක්වා වැඩි වුනා.

2020 අගෝස්තු අග වන විට, කොවිඩ්-19 බලපෑමත් සමගම ණය ප්‍රමාණය රුපියල් බිලියන 14,522 දක්වා වැඩිවී ඇති අතර, ණය දළ දේශීය නිෂ්පාදිතයට සාපේක්ෂව 93% ක් දක්වාත් වැඩිවී ඇත.

3

2019 අග වන විට ණය තොගය සළකා බලන විට, දුර්වලතා රාශියක් වර්ධනය වී ඇති බව පෙනී යනවා

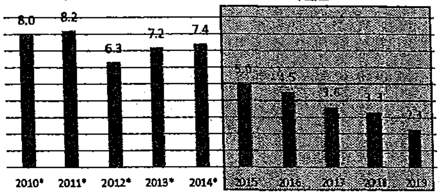
- විදේශ/දේශීය මිශ්‍රය අයහපත් අතට යොමු වීම.
- කෙටි කාලීන ණය වැඩිවීම.
- කොන්දේසි - ලිහිල් සිට බැරුරුම් අතට.
- ස්වභාවය - ලබාගත් ඍජු මුදල් අයවැය පියවීමට මිස ව්‍යාපෘති සඳහා නොවීම.
- යෙදවීම් - සංවර්ධනය සඳහා අඩුවී, පරිභෝජනය සහ පුනරාවර්තන වියදම් සඳහා වැඩිවීම.
- පොළිය - පැවති අඩු අගයන් සිට දැඩි ලෙස ඉහල යාම.
- ආපසු ගෙවීමේ අවධානම වැඩිවීම.
- රජයේ බදු ආදායම වැඩි වුවත්, පොලිය වැඩිවීමෙන් එම "වාසිය" නිශ්ඵල වීම.
- ණය ගැනීමේ හැකියාව දුර්වල වූ නිසා, වැඩි පොලී අනුපාතයන්ට එකඟ වීමට සිදුවීම.
- රුපියල දුර්වල වීම නිසා ණය තොගය දැවැන්ත ලෙස වැඩිවීම.
- ණය තොගයේ කල් පිරීමේ කාලය සැලකිය යුතු ආකාරයකට ඉහළ දමා ගැනීමට අපොහොසත් වීම.
- පොලී අනුපාතය අස්ථායි ලෙස හැසිරීම.
- ආර්ථිකය කෙරෙහි විශ්වාසනීයභාවය අඩුවීම නිසා ආයෝජන අඩුවී, ණය ගැනීමට වඩාත් දුෂ්කර වීම.

මෙම කරුණු අන්තර්ගත කෙටි විග්‍රහයක්ද මෙහි අඩංගුය

4

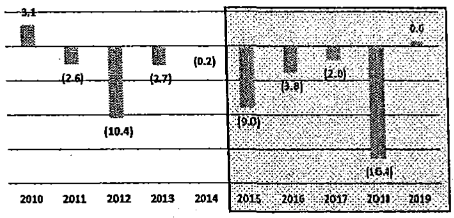
ණයබරතාවය පාලනයට (Debt Management) හානිකරවූ සිදුවීම් කීපයක්ම 2015 සිට 2019 කාලයේදී සිදුවුනා...

දළ දේශීය නිෂ්පාදනයේ වර්ධනය අඩුවුනා (%)

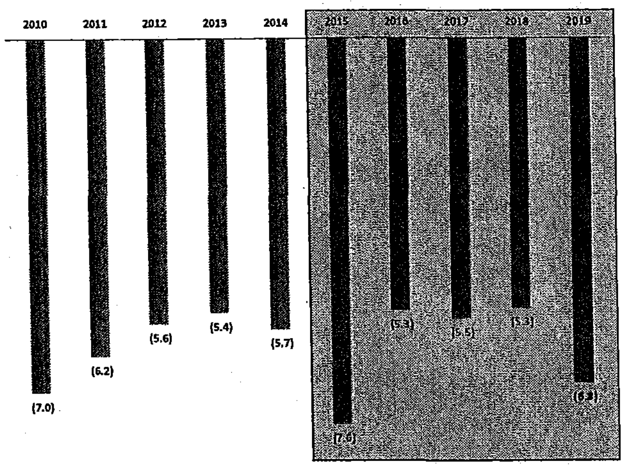


*2014 ශ්‍රී ලංකා මහ බැංකු වාර්ෂික වාර්තාවට අනුව

රුපියලේ අගය පිරිහුණා (රුපියල් / එ.ජ. ඩොලර්)



අයවැය හිඟය වැඩිවුනා (ද.දේ.නි %)



5

2015 සිට රජය ගෙවූ පොළිය දරුණු ලෙස වැඩි වුනා..

2014 සිට රජයේ "පොලී ගෙවීම්" වැඩිවීම (රුපියල් බිලියන)

වසර	පොලී ගෙවීම (රු.බි)	2014 ට සාපේක්ෂව වැඩිවූ පොලී ප්‍රමාණය (රු.බි)	පොලී ගෙවීම වැඩිවීම (%)	පොලී වියදම/ ද.දේ.නි..(%)
2014	436	-	-1.7	4.2
2015	510	74	16.8	5.0
2016	611	175	19.9	5.1
2017	736	300	20.4	5.5
2018	852	416	15.8	5.9
2019	901	465	5.7	6.0

මෙයින් පෙනී යන්නේ පොලී අනුපාතය වැඩි කර ගැනීමෙන් සහ රුපියල අවප්‍රමාණය කර ගනිමින් සහ වගකීමකින් තොරව ණය ගැනීමෙන්, පසුගිය වසර 5 තුළදී රුපියල් බිලියන 1430 ක් වැඩිපුර වියදමක් රජයට දරන්නට සිදුවූ බවයි.

6

රුපියල අවප්‍රමාණය කරගත් නිසා ණය තොගය දරුණු ලෙස වැඩි වුනා

රුපියල අවප්‍රමාණය/අධිප්‍රමාණය නිසා ණය තොගය කෙරෙහි බලපෑම

වසර	රුපියලේ අවප්‍රමාණය/අධිප්‍රමාණය වීම නිසා, ණය තොගයට එකතුව(අඩුවීම) (රුපියල් බිලියන)
2013	(19)
2014	(89)
2013 සහ 2014 එකතුව	(108)
2015	285
2016	187
2017	225
2018	1,063
2019	12
2015 සිට 2019 අවු: 5 එකතුව	1,772

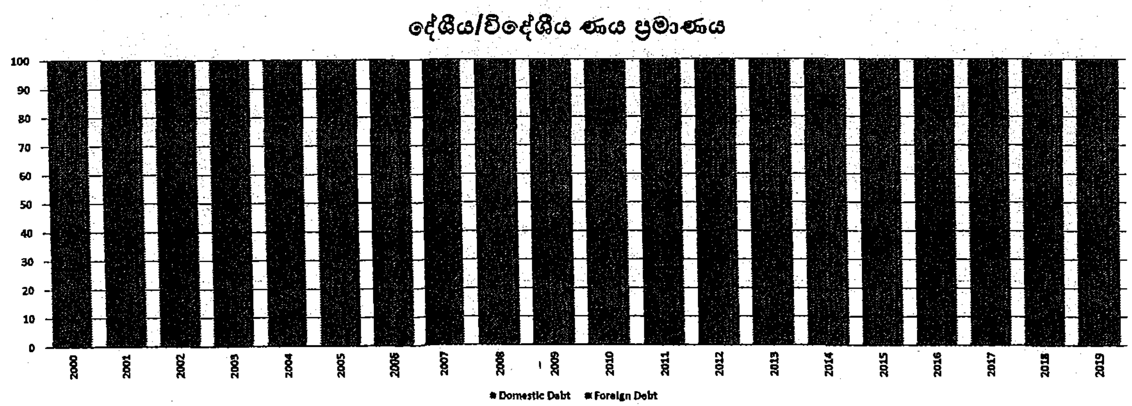
මූලාශ්‍රය: ශ්‍රී.ල.ම.බැ.

- ශ්‍රී ලංකා රුපියලේ අගය දැවැන්ත ලෙස කඩා වැටීම නිසා, රටට කිසිදු භෞතික සම්පතක් එකතු නොකරමින්, ණය තොගය රු.බි. 1,772 කින් වැඩි වුනා. එම අගය හම්බන්තොට වරාය තැනීමට වැයවූ මුදල මෙන් 13 ගුණයකි!
- එහෙත්, 2013 සහ 2014 දී, රුපියල අධිප්‍රමාණය වූ නිසා, ණය තොගය රු.බි. 108 කින් අඩුවුනා. එනම්, නොරොච්චෝලේ ගල් අඟුරු බලාගාරයට වැයවූ මුදල හා සමාන මුදලකි!
- 2018 පමණක්, ඇමරිකානු ඩොලරයට සාපේක්ෂව, රුපියලේ අගය දැවැන්ත ලෙස අවප්‍රමාණය වීම නිසා, විදේශ ණය තොගය රු.බි. 1,063 කින් වැඩි වුනා.
- 2014 අග සිට 2019 අග දක්වා වසර 5 තුළදී විදේශ ණය තොගය ඇ.ඩො.බිලියන 23.7 සිට ඇ.ඩො.බිලියන 35.6 දක්වා 50% කින් වැඩි වී තිබෙනවා.

2019 අග වන විට තිබූ ණය තොගය වූ රුපියල් බිලියන 13,031 න් රුපියල් බිලියන 1,772 ක් (13.6%) ක්, 2015 සිට 2019 දක්වා රුපියල අවප්‍රමාණය වීම පමණක් නිසා ණය තොගයට එකතු වුනා.

7

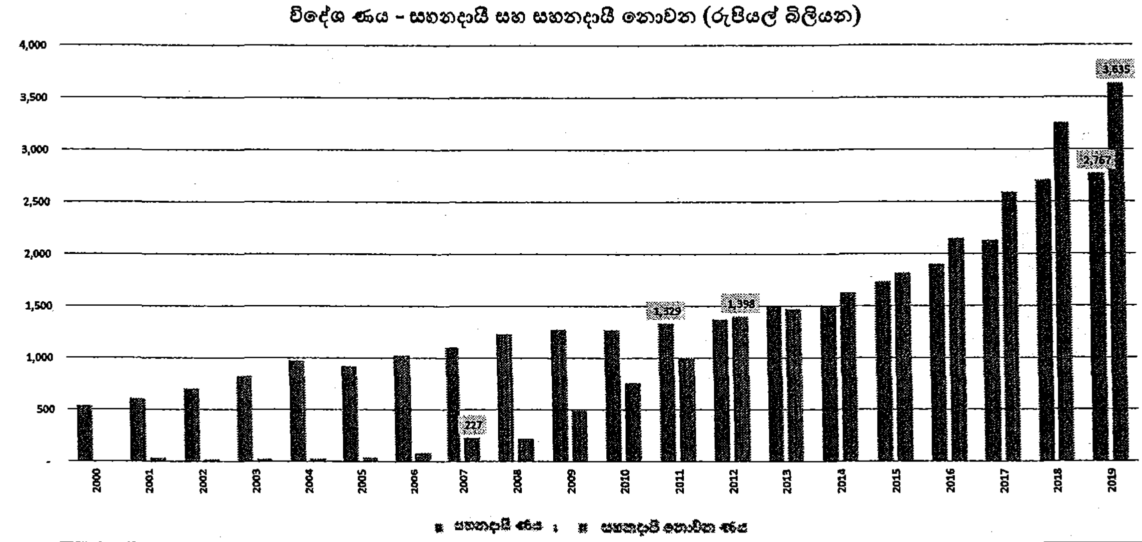
2015 සිට 2019 දක්වා විදේශ ණය ප්‍රතිශතය මුලු ණය තොගයෙන් 42% සිට 49% දක්වා සීඝ්‍රයෙන් වැඩි වුනා.



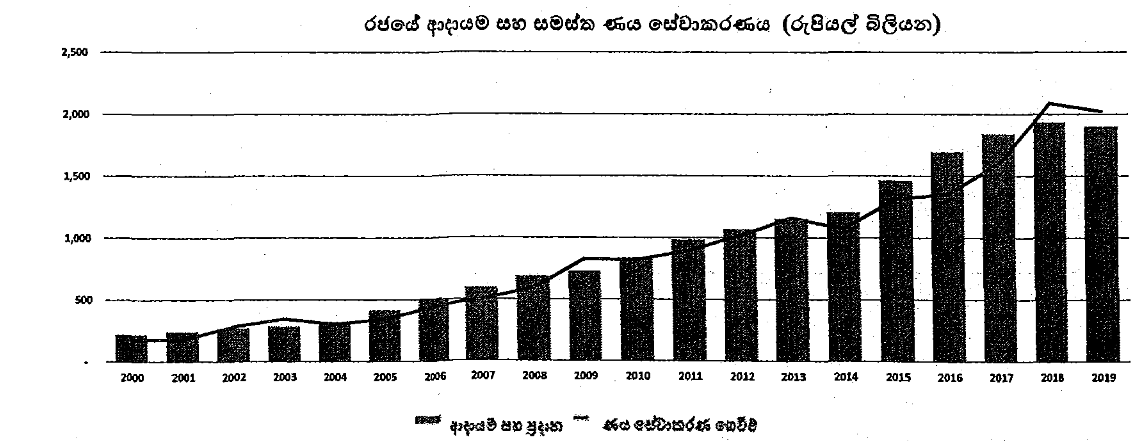
2020 ඔක්තෝම්බර් මාසයේදී කල් පිරුණ ඇ.ඩො. බිලියන 1 ස්වෛරීය බැඳුම්කරය (International Sovereign Bond - ISB) ගෙවීමෙන් පසුව, දේශීය/විදේශීය ණය තොගයේ ප්‍රතිශතය 56:44 දක්වා වෙනස් කර ගැනීමට හැකිවී තිබෙනවා.

8

2014 දී මැදි ආදායම් ආර්ථිකයක් ලෙස හැඳින්වීමෙන් පසුව, විදේශ ණය තොගයේ සහන සහිත ණය තොගයද සීග්‍රයෙන් අඩුවී, "වෙළඳ" ණය ප්‍රමාණය වැඩිවුනා..



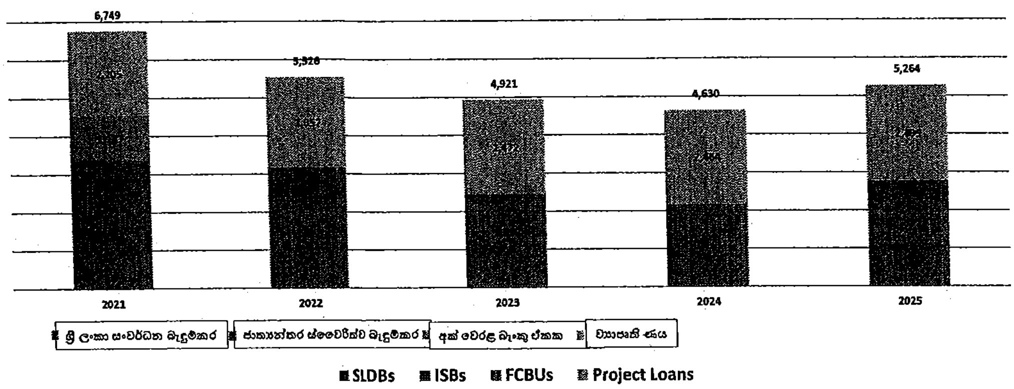
රජයේ ආදායමට සාපේක්ෂව, ණය ගෙවීම් අභියෝගාත්මක මට්ටමකට පිවිසී තිබෙනවා



2018 සහ 2019 වසර වලදී ණය ගෙවීම් සඳහා අවශ්‍ය වූ මුදල, රාජ්‍ය ආදායම ඉක්මවා ඇති අතර, 2020 දීත් එසේම සිදුවන බව පෙනී යනවා...

2021 සිට විදේශ ණය ගෙවීම අභියෝගාත්මක වෙනවා

ඇස්තමේන්තුගත විදේශ ව්‍යවහාර ණය සේවාකරණය (ආපසු ගෙවීම් + පොලී ගෙවීම්)
(එ. ජ. ඩොලර් මිලියන)



* ණය සේවාකරණ ඇස්තමේන්තු 2020 වසරේ අගෝස්තු මස අවසානය වනවිට පැවති ණය තොගය මත පදනම් වේ.

11

විදේශ සංචිත භයානක ලෙස අඩුවූ නිසා ණය ගෙවීමේ ශක්තියත් දුර්වලවීමක් පෙන්වා දෙනවා..

විදේශ සංචිත : 2014 සිට ප්‍රගතිය

දර්ශකය	2014	2015	2016	2017	2018	2019
දළ නිල සංචිත (ඇ.ඩො.බි)	8.2	7.3	6.0	7.9	6.9	7.6
"2015 පෙර දැක්ම" ට අනුව අපේක්ෂිත සංචිත (ඇ.ඩො.බි)	8.2	9.0	10.0	11.0	13.5	15.0
සංචිත හිඟ ප්‍රමාණය (ඇ.ඩො.බි)	-	-1.7	-4.0	-3.1	-6.6	-7.4

- **2005** අග වන විට තිබූ විදේශීය සංචිත ප්‍රමාණය ඇ.ඩො.බිලියන **2.7** ක් පමණි.
- **2014** අග වන විට එම සංචිත ඇ.ඩො.බිලියන **8.2** දක්වා ඉහල නංවනු ලැබුවා. එනම්, මාස **5.1** ක ආනයනයන්ට සමාන අගයක්.
- **2015** සිට විදේශ සංචිත සීඝ්‍රයෙන් කඩා වැටී, **2019** අග වන විට, සංචිත ප්‍රමාණය ඇ.ඩො.බිලියන **7.6** දක්වා අඩුවී තිබෙනවා.
- **2019** අග වන විට, අවම වශයෙන් ඇ.ඩො.බිලියන **15.0** ක් පමණ සංචිතයක්වත් ශ්‍රී ලංකාව සතුව තිබිය යුතු නිසා, **2019** අග වන විට, සංචිත හිඟය ඇ.ඩො.බිලියන **7.4** පමණ විය.

12

2014 දී ස්ථාවරව පැවති ශ්‍රී ලංකා රුපියල 2015 සිට 2019 දක්වා කාලය තුළදී බාල්දුවට ලක් වුනා...

- 2006 සිට 2014 දක්වා ශ්‍රී ලංකා රුපියල අවප්‍රමාණය වූයේ වසරකට සාමාන්‍යයෙන් 2.8% පමණි. මෙම අවප්‍රමාණය, 1977 දී ආර්ථිකය විවෘත කලායින් පසුව, ශ්‍රී ලංකා ඉතිහාසයේම වාර්තා වූ අඩුම අවප්‍රමාණයයි.

- එහෙත්, 2015 සිට 2019 දක්වා වසර 5 දී, රුපියල අගය 39% කින් අවප්‍රමාණය වූ අතර, සංචිත අගය ඇ.ඩො.මි. 566 කින්ද අඩු වුනා.
- 2006 සිට 2014 දක්වා වසර 9 දී, ඇ.ඩො.මි. 5,473 කින් විදේශ සංචිතය වර්ධනය වුනා.

- 2018 දී ඉතිහාසයේ වැඩිම අවප්‍රමාණය වූ රු. 29/90 සිදු වුනා.
- 2015 දී මහ බැංකුවේ විශාලතම වෙළඳපොළ මැදිහත් වීම වන ඇ.ඩො.මි. 3,250 ක සැපයුමක් සිදු වුනා.
- 2018 දී මහ බැංකුවේ වෙළඳපොළ මැදිහත් වීම, ඇ.ඩො.මි. 1,122 ක් වුනි.

වසර අග	වසර අග විදේශ සංචිත (ඇ.ඩො.මි)	විදේශ සංචිත වැඩිවීම/ අඩුවීම (ඇ.ඩො.මි)	වසර අග වටිනාකම රුපියල්	අවප්‍රමාණය (අධිප්‍රමාණය)		මහ බැංකු මැදිහත්වීම ගැනීම්/(විකුණුම්) (ඇ.ඩො.මි)
				රු	(%)	
1976	94		8.83			
1977 සිට 1986	363	269	28.52	19.69	වසරකට 12.4%	නැත
1987 සිට 1996	1937	1,574	56.71	28.19	වසරකට 7.1%	නැත
1997 සිට 2005	2,735	798	102.12	45.41	වසරකට 6.0%	(692)
2006 සිට 2014	8,208	5,473	131.05	28.93	වසරකට 2.8%	(2,283)
2015 සිට 2019	7,642	(566)	181.63	50.58	වසරකට 6.7%	(3,089)

13

2015 සිට 2015 සිට බාහිර කම්පා/අර්බුධ වලට මුහුණ පෑමේ ශක්තිය දිගින් දිගටම අඩු වූ නිසා, ජාත්‍යන්තර ණය ශ්‍රේණි වලින් පහත වැටුනා...

ජාත්‍යන්තර ණය ශ්‍රේණිය	2014	2015	2016	2017	2018	2019	2020
Moody's	B1 (Stable)	B1 (Stable)	B1 (Negative)	B1 (Negative)	B2 (Stable)	B2 (Stable)	Caa1 (Stable)
Fitch	BB- (Stable)	B+ (Negative)	B+ (Negative)	B+ (Stable)	B (Stable)	B (Negative)	B- (Stable)
S & P	B+ (Stable)	B+ (Negative)	B+ (Negative)	B+ (Stable)	B (Stable)	B (Stable)	B - (Negative)

- 2006 සිට 2014 කාලයේදී, ශ්‍රී ලංකාව දැවැන්ත ජාත්‍යන්තර ආර්ථික අභියෝග වලට මුහුණ දුන්නා:
  - අ) භයානකම ආහාර අර්බුධය
  - ආ) උග්‍රතම තෙල් අර්බුධය
  - ඇ) දරුණුම ආර්ථික අර්බුධය
  - ඈ) තියුණුම බැංකු අර්බුධය
  - ඉ) දැවැන්තම ණය අර්බුධය
- සම්පත් රාශියක් ගිලගත් අභ්‍යන්තර යුද්ධයකටත් මුහුණ දුන්නා
- එම අර්බුධ වල අයහපත් ආර්ථික ප්‍රතිවිපාක ජනතාවට ගලා යැමට, රජය සහ මහ බැංකුව ඉඩ තැබුවේ නැහැ.

2020 සැප්තැම්බර් වන විට, කොවිඩ් -19 කම්පාව ඉදිරියේදී මුඩීස් ආයතනය ශ්‍රී ලංකාවේ ණය ශ්‍රේණිය Caa1 දක්වා පහත හෙලන ලදී. ඒ හරහා දැනට නිකුත්වී ඇති ඇ.ඩො.මි 14,050 ISB හි ද්විතීය වෙළඳපොළේ ඵලදායී ප්‍රතිශතය ඉහල ගොස් ඇත.

යහපාලන රජය සමගත්, කිසිදු ගෝලීය අභියෝගයක් නොමැතිවද, ලෝක තෙල් මිල වසර 20 කින් පමණ අඩුම අගයක පැවතියද, රටේ ණය ශ්‍රේණිය පහල වැටෙන ආකාරයට කටයුතු සිදුවී ඇති බව පෙනේ.

[illegible]	[illegible]	[illegible]	[illegible]	
			[illegible]	[illegible]
International Sovereign Bonds	27-Jul-21	6.250%	35.31%	23.49%
	18-Jan-22	5.750%	34.57%	25.77%
	25-Jul-22	5.875%	28.33%	22.86%
	18-Apr-23	5.750%	25.60%	21.82%
	14-Mar-24	6.850%	22.52%	19.79%
	28-Jun-24	6.350%	20.78%	18.32%
	03-Jun-25	6.125%	18.09%	16.11%
	03-Nov-25	6.850%	18.24%	16.29%
	18-Jul-26	6.825%	17.39%	15.46%
	11-May-27	6.200%	15.87%	14.22%
	18-Apr-28	6.750%	15.66%	14.16%
	14-Mar-29	7.850%	16.16%	14.48%
	28-Mar-30	7.550%	15.48%	13.99%

Source: CBSL Weekly Indicators 23.10.2020

14

2006 සිට 2014 දක්වා සීඝ්‍රයෙන් වර්ධනයවූ ආර්ථිකය 2015 සිට මන්දගාමී වුනා.

ඒක පුද්ගල ආදායම එක තැනම රැඳිලා...
ඉහළ මැදි ආදායම් රටක් වීමේ බලාපොරොත්තු බොඳ කරලා...

ශ්‍රී ලංකාවේ දළ දේශීය නිෂ්පාදිතය

1959	1.3
1967	1.8
1977	4.1
1989	7.0
1993	10.4
2002	16.5
2005	24.4
2014	79.4
2019	84.0

Source: CBSL Annual Report 2019

වසර	වාර්තාවූ ඒක පුද්ගල ආදායම (ඇ.ඩො.)	වාර්ෂික වැඩිවීම ඇ.ඩො.
2005	1,242	179
2006	1,423	181
2007	1,614	191
2008	2,011	397
2009	2,054	43
2010	2,744	690
2011	3,125	381
2012	3,351	226
2013	3,609	258
2014	3,819	210
2015	3,842	21
2016	3,886	44
2017	4,077	191
2018	4,079	2
2019	3,852	(227)

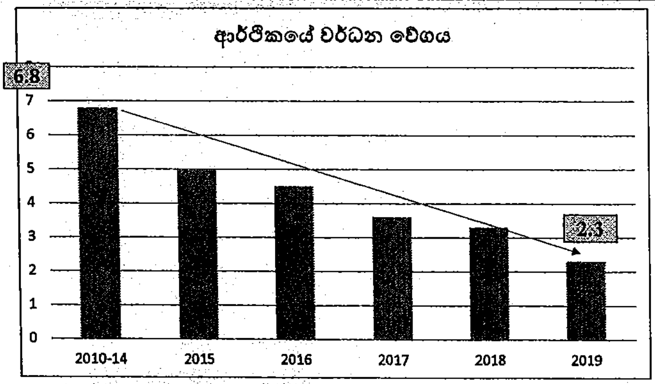
Source: CBSL Annual Report 2019

- 2005 දී, ශ්‍රී ලංකාවේ දළ දේශීය නිෂ්පාදිතය ඇ.ඩො. බි 24.7 ක් සහ ඒක පුද්ගල ආදායම ඇ.ඩො. 1,242 ක් ලෙස සටහන් වුනා.
- 2006 සිට 2014 දක්වා වසර 9 තුළදී, ආර්ථිකයේ සීඝ්‍ර වර්ධනය නිසා, දළ දේශීය ... ඇ.ඩො.බි. 79.4 දක්වා 221% කින් වර්ධනය වුනා. ඒක පුද්ගල ආදායම ඇ.ඩො. 3,819 දක්වා ඇ.ඩො. 2577 කින් වැඩි වුනා.
- 2015 සිට 2019 දක්වා වසර 5 තුළ, ඒක පුද්ගල ආදායම ඉහළ යනු වෙනුවට ඇ.ඩො. 3,852 දක්වා පමණි, එනම්, වසර 5 වල ඇ.ඩො. 33 ක වැඩිවීමක් පමණි.
- එමෙන්ම 2001 සිට පළමු වතාවට 2019 දී ඒක පුද්ගල ආදායම ඇ.ඩො. 227 කින් අඩු වුනි.

15

2015 සිට 2019 දක්වා ආර්ථික වර්ධනය දරුණු ලෙස පහත වැටුනු පසුබිමක, කොවිඩ්-19 හේතුවෙන් සිදුවූ ආර්ථික බලපෑම නිසා ලෝකයේ සියලු රටවල් මෙන්ම, ශ්‍රී ලංකාවේ ආර්ථික වර්ධනය තව දුරටත් පහළ බැසීම නොවැළැක්විය හැකිය

- 2010 සිට 2014 කාලයේදී සාමාන්‍ය වර්ධන වේගය මහ බැංකු වාර්තා වලට අනුව වසරකට 6.8% සිට 7.4% අතර වුනි.
- 2015 සිට 2019 කාලයේදී සාමාන්‍ය වර්ධන වේගය 3.7% පමණක් වුනි.



කොවිඩ්-19 වසංගතය හරහා මන්දගාමී වී ඇති ආර්ථික ක්‍රියාවලිය නිසා, 2020 දී ආර්ථික වර්ධනයක් බලාපොරොත්තු වීම ඉතා අපහසුය

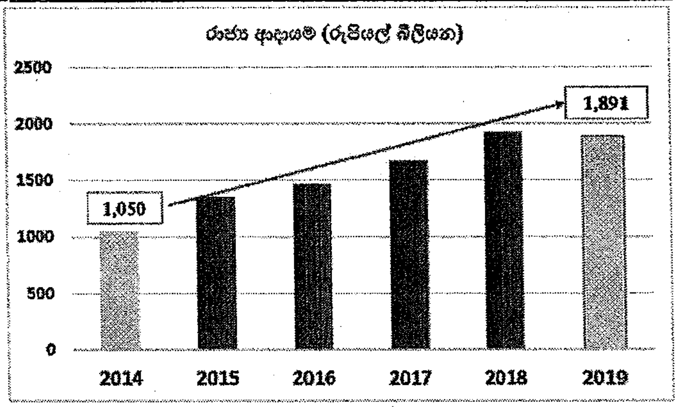
දර්ශකය	2015	2016	2017	2018	2019	2015 to 2019 සාමාන්‍යය
විටින් විට සංශෝධනය කරමින් රජය විසින් වාර්තා කරන ලද අවසන් ආර්ථික වර්ධන වේගය	5.0	4.5	3.6	3.3	2.3	3.7

Source: CBSL

16

2014 ට සාපේක්ෂව, 2019 වන විට, රාජ්‍ය ආදායම 80% කින් වැඩි කරගත් නමුත්, පොළිය වැඩිවීමෙන් සහ වර්ධනයේ පසුබෑමෙන් රජයට එම වාසිය ගිලිහී ගියා...

- මහජනතාව සහ ව්‍යාපාරිකයින් 2014 දී රජයට ගෙවූ සමස්ත බදු හා සන්සන්දනය කරන විට, 2019 දී, බදු ප්‍රමාණය 80% කින් වැඩි වුනා!
- ආර්ථිකයේ මන්දගාමිත්වය නිසා, 2018 දී රාජ්‍ය ආදායම රුපියල් බිලියන 1,920 සිට 2019 දී රුපියල් බිලියන 1,891 දක්වා අඩු වුනි.
- තවද, 2019 දී රාජ්‍ය ආදායම ලෙස රුපියල් බිලියන 2,200 ක් බලාපොරොත්තු වුවද, ලබා ගැනීමට හැකි වූයේ රුපියල් බිලියන 1,891 ක් පමණි.



මූලාශ්‍රය: මුදල් අමාත්‍යාංශය

වසර	2014	2015	2016	2017	2018	2019
දළ දේශීය නිෂ්පාදිතය (ඇ.ඩො.බි)	79.4	80.6	82.4	87.4	88.4	84.0
මුළු බදු (රු.බි)	1,050	1,356	1,464	1,671	1,920	1,891

මූලාශ්‍රය: ශ්‍රී.ල.ම.බැ

17

විදේශ සෛරීය බැදුම්කර වල පොලී අනුපාතය වැඩි වීම සහ රුපියලේ අගය කඩා වැටීම නිසා 2015 සිට වැඩිපුර පොලී පිරිවැයක් දැරීමට ශ්‍රී ලංකාවට සිදු වුනා..

ISB No.	මාසය/ අවුරුද්ද	ඇ.ඩො. මිලියන	කාලය (අවුරුදු)	කූපන් පොලී අනුපාතය (%)	2015 පෙර අනුපාතය (%)	වෙනස (%)	වැඩිපුර පොලී පිරිවැය ඇ.ඩො.මිලියන
8	Jun- 2015	650	10	6.125	5.875	0.250	16.3
9	Nov- 2015	1500	10	6.850	5.875	0.975	146.3
10	Jul – 2016	1000	10	6.825	5.875	0.950	95.0
11	Jul – 2016	500	5.5	5.750	5.125	0.625	17.2
12	May- 2017	1500	10	6.200	5.875	0.325	48.8
13	Apr- 2018	1250	5	5.750	5.125	0.625	39.1
14	Apr- 2018	1250	10	6.750	5.875	0.875	109.4
15	Mar- 2019	1400	10	7.850	5.875	1.975	276.5
16	Mar- 2019	1000	5	6.850	5.125	1.725	86.3
17	Jun- 2019	500	5	6.350	5.125	1.225	30.6
18	Jun- 2019	1500	10	7.550	5.875	1.675	251.3
		12,050					1,116.5

මෙලෙස දරන්නට සිදුවී ඇති වැඩි පොළී පිරිවැය ඇ.ඩො.මිලියන 1116.5 කි. වර්තමාන රුපියලේ අගය අනුව එම මුදල රුපියල් බිලියන 218 ක් පමණය.

මේ වන විට, දැනට පියවී නැති ජූලි 2011 දී ගත් වසර 10 සහ 6.250% පොළියකට යටත් ඇ.ඩො.මිලියන 1000 සහ ජූලි 2012 දී ගත් වසර 10 සහ 6.875% පොළියකට යටත් ඇ.ඩො.මිලියන 1000 යන ISB එකතු වූ විට, ශ්‍රී ලංකාවට ගෙවීමට ඇති මුළු සෛවරීය බැදුම්කර ප්‍රමාණය ඇ.ඩො.මිලියන 14,050 කි.

එම බැදුම්කර වලින්, ඇ.ඩො. මිලියන 6,900 ක්ම (රුපියල් බිලියන 1200 ක් පමණ) නිකුත් කරන ලද්දේ 2018 අප්‍රේල් සිට 2019 ජුනි යන මාස 15 කාලය තුළදීය.

2018 මාර්තු පලාත් පාලන මැතිවරණයෙන් පසුව, වැඩි කලක් යාමට පෙර, එවකට රජය නියත පරාජයක් ලැබෙන බව දැනගෙන ශ්‍රී ලංකාව දැඩි මූල්‍ය අර්බුධයකට ලක් කිරීමට, මෙම ණය ගැනීම කරන ලද්දක් දැයි දැන් සැකයක් මතුවේ.

18

TRUE COPY
Saravanan Neelakandan Law Associates
ATTORNEYS-AT-LAW

7R6

Sri Lanka Banks' Association (Guarantee) Limited

Chairperson : Kapila Ariyaratne
Secretary General : Ravi De Silva
Tele : 2345230 E-mail : slba@slba.lk

Ceylinco House, Mazzanine Floor
69, Janadhipathi Mawatha,
Colombo 1, Sri Lanka.

31ST March 2022

Confidential

The Governor
Central Bank of Sri Lanka
Janadhipathi Mawatha
Colombo 1

Dear Governor

SLBA Board Decision (30th MARCH 2022) - Recommendations to CBSL to Stabilise FX Rate

The SLBA is concerned that foreign currency transactions are being carried out around LKR300/- per US Dollar at present in spite of the directions issued by CBSL allowing the market to operate on free float basis, with an indicative rate of LKR230- per US Dollar. It is reported that some transactions, albeit of small value, have taken place above the LKR 300- threshold.

While acknowledging the shortage of foreign currency in the market compared to the heavy demand which is causing the local currency to be depreciated rapidly and continuously without a significant improvement in US Dollar inflows, SLBA Board of Directors recommend that CBSL should intervene to maintain the buy / sell range between LKR294- and LKR299- per US Dollar- with immediate effect.

The SLBA Board of Directors also recommend to CBSL that;

a) stern action be taken against FCY black-market operators who are causing significant damaging the national economy and banking system.
b) support of the export community be solicited to finance the urgent fuel and gas import requirements by the conversion of a reasonable proportion of their FCY deposits to be applied directly to meet urgent fuel and gas import requirements. This will also help stabilize the exchange rate pending the longer term arrangements that the CBSL / GoSL are engaged in setting up.
c) That CBSL dissuade state sector organizations from reaching out directly to exporters to acquire USD at rates higher than those offered by the Banks

We trust that CBSL will consider the recommended actions as soon as possible given the urgency to control the rapid depreciation of the LKR currency.

Sincerely,

Kapila Ariyaratne
Chairperson
SLBA

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CENTRAL BANK OF SRI LANKA

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Saravanan Neelakandan
Law Associates
ATTORNEYS-AT-LAW

03.06.2022
Our Ref: 33/04/012/0012/005

To: Chief Executive Officers of All Licensed Banks

Middle Rate of USD/ LKR Spot Exchange Rate and Variation Margin – 03.06.2022

This refers to the Operating Instructions on Managing Intraday Volatility of the Exchange Rate (Our ref: 33/04/012/0012/004) issued on 12.05.2022.

All Licensed Banks (hereafter referred to as LBs) are required to use ***Rs. 360.30*** as the middle spot exchange rate of the USD/LKR interbank transactions and the upper margin at +Rs. 1.00 and the lower margin at -Rs. 4.00 of the middle spot exchange rate on ***03.06.2022.***

Rates applicable to other currency transactions against the Sri Lankan rupee should also be derived based on the above USD/ LKR middle spot exchange rate and the variation margin.

Sgd./ **Dr. P. Nandalal Weerasinghe**
Governor
Central Bank of Sri Lanka

PRESS RELEASE

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Issued By Communications Department
Date 06 June 2022

The Current Exchange Rate Arrangement: Background, Positive Impact thus far, and Expected Outcomes

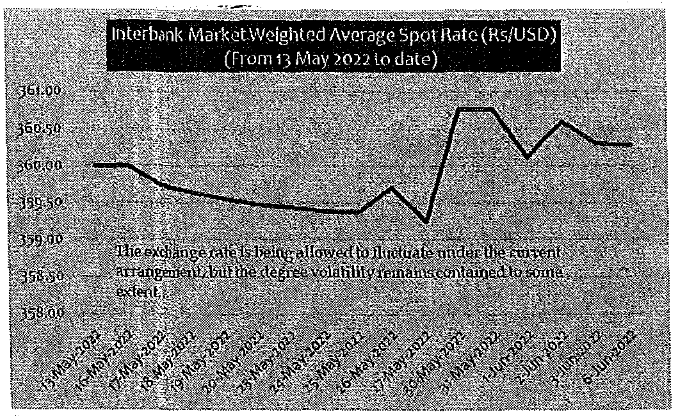
This note is intended to explain to the general public the background to the current exchange rate arrangement, and the positive impact it has already made, and expected outcomes in the period ahead.

The country is facing extremely challenging economic circumstances at present while it is going through the worst balance of payments crisis in history. The Sri Lanka rupee was subject to tremendous depreciation pressure, amidst the shortage of foreign exchange liquidity in the domestic foreign exchange market, warranting a measured adjustment in the determination of the exchange rate in early March 2022, compared to the level that prevailed in the market amidst concerns about the adverse impact of any large depreciation of the exchange rate on the society. However, the outcome of the exchange rate flexibility that was thereafter allowed following the initial measured adjustment fell short of expectations due to the large overshooting by market forces, reflecting the significant liquidity pressures that prevailed in the domestic foreign exchange market as well as the delay in market correction. This behaviour of exchange rate since allowing more flexibility in March 2022 suggests the need for careful sequencing of measures when allowing flexibility in exchange rate under balance of payments crisis conditions.

Following the excessive depreciation, inflation accelerated significantly through imported prices, while second-round effects of such excessive depreciation on other goods and services were also observed subsequently. Moreover, due to the acute shortage of foreign exchange in the domestic foreign exchange market, along with continuous depreciation of exchange rate, the conversions of foreign exchange by the foreign exchange holders delayed due to expectation of further depreciation and high premium offered in the grey market, thus adding further pressures on the currency. Meanwhile, the demand for foreign exchange in the grey market thrived to part finance rising import demand outside the banking system, causing further pressures on the currency as well as heightening stresses in the banking system. This significant volatility of the exchange rates drove up the interbank exchange rates as well as customer buying and selling rates in an abrupt nature, causing undue speculation on the currency.

8. Against this backdrop, limiting the extent of depreciation and excessive volatility became necessary. If remained unresolved, such boundless rate of depreciation of the exchange rate could have led to extremely detrimental impact on overall macroeconomic stability, given the severity of the balance of payment crisis that the country is going through at the moment. Further, during the discussions with the Heads of Treasuries of licensed commercial banks, the need for some guidance to the market from the Central Bank on the degree of volatility of the exchange rate movements was emphasized, while the commercial banks have the prerogative to determine the interbank spot market exchange rate.

In consultation with the market players, the Central Bank commenced providing daily guidance on the degree of volatility (with an allowable two-sided variation margin) to all licensed commercial banks from 13 May 2022 based on exchange rate determined in the interbank market on the preceding day. Although this arrangement is often misinterpreted as 'pegged exchange rate' regime, there are clear distinctions between the current transitory arrangement and the pegged exchange rate system. Under the pegged exchange rate regime a fixed middle rate is usually dictated by a central bank, while market driven variable spot rate being considered as the middle rate under the current arrangement. The implementation of this arrangement has brought in a greater stability in the exchange rate determination in both formal market and grey market thus far, while also minimizing excessive margins prevailed in both markets, and the effects of the same are expected to reflect in the exchange rates used for customer transactions. According to the feedback received from the stakeholders, there exists broader consensus on the current arrangement of the exchange rate, which is market driven with less volatility and more predictability, compared to the earlier arrangement, which experienced excessively volatile of the exchange rate driven more by speculation rather than market forces and economic fundamentals.



The Government and the Central Bank implemented several complementary measures, alongside the current exchange rate arrangement, to correct some of the imbalances observed in the external sector, thereby bringing about stability in the domestic foreign exchange market. Restrictions imposed on open accounts and consignment payments terms have helped curtail activity in the grey market, thereby narrowing the gap between the official exchange rate and the grey market rate. Accordingly, the current exchange rate arrangement is viewed as a more credible mechanism, vis-a-vis an arrangement where grey market activity could operate freely. Consequently, inflows on account of workers' remittances to the banking system have gathered pace since the introduction of the new exchange rate arrangement, while conversions have improved. Import expenditure has declined notably in May 2022, compared to April 2022, according to provisional data from Sri Lanka Customs. Despite the reduction in import expenditure, all possible measures would be taken to secure availability of essential commodities with the expected inflows from multilateral and bilateral sources to the banking system in the period ahead. Given the degree of overshooting of the exchange rate in March 2022, a further market based correction is expected with the deceleration of non urgent import expenditure, alongside increasing inflows to the banking system in terms of workers' remittances and export proceeds on goods and services, among others.

This improved momentum in the domestic foreign exchange market is expected to consolidate with the progress being made towards reaching the staff level agreement with the International Monetary Fund (IMF) on a funding arrangement, along with the negotiations for bridging finance from other multilateral and bilateral partners. The Central Bank would like to reiterate that the current arrangement of exchange rate would be reviewed from time to time, and further flexibility would be allowed if need be, once market confidence is restored, supported by envisaged foreign exchange inflows to the country.

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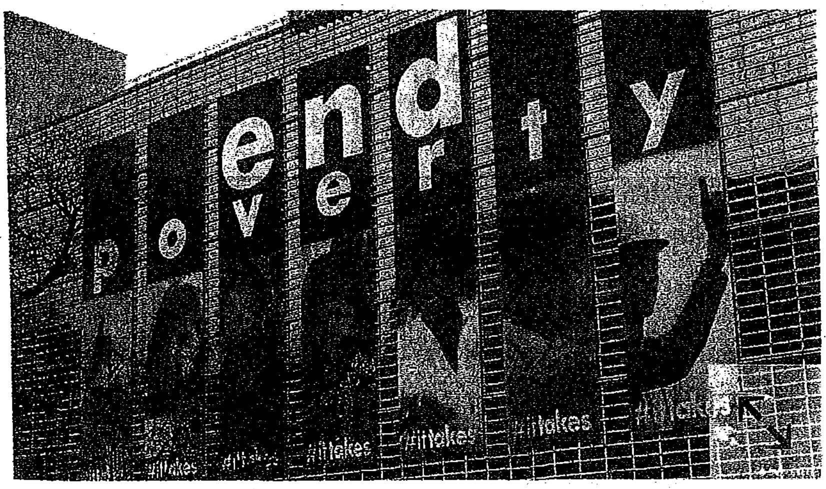
IMF bailouts — roads to stability or recipes for disaster?

By Uwe Hessler | 04.09.2018



The International Monetary Fund (IMF) has been described as the lender of last resort for countries in financial distress. But the stiff medicine doled out by the fund is still subject to huge controversy.

Following the ravages caused by World War II, the International Monetary Fund (IMF) was originally established to allow countries with payment deficits to borrow money temporarily and repay their debt to others. The hope was that this would create financial stability, foster global cooperation, facilitate trade and growth, as well as reduce poverty.

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Now, more than 74 years later, the debate about the methods used by the IMF to achieve its goals continues to thrive. Proponents of IMF bailout programs claim that the liquidity provided and the reforms demanded are preventing more extreme financial hardship.

But the opponents argue that their ingredients make troubled countries more dependent on IMF aid and their populations poorer. Allan Meltzer, a renowned economist at Carnegie Mellon University, who died last year, once said: "IMF's programs drive a large wedge between the social risk — the risk borne by the troubled country — and the private risk borne by bankers."

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RELATED SUBJECTS

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IMF Managing Director Christine Lagarde is still convinced that tough austerity measures need to go along with financial bailouts to make struggling economies fit for global competition

The 'Washington Consensus'

Researchers have found that IMF programs were relatively successful especially in the lenders' early years. Mohisin S. Khan, IMF director for the Middle East and Central Asia, for example, has looked into the bailouts for 69 developing countries during the period of 1973 to 1988. He found that the IMF programs' short- and long-term impacts were largely positive on the countries' current accounts, balance of payment and inflation figures. Among those rated as "IMF success stories," were loan programs for Mexico in the 1980s, as well as for India and Kenya.

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In response to the Latin American financial crisis in the 1990s, however, the

IMF changed its policy, implementing what's become known as "the Washington Consensus" — a policy demanding structural reforms that increased the role of market forces in exchange for immediate financial help.

Originally set out by British economist John Williamson in 1989, the principles included lower government borrowing to discourage high fiscal deficits, cuts in government subsidies and lower corporate taxes.

Other "structural adjustments" recommended were freely-floating currency exchange rates, free trade policies, relaxing rules that hamper foreign direct investment and competition, as well as the privatization of public assets.

Read more: IMF: 'Arab states need to address debt issue'

The neoliberal economic policies proposed in the Washington Consensus have since become pillars of bailout conditions enforced not only by the IMF, but also by its Washington-based offspring, the World Bank.

During the Greek debt crisis, the IMF has become the prime target for peoples hatred

One size fits all

Joseph Stiglitz, chief economist at the World Bank between 1997 and 2000, had serious doubts about the viability of the new doctrine. Although noting at the time that this policy was appropriate for some Latin American countries, it "didn't make sense to apply it blindly to other countries."

Stiglitz also said that although the IMF was funded by money from taxpayers, it was not held accountable to their interests, "which clearly identifies the problem of governance as one of the prime problems with the IMF for taxation without representation."

In 1995, Mexico was hailed as a shining example of the IMF's new policy, as the country had repaid a bailout package to the tune of $52 billion (€45 billion). But it would take only a few years that its failures became obvious.

Mexico's citizens suffered a sharp decline in real per capita income, which in 1998 had fallen back to a level last seen in 1974. From the end of 1994 to the end of 1996, Mexico added $560 billion to its total external debt because the government bailed out mainly commercial banks to the tune of $545 billion by buying all their bad loans.

Some economists even regard the legacy of the bailouts in Latin America as the beginning of the financial crisis in Asia in the late 1990s. They claim that the IMF had sent a clear signal to the world that if anything goes wrong, the lender would come to the rescue of investors.

Argentina has been in permanent crisis mode for the past two decades. While former president Cristina Fernandez tried to sit out the debt crisis by refusing to repay the loans, current president Mauricio Macri seeks to colaborate with the country's creditors — similarly to no avail as the crisis has returned

Asia crisis made worse

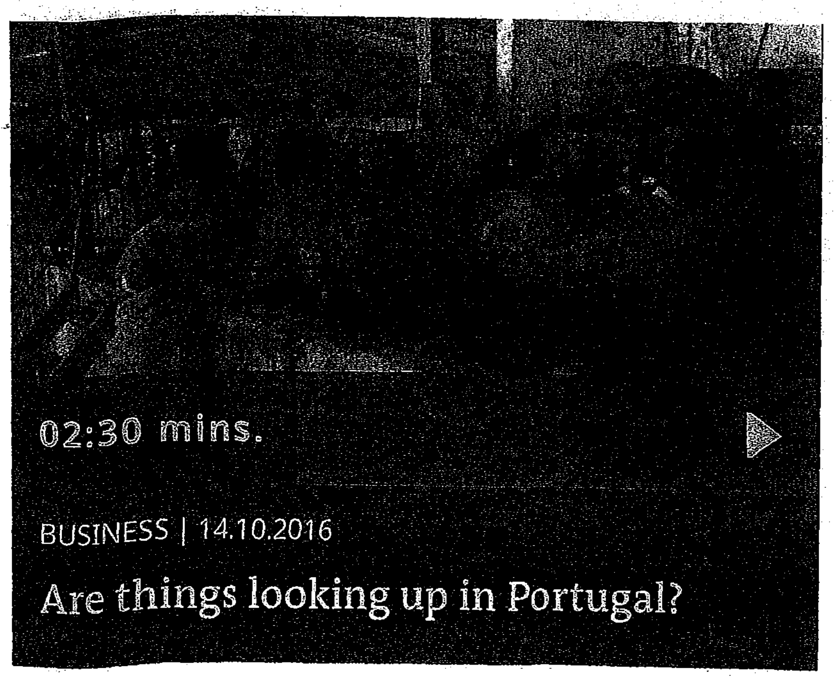
The late 1990s Asian financial crisis was caused in large part by South Korea, Thailand, the Philippines, Malaysia and Indonesia's heavy reliance on short-term foreign loans and openness to hot money. When it became apparent in 1997 that private enterprises would not be able to meet their payment obligations, international currency markets panicked and Asian currencies plummeted.

The IMF treated the Asian meltdown like other emergency situations, giving assistance only in exchange for structural adjustment policies. The Fund instructed governments to cut spending, with the result that this deepened the economic slowdown.

In South Korea, for example, a country whose income approaches European levels, unemployment skyrocketed from approximately 3 percent to 10 percent. "IMF suicides" became common among workers who had lost their jobs and dignity.

In Indonesia, the worst-hit country, poverty rates rose from an official level of 11 percent before the crisis to 40 to 60 percent, and GDP declined by 15 percent in one year.

Malaysia stood out as a country that refused IMF assistance and advice. Instead of further opening its economy, Malaysia imposed capital controls, in an effort to eliminate speculative trading in its currency. While the IMF mocked this approach when adopted, the Fund later admitted that it succeeded.



Eurozone sovereign debt crisis

Regarding the 2010 sovereign debt crisis in the eurozone, even the IMF's own independent watchdog was hugely critical of the lenders' approach. In a 2016 report, the Independent Evaluation Office (IEO) said the IMF was guilty of "over-optimistic forecasts failed to spot the scale of the problem and left the impression it is treating Europe differently."

The crisis, which began in Greece but spread to Ireland, Portugal, Spain and Cyprus, brought the 19-member currency union to the brink of collapse and enormous hardship to the people.

Despite three bailouts totaling €298 billion, unemployment in Greece, for example, remains stubbornly high at 22.5 percent. There, the minimum wage has fallen from €863 to €684, while government spending on health almost halved.

But Greece's creditors from the IMF and the European Union continue to demand that Athens spends less than it earns, in order to create the surpluses needed to repay its debt.

THE GREEK DEBT CRISIS: A BRIEF HISTORY

Greek crisis takes form

On the heels of a global financial crisis, Greece's then-prime minister, George Papandreou, revealed in 2009 that the budget deficit was over 12 percent, double what it was previously thought. It was later revised to 15 percent, far exceeding the eurozone's 3-percent limit. The revelation prompted credit rating agencies to downgrade Greece's status, making it hard for Athens to get financial help.

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Insights into the IMF bailout debate: A review and research agenda

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Abstract

News reports of the International Monetary Fund's (IMF) activities abound in most countries across the globe yet there is little consensus in the literature as to the effectiveness of the IMF's work. The purpose of this study is to provide a systematic review of the IMF literature that identifies the effects of IMF bailouts from the 1970s to the present. We investigate significant elements and consequences of the IMF's bailout policies and implementation approaches such as bailout effectiveness, moral hazard, conditionality, leadership, governance and the sustainability of IMF policy. Based on our review, we develop the 'Spiral of Doom' framework and argue that the effectiveness of the austerity package attached to bailout funds is questionable because the design of the package overlooks the recipient country's unique economic status and cultural background. We then propose financial engineering solutions as an alternative to IMF bailouts which it is envisaged may minimize the moral hazard problem associated with bailouts.

Keywords: Bailout; Conditionality; Effectiveness; Economic growth

1. Background

The International Monetary Fund (IMF) was established in 1944 to promote international economic cooperation and provide its member countries with short-term loans if they experience a financial crisis or a shortage of liquidity for international trading. In return, bailed-out countries are required to implement a series of economic reforms in line with IMF policy. Debates about

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the appropriateness of the IMF bailouts continue to thrive. Opponents of IMF bailouts argue that they make troubled countries further dependent on the IMF (Bandow & Vasquez, 1994; Corsetti, Guimaraes, & Roubini, 2006), while proponents claim that the liquidity supported by the IMF is crucial in preventing extreme financial consequences. Yet studies addressing the adoption of IMF bailouts are largely independent of those that address the effectiveness of the IMF. This lack of integration within the research could be fueling the inconsistencies in the literature addressing IMF bailouts.

The purpose of this study is to expand on the current literature by investigating several important, yet under-researched, elements related to the IMF's bailout policies and implementation approaches, including leadership, governance and the sustainability of IMF policy. For example, IMF bailout policies typically have a short-term focus. Recipient countries are forced to implement economic reforms to return their budgets to surplus in a short period of time. However, in the long term, tough austerity packages may further deteriorate the weak economies of recipient countries. Additionally, IMF bailout policies are overly rigid as they fail to accommodate a recipient country's economic status and cultural background as part of the bailout design and implementation process. In 2012, the Governor of the Malaysian Central Bank, Zeti Akhtar Aziz, stated that 'The adjustment, the austerity and consolidation of the fiscal position has to be done gradually because any drastic prescription or conditionalities would drive the country into a new phase of economic recession and this would increase the cost to the economy and make recovery potentially more remote'. In this regard, indebted countries, such as Greece, should be given more time to implement reforms and clean up their finances; an overly stringent austerity drive could push such countries into a prolonged recession and make recovery even more unlikely (Chua, 2012). This is evidenced in Greece's painful experience over the past few years, which has resulted in the country defaulting on its 1.6 billion euro debt payment to the IMF, which in turn will likely lead to its exit from the European Union (EU) zone and possibly even the EU. Consequently, the European Central Bank (ECB) has expended emergency funding to the Greek banks as the Greek people withdrew billions from their savings accounts.

In light of the above discussion, our research seeks to address the following research question: In what way, if any, do IMF bailouts contribute to a country's financial recovery and stability?

The extant literature is inconclusive as to whether IMF bailouts are effective. This study reviews the critical issues related to IMF bailouts and offers constructive resolutions for the following four issues:

Issue 1: One of the key issues concerns the effectiveness of IMF bailouts and whether they significantly improve a country's economic performance and financial stability.

Issue 2: The IMF is criticized for forcing recipient countries to adopt policy reforms without considering the difference in economic status, business environment and culture among countries. The short-term focus of the austerity package may damage the economic development of bailed-out countries in the long term. In addition, frequent bailout actions can lead to moral hazard.

Issue 3: Corporate governance plays an important role in economic development and investor protection. We posit that countries whose leadership adopts sound corporate governance systems are more likely to recover from an economic crisis and return to economic stability.

Issue 4: Evidence shows that financially stressed nations are bailing out other financially stressed nations with borrowed money. The IMF obtains money from various nations that are themselves drowning in debt. The five largest contributors to the IMF are the United States (16.75%), Japan (6.23%), Germany (5.81%), France (4.29%), and the UK (4.29%)—all of which, unfortunately, are in debt. So what happens when the contributor nation runs out of money and is no longer able to contribute? For how long can this situation continue before the entire system collapses? Such concerns add more credence to the argument that new ways and approaches to fund IMF bailouts are required.

To address the research question and four issues raised above, this study undertook an examination of research in the areas of management, finance, social science, government and the media that focused on the IMF's financial assistance activities between 1970 and 2015. This involved a review of over 1300 academic studies and reports. Based on the criteria for the selection of papers examining the effect of the IMF aid programs, and to ensure the integrity of the research methodology, these papers and reports were reduced to approximately 700 academic studies and official reports drawn from various governments and the IMF. These documents then, progressed for inclusion in the second stage, entailing a category theme analysis (Aronson, 1995). Thematic coding was developed inductively and the studies were categorized by dependent and independent variables. The findings generated an understanding of the constructs and their relationships, which facilitated the development of the study's framework.

The following sections focus on the effectiveness of IMF bailouts, the moral hazard issues surrounding IMF bailouts, the effectiveness of the conditionality of the IMF package, the corporate governance of IMF and debtor countries, and the financial engineering of IMF bailouts. Based on the existing literature, a bailout model is then developed. The final section provides a short summary of the research findings and suggestions for future research.

2. Literature review

2.1. *The effectiveness of the IMF bailout*

For decades, the IMF assumed the role of rescuer of financially troubled countries. However, it does not hold a convincing record of enabling countries to return to financial health and stability (Johnson & Sweeney, 1997; Bordo & Schwartz, 2000; Corsetti et al., 2006). Evidence suggests that IMF bailouts might lead to moral hazard, implying that debtor governments tend to have more aggressive economic policies, leading to a higher chance of receiving an IMF bailout in the future (Dreher, 2004; Corsetti et al., 2006; Lee & Shin, 2008). IMF programs have three components: financing packages, structural reforms and macroeconomic policies. These three elements are inseparable as together they form a single offer of assistance, known as an IMF-supported program.

The effects of an IMF bailout are well documented. However, the empirical evidence is varied and inconsistent. Empirical studies employ different methodologies, use a wide variety of samples spanning a number of time periods and ask different questions when examining how the IMF program affects the economic performance of indebted countries. The popular approaches to assessing the effects of IMF intervention are based on an examination of the economic performance of bailed-out countries before and after the IMF intervention or comparisons between countries that do and do not receive such assistance (Steinwand & Stone, 2008). Existing studies cannot provide a conclusive answer as to whether IMF programs influence the economic growth of indebted countries (Dreher, 2006). Mixed findings are reported in the literature, identifying positive and negative relationships, as well as no relationship, between the IMF bailout and the economic performance of bailed-out countries.

For example, in support of the benefits of IMF programs, Reichman and Stillson (1987), and Conway (1994), assert that the IMF provides significant benefits to a bailed-out country's economic output. Based on data drawn from 69 developing countries during the period 1973–1988, Kahn (1990) reported that IMF programs have short- and long-term positive impacts on the performance of the current account, the balance of payment, and inflation. This finding is consistent with the conclusions presented by Bagci and Perraudin (1997) and Dicks-Mireaux, Mecagni, and Schadler (2000). Some studies found that the IMF bailout is effective when the debtor country makes the necessary policy adjustments (Morris & Shin, 2006). Moreover, various researches identified that the IMF intervention induces short-term creditors to roll over where IMF programs significantly increase the probability of local currency depreciation (Dreher & Walter, 2010).

In contrast, most studies find that the IMF bailout has a negative effect on the economic performance of recipient countries. For example, Bordo and Schwartz (2000) analyzed the annual data from 11 Latin American and 13 Asian countries for the period 1973–1998 and found that the performance of recipient countries was worse after they received assistance from the IMF. Analysing data from 98 countries over the period 1970–2000, Dreher (2006) found that the overall impact of an IMF bailout is negative. Such a negative impact might be due to either the provision of inappropriate advice by the IMF or the occurrence of moral hazard issue as a result of the IMF bailout. Drawing on data from 130 countries over the period 1975–1999, Barro and Lee (2005) also reported that the IMF bailout has a negative impact on the economic growth of bailed-out countries. In addition, they found that the IMF's decisions on which countries will be given a loan are highly politically driven. Loans tend to be larger, and more frequent, if the recipient country: (1) has a bigger representation among IMF staff; and (2) is more politically and economically connected to the US and major European countries. More recently, analyzing data from 57 developing and emerging economies for the period 1975 to 2008, Jorra (2012) argued that an IMF program cannot improve the economic performance of bailed-out countries. Furthermore, his empirical evidence shows that IMF bailouts significantly increase the probability of subsequent sovereign defaults by approximately 1.5–2%.

However, a few studies identified no significant economic results attributable to IMF bailout interventions. For example, Donovan (1982) investigated the macroeconomic performance of countries associated with IMF programs during the period 1971–1980, and found that these countries experienced a significant balance of payments improvement, yet their economic growth rates were not significantly improved. Atoyan and Conway (2005) investigated the effectiveness of IMF programs in 95 developing countries for the period 1993–2002, and identified that IMF programs do not significantly improve real economic growth in participating countries in the short term. However, evidence of an improvement in economic growth in these countries was found in the years following involvement in a program. Similarly, Easterly (2005a,b) failed to find any remarkable economic growth associated with 56 IMF and World Bank adjustment loans to Argentina, Cote d'Ivoire and Ghana between 1980 and 1999. Evrensel (2002) found that the macroeconomic situations of recipient countries were worse after involvement in the program, and that the occurrence of moral hazard might be a major cause of program failure. Zwart (2007) claims that support from the IMF can be both positive and negative for recipient countries. On the one hand, financially troubled countries may access liquidity to address their budget problems in the short term and facilitate market functioning. On the other hand, support is always associated with conditionalities. In addition, timing is a key variable. When the IMF and investors act simultaneously, the liquidity effect means that the IMF is consistently successful since the negative signaling effect of the loan is necessarily absent. Similar findings are observed in many other studies (Hardoy, 2003; Nsouli, Mourmouras, & Atoian, 2005). Jorra (2012) concludes that debt crises would become less likely in a world without IMF intervention.

Perhaps the inconsistency in the literature is a key reason for the growing interest among researchers investigating the effectiveness of international official lending. This also includes the identification of an appropriate research methodology which to date, remains a significant challenge for researchers in this area. Dreher (2006) summarized the three popular methodological approaches employed in IMF bailout studies. The first approach is to compare the economic performance of bailed-out countries before and after their participation in an IMF program. However, participating countries are not exogenous, and are usually experiencing crises. Therefore, studies are more likely to observe negative findings. In the second approach, researchers employ control countries as external benchmarks to investigate the effectiveness of the IMF program. Ideally, for each program country there should be a control country with which it shares similar economic fundamentals. However, it is difficult to find a perfect match because the economic status of bailed-out countries normally differs greatly from that of non-recipient countries (Santaella, 1996). Even if the control group were carefully chosen according to economic indicators, the most important difference could not be accounted for: the decision to negotiate an IMF program in the first place (Dreher, 2006), which is an endogenous choice. Atoyan and Conway (2005) suggest that control countries be selected based on the probability of their participation in an IMF program. However, time is needed to evaluate the suitability of this approach. The third research approach uses regression analysis to assess the effectiveness of IMF programs, and has been more widely adopted in recent studies. However, this approach only functions effectively if control for the endogeneity of IMF lending variables is taken into account.

Steinwand and Stone (2008) argue that sample selection is a fundamental methodological issue in research addressing IMF bailouts. Previous studies ignore the fact that IMF programs and bailed-out countries are not randomly selected. Therefore, it is unfair to blame the IMF when bailed-out countries are vulnerable to financial disaster. In addition, even when IMF programs are ineffective, it is difficult to identify whether that failure is due to the program design, implementation approach or the vulnerabilities of bailed-out countries. Jorra (2012) points out that IMF programs might be detrimental to fiscal solvency if the bailed-out countries are associated with weak economic fundamentals, implying that we can blame either the IMF or the bailed-out countries for the failure of international financial rescue efforts. If it is the IMF's fault, we need to re-examine the design, conditionality and implementation approach of the IMF rescue package. Otherwise the responsibility lies with debtor countries, due to their poor economic fundamentals.

2.2. Moral hazard

Moral hazard poses another major concern within studies in this field. Generally speaking, the term 'moral hazard' refers to the situation where in the provision of insurance leads to the insurant taking actions that increase the probability of an adverse outcome (Dreher, 2004). Similarly, Lee and Shin (2008) explain that a person in this situation has less incentive to maintain the insured asset properly, which might increase the probability of undesirable results. As a result, investors and governments treat financial support from international official organizations (such as the IMF or the World Bank) as a form of insurance against adverse shocks. Lee and Shin (2008) argue that repeated financial support from the IMF or World Bank encourages investors to lend excessive amounts to troubled countries with a low interest rate, which does not accurately reflect the underlying risks associated with those countries. In other words, financial support from international organizations actually indirectly encourages investors and governments to behave irresponsibly, which may lead to further future crises.

Moral hazard may be further divided into debtor moral hazard and creditor moral hazard. Debtor moral hazard, on the one hand, occurs when debtor countries receive IMF-subsidized loans with interest rates that are much lower than the market rate, which encourages the governments of said countries to adopt irresponsible policies. Creditor moral hazard, on the other hand, suggests that the recurring financial support from the IMF or World Bank provides strong incentive to investors to behave aggressively in the financial market. However, some studies argue that IMF support does not generate serious moral hazard because the IMF bailout package is relatively small compared to the creditors' investment amount (Mussa, 2004; Jeanne & Zettlemeyer, 2004).

Empirical research investigating moral hazard generates a number of difficulties. First, it is difficult to quantify moral hazard, because the excessive risk-taking behavior of creditors and debtors cannot be directly observed and measured. Second, it is difficult to separate the effects of IMF intervention from those of other macroeconomic factors (Lee & Shin, 2008). For example, modern financial crisis can easily spread from one country to another, leading to investor panic or even crisis contagion. As a result, the increased investment risk will offset the reduction of bond spread of bailed-out countries due to the occurrence of moral hazard. Additionally, IMF bailout activities encourage investors and debtors to behave more aggressively, which leads to a radical change in market conditions and country economic fundamentals. In this regard, how to control for important market conditions and country economic fundamentals in empirical studies remains a challenge for researchers. In addition, IMF intervention itself is an endogenous factor that is dependent on the decisions of debtor countries and the IMF, as well as global economic and political circumstances. As a result, it is understandable that we cannot find many empirical studies in this field. Researchers normally employ the change in interest rates and bond spread as a proxy for moral hazard. Therefore, it is logical to assume that IMF intervention will reduce the potential for default among debtors' and encourage investors' irrational lending, and therefore reduce the borrowing costs of debtors.

Arguably, Zhang (1999) conducted the first empirical study to investigate the moral hazard associated with IMF programs. His study specifically addressed whether the IMF package triggered moral hazard among investors after the Mexican bailout in 1995. However, the relationship between the change in bond spread and the bailout dummy variable was insignificant, implying that the variation of bond spreads was mainly due to the change in international capital market conditions rather than the IMF bailout. Similarly, Kamin (2004), Noy (2004) and Lane and Phillips (2000) failed to find significant empirical evidence to support the presence of moral hazard.

Some studies, however, do argue for the occurrence of moral hazard among investors. For example, the empirical findings of Eichengreen and Mody (2001) support the existence of moral hazard, and these authors assert that the IMF rescue program significantly reduces debt countries' bond spreads and increases the probability of bond issuance. Eichengreen and Mody argue that the IMF program is welcomed by the market, and is viewed as a commitment to reform by debtor countries. Dell'Ariccia et al., 2002 reported that sovereign bond spreads in emerging markets increased dramatically in 1999 and 2000 after the IMF decided not to bailout Russia in 1998, citing the risk of moral hazard. Examining 116 banks from 16 countries for the period July to December 1996, Lau and McInish (2003) identified that IMF bailouts had a positive impact on banks' market performance in bailed-out countries. Lee and Shin (2008) further confirm the existence of moral hazard by using a dataset covering 18 emerging countries for the period 1998–2000.

To separate moral hazard from other factors that influence market spreads, alternative approaches are employed to measure investor moral hazard instead of changes in bond spread. For example, Haldane and Scheibe (2003) used the change in market valuation of creditor banks as a proxy for moral hazard. They found that market valuation of UK banks is positively and significantly associated with large-scale IMF loan packages, suggesting that investor moral hazard does exist, which is consistent with the findings reported by Gai and Taylor (2004). It is worth noting that Mumssen et al. (2013) examined the effects of short- and longer-term IMF engagements and found that longer-term IMF support (at least five years of program engagement per decade) assisted Low-Income Countries (LICs) maintain sustainable economic growth. In addition, short-term IMF engagement through augmentations of existing programs or emergency facilities is associated with a wide range of positive macroeconomic outcomes within LICs.

However, the findings are far from conclusive, which is primarily due to the flaws in the research methodologies used in these studies from our perspective. Dreher (2004) argues that using dummies to capture change in the degree of moral hazard is not a suitable approach because one of the key assumptions underpinning this approach is that the economic fundamentals of recipient countries remain steady during the crisis period—which is simply not the case. In addition, the economic fundamentals employed in the empirical analysis are exogenous because their fluctuation largely depends on the availability of IMF funding. Third, the selection of event window for IMF studies is not consistent and very subjective—ranging from a few days to several years. Moreover, the empirical findings of short- and long-term studies are inconsistent. Therefore, short- and long-term moral hazard needs to be further investigated. Fourth, it is worth noting that various studies examine the moral hazard issue by investigating the relationship between IMF bailouts and the political connections of bailed-out countries. In this regard, Barro and Lee (2005) found that the IMF's lending decisions are highly politically driven. Similarly, Lee and Shin (2008) claim that moral hazard cannot be prevented by the IMF as long as the major shareholders of the IMF, such as the US, are in favor of bailing out countries that are more politically connected.

In short, with respect to moral hazard, the empirical evidence is far from conclusive. The mixed empirical findings are primarily due to methodological issues, such as the measure of moral hazard, and the choice of events and event windows. However, Dreher (2004) concluded that IMF bailouts do cause moral hazard among investors because the evidence from stock market studies is consistently positive and significant. Mussa (2004) and Jeanne and Zettlemeyer (2004) pointed out that empirical research in to moral hazard is not meaningful because lowering the borrowing costs of debtor countries is the expected consequence of an IMF bailout, and not proof of moral hazard. Therefore, examining the effects of IMF lending on capital flows or borrowing costs is not an effective strategy to test for IMF-induced moral hazard. In addition, bailed-out countries are expected to run more expansionary policies than countries that have not received support from the IMF. From the perspective of avoiding moral hazard, what matters is whether IMF interest rates are fair in the sense that they cover the risks faced by the IMF.

2.3. *Bailout conditionality*

The IMF provides financial assistance to countries only if they agree to implement a series of economic policy reforms to revive and maintain a sustainable economic growth rate in the long term. Debtor countries are normally reluctant to do so because they need to give up a certain level of solvency autonomy in order to receive external financial support. Typical economic reforms include devaluing currencies, lowering tariffs, encouraging foreign investment, privatizing state-owned enterprises, and reducing expenditure on the public sector. It is fair to say that these policy reforms are mainly free-market oriented.

Recently, the IMF was criticized for forcing recipient countries to take on policy reforms without considering the difference in economic status, business environment and culture among these countries. In addition, the tough austerity package attached to bailout funds has implications for leadership at the highest level and forces governments in recipient countries to sacrifice policy autonomy, cut public spending, increase tax and retrench staff, in order to return budgets to surplus in the short term. Unfortunately, these policy reforms often lead to inactive business investment, poorer government service, severe social instability and a higher unemployment rate—all of which may damage the economic development of bailed-out countries in the long term. For example, the IMF has been criticized for being one of the major causes of the recent Ebola outbreak in Africa, because its policy of prioritizing debt repayment over domestic spending has weakened the public health infrastructure in Sierra Leone, Guinea and Liberia who were hit hardest by the epidemic. This had direct implications for the coordination of health services across these countries, including a lack of effective communication coordination and information management. Furthermore, the enforced policy reform is criticized for being a 'one-size-fits-all' approach that lacks flexibility, and fails to acknowledge the significance of context such as local economic conditions, cultures and business environments in these countries.

Empirical research into conditionality normally investigates the effectiveness of IMF bailouts from functionalist, structural and public choice perspectives (Steinwand & Stone, 2008). From a functionalist perspective, conditionality is necessary because it forces debtor countries to adopt prudent economic policies to achieve the desired effects of the IMF program. However, it is observed that recipient governments may not be willing to follow the bailout conditions, and the IMF may threaten to cut off aid if recipient governments fail to cooperate. Therefore, Scholl (2009) argued, to achieve the desired bailout outcomes, self-enforcing conditional aid strongly stimulates the economy of recipient countries. However, Dreher and Walter (2010) claimed that the conditionality of IMF loans has no impact on the outcome of IMF intervention.

In determining how to rescue bailed-out countries, structural views represent the interests of the IMF's major shareholders particularly in the US. This approach suggests that political connections play a critical role in fund allocation and conditionality. For example, Presbitero and Zazzaro (2012) concluded that political similarity with G7 countries is positively correlated with the probability of entering a loan agreement. In addition, the harsher the crisis and the exposure of foreign banks in the country, the larger will be the size of the IMF bailout. Similarly, in their investigation of 314 IMF arrangements with 101 countries over the 1992–2008 period, Dreher, Sturm, and Vreel (2015) identified temporary membership on the United Nations (UN)Security Council as representative of a country's political importance. Specifically, that such country receives softer treatment from the IMF when negotiating bailout conditions. In return, major IMF shareholders, such as the US and major European countries, may exert more political influence over the Security Council.

From a public choice perspective, conditionality serves the institutional self-interests of IMF staff. For example, Dreher (2004) argues that the conditionality associated with IMF and World Bank loans gradually increased and became inseparable. The major objective of conditionality is to promote economic growth and reduce poverty yet bailed-out countries prefer to minimize conditionality. However, in reality the IMF normally has a stronger bargaining position. Stone (2008) reports that conditionality varies widely, and the IMF would like to maximize the scope of conditionality when countries are most in need of it said. Even when the conditions attached to IMF bailouts sound perfect, unfortunately their effects are often negative. Dreher and Vaubel (2004) found that the number of conditions are negatively associated with international reserves and positively associated with interest rates in the world capital market and monetary expansion in the borrowing market. However, overall the effect of conditionality was not found to be significant in their study.

Even if the conditions of an IMF loan are well designed, the effectiveness of their enforcement may be problematic. Lack of effective enforcement of conditionality can be viewed as one of the major reasons for the failure of bailouts, and may be attributed to the political pressure exerted by major member countries. For example, Stone (2004) argued that the IMF never seriously punishes countries that do not cooperate with bailout conditions if these countries are political allies of the US. In a similar vein, Kilby (2009) found that it is difficult for the World Bank to impose strict structural adjustment conditionality on countries that are friendly with the US. Similar findings are reported by Stone (2008) and Dreher, Jan-Egbert, and Vreel (2009).

Recently, performance-based aid was proposed as an alternative to the failed traditional conditionality approach. This would entail the IMF or World Bank, instead of committing fixed amounts of aid on a country-by-country basis, linking 'the allocation and disbursement decision by committing the aggregate amount to a group of countries, but where the actual amount disbursed to each individual country depends on its relative performance' (Svensson, 2003:384). The fundamental objective of this approach would be to strategically improve the overall effectiveness of the aid provided by international organizations. In addition, the IMF and World Bank could choose when and which country to assist based on favorable economic conditions for a bailout. Furthermore, competition among recipient countries might result in an overall improvement in the conditions in terms of supporting an effective use of aid (Öhler, Nummenkamp, & Dreher, 2012). This approach sounds idealin theory. However, empirical evidence of its effectiveness remains limited. For example, Scholl (2009) claimed that self-enforcing conditional aid strongly stimulates economic development by substantially increasing welfare in recipient countries. However, assessing the effectiveness of self-enforcing conditional aid is costly, particularly in ensuring enforceability of less benevolent political regimes which receive large aid funds in return for less stringent conditions. Öhler et al. (2012) found that the incentive to cooperate among recipient countries gradually weakens overtime when the timing and magnitude of aid are uncertain.

In short, the effectiveness of bailout conditionality is clear, and only 20% of loans were repaid in full in the period 2005–2009, based on are port published by the Development Assistance Committee of the Organization for Economic Co-operation and Development (OECD) (Öhler et al., 2012). In addition, as mentioned above, conditionality has multiple objectives rather than being purely economically driven. Vreeland (2006) and Dreher (2009) argued that IMF compliance is not straightforward because IMF agreements span many dimensions, which vary from agreement to agreement. Therefore, a new research methodology is required to clarify the issue. Furthermore, the IMF has never comprehensively reported on the non-compliance of recipient governments. Instead, it frequently waives its program obligations. Consequently, debtor countries have no motivation to implement the predetermined economic reforms or fulfill the conditions of their aid (Svensson, 2003). Thus, as Heckelman and Knack (2008) concluded, such aid may even slow policy reform.

2.4. Leadership and corporate governance

Globalization creates opportunities or challenges for countries, depending on their economic status. Leaders and policy-makers, through corporate governance, seek to adopt structures and institutions that promote economic and social dynamism (Weber, Davis, & Lounsbury, 2009). Leadership and corporate governance are intertwined in terms of their influence on accountability and regulation. The knowledge that leaders possess and disseminate to their boards is viewed as a key element in any country's development and learning (Ellerman, 1999). This is due to the fact that leadership extends beyond policy and is embedded in the engagement between the state and its agencies, and in turn between the state and the population (Mayosi et al., 2012). Countries that come to the rescue of less fortunate countries via the IMF often do not have a good understanding of the recipient country's status or the purpose of the IMF bailout package. In this regard, the characteristics of leadership are specific to each country's context and hence corporate governance policy, procedure and practice. While the leadership literature is extensive, the corporate governance literature is limited in terms of an understanding of the governance structures and systems that enhance optimal organizational performance (Daily, Dalton, & Cannella, 2003).

To some extent, the role of corporate governance in financial markets is well documented (Shleifer & Vishny, 1997; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998, 2000). The key objective of corporate governance is to provide good returns to investors on their financial investments (Shleifer & Vishny, 1997). The legal protection of investor rights is considered to be one of the key priorities within corporate governance, and countries with good corporate governance systems usually provide better protection to investors (La Porta et al., 2000). Drawing on financial crisis studies, Johnson, Boone, Breach, and Friedman (2000) argue that poor corporate governance had a significant effect on the extent of currency depreciation and stock market declines during the Asian Financial Crisis (AFC). Their findings indicate that countries with weak legal protection of shareholder rights and poor enforcement are more susceptible to a fall in asset values and a collapse of the exchange rate. The notion that a weak corporate governance system was one of the major causes of the AFC is supported by Eiteman, Stonehill, and Moffett (2001). The failures and weaknesses of corporate governance arrangements constitute one of the major causes of the 2008 Global Financial Crisis (GFC), as the existing corporate governance mechanisms failed to safeguard investors' interests against excessive risk-taking in a number of financial services companies (Kirkpatrick, 2009). Financial firms with dominating shareholders performed worse during the 2007–2008 financial crisis (Erkens, Hung, & Matos, 2012), yet banks with sound risk management structure performed better during this crisis (Aebi, Gabriele, & Schmid, 2012). In relation to the country-level studies, Li and Moosa (2015) claim that countries with weak governance systems are more likely to be associated with greater operational losses in terms of both frequency and severity. It is argued that corporate governance systems serve as an effective enforcement tool for bailed-out countries to restore their economies and financial markets after bailouts. Countries with leadership evidenced in good corporate governance systems are more likely to recover from an economic crisis. In addition, IMF package recipient countries are required to implement a series of economic reforms in exchange for external financial assistance. The reforms attached to IMF packages normally include improving government efficiency and accountability, combatting corruption and privatizing state-owned enterprises, which leads to corporate governance reform. The dynamic change in the corporate governance system of recipient countries inevitably plays an important role in the bailout process.

Empirical studies investigating the effect of corporate governance on the success of IMF bailouts are limited. Only a few address one or two corporate governance variables, and seek to identify the link between corporate governance variables and the outcome of bailouts, instead of examining the overall impact of the corporate governance system. For example, Dreher (2006) identifies that a lower level of democracy and political stability actually increases the probability of a country requesting an IMF loan. In addition, he revealed that countries with an accountable legal system have a better chance of receiving larger IMF loans, and a lower probability of program suspension. Similarly, political instability is negatively associated with IMF loan approval and loan size (Lee & Shin, 2008). Additionally, Jorra (2012) finds that a high level of parliamentary democracy is negatively and significantly associated with the probability of sovereign default, implying that the general openness of political institutions has a significant impact on the effect of IMF bailouts. In contrast, Dreher and Gassebner (2012) found that countries with high levels of democracy are more likely to experience major government crises because parties in such systems can readily express their opinion on controversial policies and events, which may trigger a crisis. Corruption is one of the major barriers to the effectiveness of external aid, and recipient countries' incentive to fight corruption is a key factor driving the success of bailouts (Öhler et al., 2012).

The importance of corporate governance to a country's economic development is well documented in the literature. Therefore, we argue that the quality of corporate governance and the improvement in corporate governance systems, in particular, play important roles in determining the success of IMF bailouts. In addition, the implementation approach taken by the IMF needs to be further investigated, such as key persons involved in designing and implementing IMF bailouts, fund allocation channels, and the approach taken to combating corruption.

From the perspective of cultural theory, while the goals of the IMF and a recipient country may be similar, their respective interpretations of these may differ. The IMF would do well to adopt a cultural approach to management by seeking to understand each recipient country's dominant culture. This is referred to as an 'ambicultural' approach to leadership and management, and provides a model for bridging cultures and organizations so that they may interact more effectively (Jer Chen & Miller, 2010). This model is increasingly having an influence on the mindset of IMF leadership across the globe, and increasingly being put into practice, evidenced in the organization's greater consideration of the dominant values, attitudes and beliefs of recipient countries. This is resulting in superior models of governance, leadership and administration between the giving and recipient countries (Jer Chen & Miller, 2010), thus enhancing sustainable practices of mentorship, support and ultimately independence for the recipient country.

2.5. *Financial and economic engineering*

To date, borrowed funds are being used by penniless nations to bail out other penniless nations. The IMF obtains money from numerous nations that are in major debt themselves. To illustrate, the five largest contributors to the IMF are the US (16.75%), Japan (6.23%), Germany (5.81%), France (4.29%), and the UK (4.29%); yet it is well known that these countries are all experiencing major financial economic issues themselves. For example, the US has a debt-to-GDP ratio of over 100%, and Japan is associated with a significant debt-to-GDP ratio of over 200%. Thus, it is evident that these countries are funding the IMF with borrowed money. For decades, the IMF used money as a way to force developing nations to do what it wanted them to do. However, prior to 2009, this had mostly only been carried out among poor nations. But now an increasing number of previously wealthy nations are turning to the IMF for assistance. For example, in recent years we have seen Greece, Portugal, Ireland and Cyprus receiving bailouts that were partly funded by the IMF with Spain receiving a bailout for its banking sector. So what happens when the contributors run out of money and are no longer able to contribute? For how long can this situation continue before the entire system collapses? We need to find new ways and approaches to fund IMF bailouts.

As discussed above, doubt is cast on the efficiency and effectiveness of the IMF in managing international financial crises. To date, the empirical results of IMF bailout studies cannot provide conclusive findings on this issue. In addition, prominent economists such as Joseph Stiglitz and Jeffrey Sachs have publicly questioned the appropriateness of both the problem diagnosis and the assistance that programs provide, going so far as to charge the IMF with making the crises worse, deeper and longer than might otherwise have been the case.

The debate surrounding reforming the international financial architecture has attracted the media's attention in recent years, particularly as previous financial rescue decisions have often been rushed and made without careful or constructive design. One notable example of an alternative to the bailout is the proposal for an international bankruptcy regime. Krueger (2001) claims that a new treaty is required to provide some bankruptcy-style protection to sovereign debtors. Stiglitz (2002) proposes the creation of a system similar to the Chapter 11 (US bankruptcy code 11) regime, to facilitate an across-the-board restructuring of private borrowers' debts in the event of macroeconomic shocks. Sachs, Tornell, and Velasco (1995), Sachs (1998), Sachs, Radelet, Cooper, and Bosworth (1998), and Fisher (1999) argued that the IMF requires placing enough money on the table to ensure that it can stop capital flight from financially stressed countries. Others have suggested new binding rules to substantially scale back the amount of funds the IMF can provide to countries facing crises. The Meltzer Commission (also known as the International Financial Institution Advisory Committee—IFIAC, 2000) suggests that the IMF should exit the business of lending to countries that discover macroeconomic virtue only when they are close to default. Instead it ought only to lend large sums to countries with good policies that qualify in advance for extra protection—assuming that such policies could be defined. Lerrick, 2000 propose that the IMF should support the secondary market for a country's sovereign bonds rather than lend directly to the country. However, to date, these calls for major reform have not significantly changed the international financial system. We witnessed the IMF bailout failure in Greece, and how its proposals failed to address the real underlying causes of the Greek crisis. Currently many of the IMF solutions have been impractical or inappropriate in resolving financial crises as they are unable to address essential factors such as culture and the economic and financial structures that are often specific to each country.

To reiterate, IMF programs comprise three inseparable components – financing packages, structural reforms and macroeconomic policies – within a single offer of assistance. In return for IMF financial assistance, the bailed-out countries commit to the reforms known as structural adjustment policies or programs (SAPs). These policies include, but are not limited to, increasing exports, reducing domestic demand, placing constraints on government spending, and encouraging privatization. Another broad view of SAPs describes the policies as involving a combination of short-run measures aimed at stabilization, and long-run structural reforms aimed at transforming heavily controlled economies into market economies. For example, IMF support normally includes privatizing industries and credit control, raising real interest rates, decreasing or ending subsidization, lowering tariffs and increasing imports, tightening fiscal policy (at least initially), opening up financial markets to foreigners, closing troubled banks and financial institutions, and undertaking a range of other structural reforms.

However, we observe many unsuccessful IMF-supported programs (in Greece and Indonesia, for example), where bailed-out countries have experienced severe capital outflows and currency depreciations, even after the programs were implemented. Un-successful results are due to a variety of factors, including the initial hesitation and policy reversals in program implementation. Examples are premature rollbacks of monetary tightening, and political uncertainties that cast doubt on prospective policies (as in the recent case of Greece). In addition, the overwhelming imbalances between reserves and maturing short-term debt are major contributing factors to market uncertainties over the IMF financing packages. Some bailed-out countries (such as Greece) have experienced much deeper recessions than projected, reflected mainly in a collapse in domestic spending, especially private investment. Greece underwent enormous current account adjustments, associated mainly with sharp drops in imports.

Here we make an argument for alternative solutions based on financial and economic engineering that address not only the country's specific economic and financial structure but also its aspects of culture. Some of these innovations, which we designate here as financial and economic engineering, could lead to strong output growth generated by increasing private consumption, exports and new private investment. Furthermore, cutting inefficient infrastructure projects and public expenses, reforming the tax system and fighting corruption will all be critical to the success of bailouts and economic reform.

In addition, it is necessary for financially stressed countries to return their current accounts to surplus by reducing unnecessary imports and boosting trade surpluses. Implementing appropriate measures to increase international reserves will make a country less vulnerable to external shocks, which will eventually enhance financial market confidence. By preserving social stability through targeted subsidies, education and health programs, and employment creation, the risk of financial stress can be reduced. Finally, we believe that, by implementing certain strategic structural reforms such as closing down weak banks and other financial institutions, merging or restructuring debt, improving loan recovery, easing foreign ownership restrictions, and establishing higher standards of governance, such approaches to financial and economic engineering will assist a country such as Greece to achieve economic and financial prosperity.

2.6. Developing a bailout model

Based on the bailout literature, the following theoretical model is presented which identifies the connections among aspects of bailouts implemented by internationally recognized bodies and organizations. A typical IMF bailout process can be subdivided into four key stages, which are presented in Fig. 1. The first stage represents a situation of crisis around whether the government of a financially troubled country should seek assistance from international official organizations, and the potential outcomes associated with different decisions. The second stage is focused on whether international official organizations, such as the IMF or World Bank, agree to provide assistance after receiving a bailout request, and whether the country agrees to accept the rescue package (funds and conditionality) offered. It is clear that the government of the troubled country can reject the rescue package, as Malaysia did during the AFC. If two parties reach a deal, then the third stage of the bailout process commences. This stage involves fund injection and policy implementation imposed by the IMF or World Bank, which can be influenced by many macroeconomic and financial factors that have a direct impact on the economic outcome of bailouts. The fourth and final step in the process includes a review of the bailout.

Realistic questions to ask about bailout activities are concerned with whether a country is willing to request assistance from the IMF/World Bank, and whether the IMF/World Bank agrees to issue loans to the financially troubled country. The answer to the first question (Q1) is based on an endogenous choice by the government, because the decision primarily depends on the degree of that government's resilience. In such cases, a government realizes that it needs to give up a certain level of solvency autonomy in exchange for funding from the IMF or World Bank, which inevitably leads to an uncomfortable government situation. If a government is confident in being able to manage its problems alone, it will not seek assistance from international financial organizations, and internally driven economic reform will be conducted instead. In contrast, it can be expected that a government will request assistance from the IMF when all other options are exhausted, implying that this government is nearing default in terms of its financial situation. Once a country decides to seek assistance from the IMF, the first stage of the bailout process is completed.

The second stage depends on whether the IMF or World Bank will choose to provide assistance to the troubled country (Q2). The lending decision is complicated, and depends on the country's current financial and economic fundamentals, its political connection to these international organizations, how closely its economy is engaged with the rest of the world, and the depth of foreign creditors involvement in the crisis (Barro & Lee, 2005; Lee & Shin, 2008). If the IMF or World Bank decides to decline the request, the market will react negatively and immediately. However, such an immediate rejection does not occur often due to the globalization of financial markets.

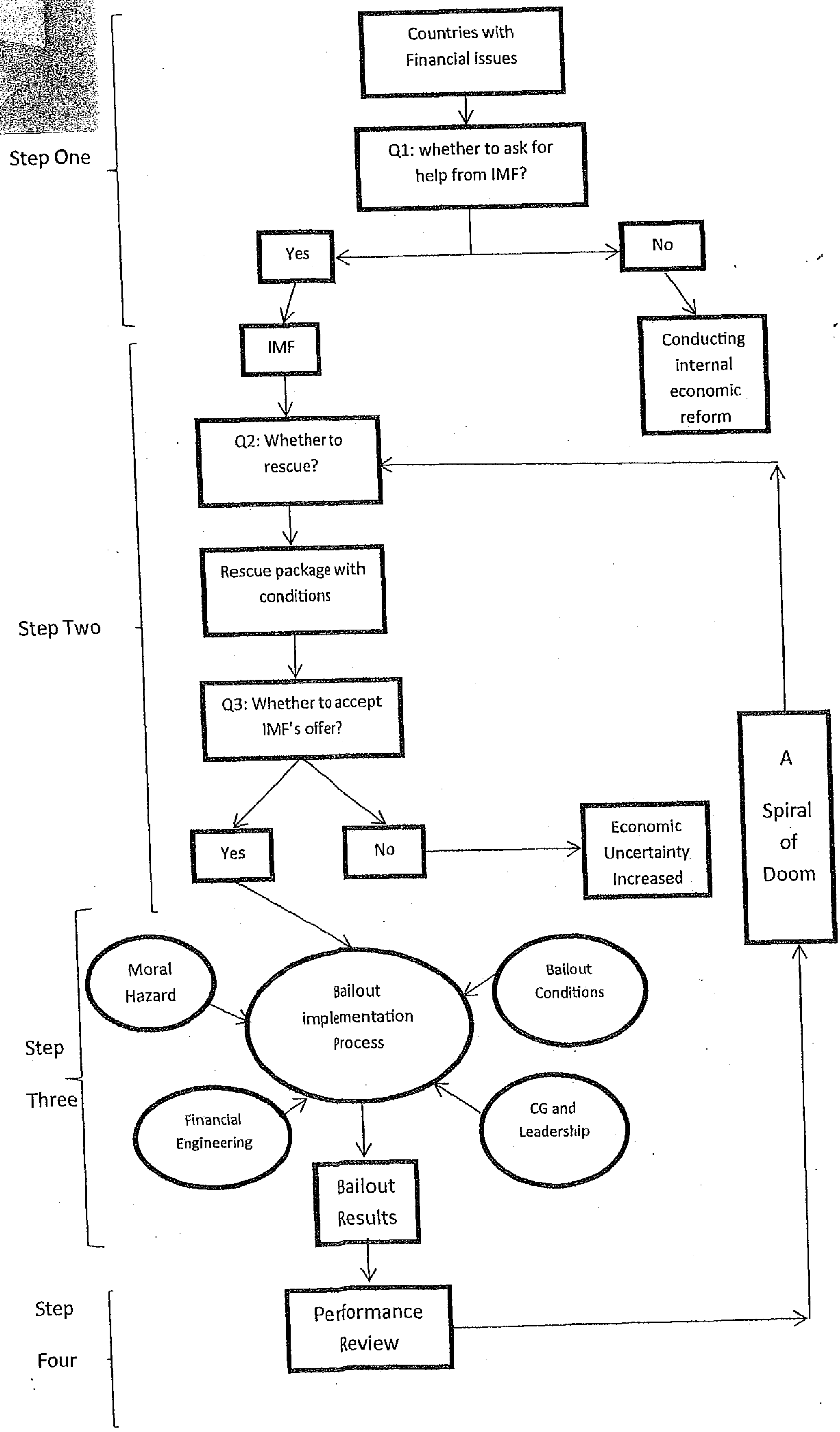

Fig. 1. A typical IMF bailout process: a 'spiral of doom'.

What will most likely occur is that the IMF or World Bank will agree to rescue the country. However, the conditions will be determined after a careful due diligence investigation of the country's economic and financial fundamentals is conducted. This will, automatically trigger a negotiation process between the financial organization and the country. At this point, the country must decide whether it should accept the rescue package, and the associated negotiation process can be time consuming and tedious. A typical example is the case of Malaysia during the AFC. The Malaysian Government rejected the assistance and advice provided by the IMF. Consequently, it conducted a series of economic and financial reforms on its own initiative, such as tightening capital control and devaluing the local currency. In addition, the Malaysian Government increased government spending, in opposition to IMF policies. As a result of these measures, Malaysia suffered less severe economic challenges than did other countries embroiled in the AFC (Billington, 2004).

More recently, the Greek Treasury bond yield is highly dependent on whether the IMF and the ECB provide further financial assistance to the Greek Government. The re-elected Greek Government has demanded a debt reduction, implying that Greece's nation-state creditors must write down and cover the investment losses by themselves. The EU and the ECB argue that treaties and agreements made with previous Greek governments should be honored. The re-elected leaders of the Greek Government argue that past agreements have only caused suffering and hardship for the Greek people due to the tough austerity package attached to these previous treaties and agreements. As expected, the market reacted negatively to the tension generated between Greece and its euro zone partners during their debt negotiations, and the situation stirred up anxiety about the solvency of Greek banks and fears that Greece might exit the euro zone bloc.

There is a unanimous agreement that Greece requires debt restructuring as it is impossible for the Greek government to service its debt as the bailout is designed to fail (Manasse, 2015). It is difficult to enter into re-negotiations with its creditors again without a convincing structural reform plan in advance, which leads to a dilemma. A realistic solution could be that Greece deals with an improved debt serving program specifically on lower borrowing cost, and longer terms of maturities. Principal reduction can be avoided in order to maximize creditors' interests (Taylor, 2015). The effect of this new plan may avoid new market uncertainties, and enable Greece to pronounce a solution to its debt sustainability problem, which would eventually boost market confidence and reverse capital flows as the country implements its structural adjustment debt repay program overseen by an impartial body, such as IMF.

Alternatively, the solutions employed by the Malaysian Government during the AFC are worthy of consideration. Major reform policies employed by the Malaysian Government included devaluing the local currency, creating asset management companies, and tightening capital flow to stimulate the economic growth. However, not all approaches are practicable for the Greek Government. For example, it is impossible for the Greek Government to devalue the Euro because the monetary policies of ECB members are actually decided by ECB. If Greece adopts the Malaysian solutions, then Greece's exit from the Euro zone would be highly anticipated, leading to an inevitable contagion effect. An alternative solution is for the IMF, EU, ECB or World Bank to agree to issue a special rescue loan to Greece. In this scenario, the probability of default would be reduced due to the liquidity injection from recognized international organizations (Lau & McInish, 2003).

Once the international official organizations agree to issue special loans to a particular country (the second stage), the third stage commences. The ultimate objectives of a bailout are to return the public sector budget to surplus in the short term and maintain sustainable economic growth in the long term. However, it has been widely observed that there are many factors that influence the bailout outcomes. For example, there is significant evidence in the literature on the impact of bailout conditionality and moral hazard. As discussed above, the design and enforcement of bailout conditionality mainly depend on the bailed-out country's economic fundamentals, and its political relationship to international official organizations and to the key members of the IMF. However, the effects of bailout conditionality are generally disappointing due to the conflicts of interest between international financial institutions and major member countries (Öhler et al., 2012). On the one hand, countries can easily access the funds from international financial institutions if they are politically closely related to major member countries, and lax enforcement of conditionality can be expected due to such political connections. Similarly, Stone (2004) finds that countries that are politically important to the US receive lesser punishment if they do not comply with IMF bailout conditions. In relation to moral hazard, the empirical findings of previous studies are inconsistent—mainly attributed to issues associated with research design and methodology. Furthermore, the significance of the moral hazard phenomenon has been challenged. Mussa (2004) and Jeanne and Zettlemeyer (2004) observed that bailed-out countries tend to have lower borrowing costs and to adopt more aggressive economic policies after receiving financial assistance from international financial organizations. To avoid moral hazard, it is important that the loan interest rates reflect the underlying risks associated with those countries and the risk faced by the IMF.

Traditionally more attention is paid to the relationship between bailout outcome and corporate governance and leadership quality. The literature shows that countries with good corporate governance and leadership are more likely to maintain sustainable economic growth. La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997) and La Porta et al. (1998) state that countries with good legal and corporate governance systems provide better shareholder protection, which therefore leads to more valuable stock markets, larger numbers of listed securities per capita, and a higher rate of initial public offerings than is the case in less protected countries. Moreover, La Porta et al. (2000) claim that a good investor protection system may benefit the growth of the real economy. In terms of financial bailout activities, the economic reforms to which bailed-out countries must commit automatically trigger corporate governance reform, leading to an economic and financial system with better efficiency, accountability and functions.

Financial engineering is another aspect of the financial support provided by international official organizations. Problems related to financial engineering include: (1) how the organizations can effectively collect the principal of bailout loans from bailed-out countries; and (2) how the financial health of these organizations can be maintained. Empirical results show that, based on the OECD record, the majority proportion of loans are never repaid. Therefore, it is safe to conclude that the design, implementation and enforcement of rescue loans in their current form are unsustainable. Such rescue packages need to be fundamentally reconstructed. And as a consequence of the failure of loan repayment, these organizations will likely be more cautious with their future lending decisions, which will indirectly reduce the efficiency of the rescue process. In this regard, the current situation facing Greece and its creditors is a typical example. This prolongs the decision-making process and increases market uncertainty for investors. In addition, as mentioned above, the major member countries of the IMF and World Bank are financially distressed. Thus the financial stability of these international organizations is becoming increasingly uncertain.

The fourth and final stage of the bailout process is the performance review of the bailout based on macroeconomics and financial market performance, and the loans repayment process of bailed-out countries. If the desired economic performance is reached, then officially international official organizations will cease further assistance, and the country will again be fully controlled by its own government. However, as revealed in the above discussion, the overall effectiveness of bailouts is not promising, which triggers another question for these international official organizations, around whether to rescue the country again even if it does not achieve the desired economic outcomes.

It should be noted that the economic performance of bailed-out countries does not appear to significantly influence the lending decisions of international financial institutions. On the one hand, if these institutions reject a request for assistance, the markets in general react negatively in the short term due to the increased economic and financial uncertainty surrounding the country. However, such a response has been rare in recent years due to the integration of global financial markets. On the other hand, the markets will react positively in the short term when international financial institutions agree to provide financial assistance to such countries. However, as demonstrated above, the effectiveness of bailouts in the long term is dubitable and thus these financially troubled countries will be worse off either way.

2.7. *Alternative financial engineering solutions to bailouts*

As claimed by the IMF, its bailout programs are aimed at tackling the root causes of a country's financial problems and restoring investor confidence, thereby strengthening financial systems, improving governance and transparency, restoring economic competitiveness, and modernizing the legal and regulatory environment. And these programs often do far more than address the major fiscal, monetary and trading balances. More importantly, as a condition for the receipt of IMF loans, recipient countries must comply with the strategies of the IMF which are based on two key postulates: the need to reform economies, with a particular emphasis on fiscal discipline and banking sector restructuring; and the requirement to maintain high interest rates to avoid capital outflows and currency crises.

However, on numerous occasions we have observed that the high interest rates prescribed by the IMF to limit currency depreciation have had severe repercussions for the economies of Asian countries. For example, during the 1998 AFC, interest rate hikes were not effective in slowing down currency depreciation, but rather worsened the extent of the crisis by leading to widespread banking and corporate bankruptcies. In Indonesia the fiscal policy requirements included in the IMF package proved to be unnecessary and even harmful; excessive fiscal discipline made the crisis-induced recession worse.

The effects of these policies are described in terms of a vicious circle: the credit crunch imparted severe financial losses to otherwise solvent companies; and the widespread fall in profitability translated into higher levels of non-performing loans and credit risk, exacerbating the crisis-induced recession, in turn, causing a further contraction in the supply of credit as commercial banks needlessly sought to tighten credit conditions on new loans and limit business activity—all of which deepened the crisis and destabilized the economies. In light of the above findings, it is timely to propose a set of financial engineering solutions that may assist the management of sovereign financial and economic crisis without the aid of the IMF. We outline a number of financial engineering solutions below.

2.7.1. *Proposed bank liability guarantee scheme*

The primary purpose of this scheme would be for the country to guarantee the liabilities of banks, which would have an immediate effect of restoring confidence in banks and preventing capital flights and liquidity crisis. This is a preferable solution to the IMF closing insolvent banks, as it would assist stabilizing the banking system during a crisis period. However, one unfortunate short-term consequence would be an increase in the sovereign debt burden.

2.7.2. Proposed bank recapitalizations and nationalizations

This provides an additional medium- to long-term solution to prevent bank solvency crisis. Historically, many countries, such as the US and the UK, have used common shares, preferred shares and other hybrid instruments such as convertible preference shares to restore bank solvency. This approach could promote national economic growth as the credit market revives and stimulates economic expansion through loans to various enterprises. However, a drawback of this strategy would result in an increase of public debt.

2.7.3. Establishment of an asset management company

This would be a powerful solution to quickly ensure the financial stability of banks by either removing the impaired assets to an asset management company or insuring against losses. The new Asset Management Company could be created to buy up the nonperforming loans of commercial banks at written-down values and then sell them off once the debts were recovered. The bad loan bank would eventually need billions of dollars to buy up the loans, and this loan buying would be financed by a mix of zero coupon bond issues with government guarantees and funds from the private sector. This process of bond for loan exchange is the most efficient bailout solution because it could stimulate economic growth much faster than other financial engineering solutions. This process has the advantage of quickly stabilizing bank balance sheets and restoring confidence in the banking system. However, the public debt would eventually be increased. A typical example of this solution was seen in Malaysia's reaction to the AFC. A down side of this approach is that it could lead to overpayment to buy bad assets if the process were not managed adequately. Once the economy was recovered, the bad assets would increase in value, making the debt repayment much easier and thus maintaining orderly financial and banking sectors.

2.7.4. Proposed liquidity support scheme

The aim of this scheme would be to improve market liquidity in public and private debt securities, allowing banks to continue their lending activities which would stimulate economic expansion and would help not only to lower and stabilize sovereign bond yields but also to finance budgetary and debt repayment needs in the short term. Various instruments could be used such as a Covered Bond Purchase Program, to be designated in buying eligible covered bonds from banks in the primary and secondary markets. In addition, a Securities Market Program could be established, which would allow for the purchase of eligible bonds issued by various governments and public entities (secondary market) and private entities (primary and secondary markets). Another instrument could be provided through Long-Term Refinancing Operations, which would be long-term credit (up to three years) provided on the basis of collateral. Finally, Emergency Liquidity Assistance could provide a credit line as emergency funds to banks unable to put up acceptable collateral to various lenders for regular refinancing.

2.7.5. Bailout program

This traditional solution could be solicited by asking the IMF and other international financial institutions and organizations for loans to help finance a country's budget deficit, debt repayments and bank recapitalizations. However, bailouts are normally conditional on the implementation of large austerity programs which may assist governments via budgetary support, and can indeed avert sovereign debt defaults and insolvency, but prudent and fair negotiations must be undertaken to ensure a successful outcome that leads to economic growth.

Austerity package soften delay economic growth, and engender social unrest and political instability, as witnessed with the latest austerity measures imposed on Greece by the IMF, the

ECB and the EU. It is clear that large budgetary adjustments implemented in a short time span are not feasible and in fact can pose a serious risk to a country's financial health.

2.7.6. Proposed debt restructuring program and implementation

The primary objective of this solution would be to reduce the troubled country's debt burden through debt reduction and restructuring. It entails a process that allows a sovereign entity facing cash flow problems and financial distress to reduce or renegotiate its delinquent debts in order to improve or restore its liquidity. If a country's liquid assets and available financing are insufficient to meet or rollover its maturing obligations, this solution could restore market confidence. The debt restructuring would typically involve the rescheduling of maturing obligations. Alternatively, it might involve a reduction in the debt stock and the question of whether a sovereign country's debt is sustainable becomes more relevant when a significant amount of fund financing is sought.

In February 2012, Greece launched the largest sovereign debt restructuring in history, covering Euro 205 billion in debt. Additionally, the Euro group of euro-zone finance ministers agreed to provide rescue funding to Greece up to Euro 86 billion over the next three years since August 2015. Other sovereign debt restructurings have also recently taken place, including in Belize (2007, 2013), Jamaica (2010, 2013), and St. Kitts and Nevis (2012). Debt restructurings have often been too little and too late, thus failing to re-establish debt sustainability and market access in a durable way. The debt restructuring process can be executed through the implementation of a debt swap via the exchange of old bonds for new bonds, with favorable terms that allow for lower interest rate and longer maturity, thereby allowing troubled economies to avoid defaulting in the near future. Greece is currently engaging in this process again, in seeking to reduce its old debt interest burden. In addition, the 'haircut', which provides a significant reduction in the face value of an old debt, is another technique that may be implemented in debt restructuring. However, convincing investors to accept the debt reduction can be challenging. Yet, unquestionably, this process would reduce the debt burden where private investors rather than taxpayers or public investors would experience losses.

2.7.7. The need for structural reforms and implementation

A reasonable approach to fighting the economic, financial and sovereign debt crisis can be described as a combination of fiscal consolidation, financial sector stabilization, and profound structural reform in the labor and product markets. Immediate action to strengthen government finances and stabilize the financial system is necessary in the midst of any crisis, to avoid further instability and contagion. The primary objective of this solution would be to address impediments to the fundamental drivers of growth by unshackling labor, product and service markets to foster job creation, investment and productivity. Moreover, this approach would enhance an economy's competitiveness, growth potential and adjustment capacity. There are many ways to establish successful structures that create long and sustainable economic growth, job creation and reduce social unrest. The seven key techniques are summarized below.

Technique 1: Implement financial sector reforms with bank recapitalization, deleveraging, prudential capital requirements, the reorganization and downsizing of the banking sector, bank resolution regime, and the strengthening of banking regulations and supervision.

Technique 2: Develop entitlement reforms aimed at curtailing entitlements and selected social security benefits.

Technique 3: Develop labor market reforms that reduce the minimum wage for a limited period of time, and reform unemployment benefits in response to current economic conditions.

Technique 4: Operationalize pension reforms by increasing the state pension age progressively and curtailing early retirement.

Technique 5: Implement public administration reforms to modernize public administration with the use of the latest technology to reduce inefficiency.

Technique 6: Increase competition in the non-tradable sectors such as electricity, transportation, and telecommunications, as well as sheltered sectors such as legal, medical and pharmacy.

Technique 7: Initiate the privatization of government-owned enterprises.

These techniques will result in adjustments that address the root causes of fiscal crisis, and increase competitiveness and growth; however, such a strategy will only yield positive results in the long term.

2.7.8. Implementation of stronger banking supervision and risk management

The primary goal of this solution would be to create a stronger banking risk management framework to enhance supervision, improve depositor protection and minimize systemic risks. Strict rules will help to prevent bank crises in the first place. And if banks do end up in difficulty, a common framework may be established to manage the process, including a means to wind them down in an orderly way. One of the key components would be to harmonize the deposit guarantee system and establish a credit bureau for the management of potential nonperforming loans that could lead to severe financial crisis. As a result of these initiatives, the occurrence and magnitude of bank failures would be reduced, the protection of deposits would provide greater confidence and stability, the country's outstanding credit could be better managed via timely decisions, and sovereign countries would be less exposed to bank bailout costs.

Stronger supervision would ensure effective enforcement of prudential requirements for banks, requiring them to maintain sufficient capital reserves and liquidity. Sovereign country banks would therefore be more solid, and their capacity to adequately manage risks linked to their activities and to absorb losses would be strengthened.

It should be noted that the various financial engineering solutions outlined above should be selected based on certain variables, such as the nature of the crisis, the country's financial and economic structure, the political situation and the state of the global economy. This study set out to determine whether the IMF bailout process contributes to a recipient country's financial recovery and ongoing stability. Through an extensive high level review and analysis of the IMF literature, which informed the development of our Spiral of Doom Model, the evidence indicates that the IMF is no longer viable, and nor is it sustainable in today's political, cultural and economic global climate. This finding has significant implications for understanding how countries may develop and implement various techniques and strategies to ensure their sound financial and economic standing in the long term.

3. Conclusion

This is the first study to provide a comprehensive review and analysis of research that addresses IMF bailout programs and makes several noteworthy contributions to the IMF literature by providing a new understanding of the IMF bailout process. This study is thereby particularly valuable to countries that are seeking techniques to stabilize and strengthen their financial standing. Little previous research examines the cumulative elements influencing IMF bailouts. And our findings indicate that the fragmented literature is far from conclusive on the subject of the effectiveness of IMF bailouts. The mixed results of empirical studies in this area are primarily due to methodological problems, choice of events and variables, and data availability. The design and conditionality of IMF programs vary from one country to another, and it is therefore difficult for researchers to conduct convincing IMF comparison studies. The contribution of the present empirical study is the consolidation of the literature in the development of our IMF 'Spiral of Doom' framework. A second contribution of this study lies in our proposed techniques and strategies that a country might implement in pursuit of financial and economic stability. The implementation of policy reforms needs to be further investigated, such as the interplay between the key factors of moral hazard, bailout conditionality, corporate governance, financial engineering, leadership and other economic variables. Furthermore, leadership is identified as a key driver of governance, change and innovation, and it is imperative to address the dignity of all citizens residing in IMF program recipient countries.

We acknowledge that the recommendations identified in the "Alternative Financial Engineering Solutions to Bailouts" section require resources in terms of time and money. What requires implementing immediately are quick, efficient, and cost effective solutions to enhance the stability and confidence of domestically and internationally financial systems. Some may view these implementations as highly challenging due to the complexity of global financial and economic system thus they may assert that it is not timely to consider any "grand" reform or significant revision in international or multilateral structures. Turning to the financial aspects, the Greek debt crisis has yet to be resolved, as does the recent Syrian refugee crisis which has imposed further financial burdens on many countries which already experience financial distresses. The financial cost of host countries accepting millions of refugees has yet to be determined. We have not observed any constructive agreements or plans between European countries, including Greece, on how to jointly deal with the Syrian refugee crisis, which would impose further financial burden on Greece recovery.

Further research is required to enhance understanding of the effectiveness of the aid provided by international official organizations such as the IMF and World Bank, in particular. Questions that are worthy pursuing and investigating include: What is the optimal research methodology for measuring the effectiveness of IMF/World Bank bailouts? What is the impact of corporate governance on the success of bailouts? Are studies on moral hazard meaningful? What is the optimal structure of bailout conditionality? How can the financial support required for bailouts be secured in the long term? Future research would further the consolidation of the IMF literature and in turn, potentially impact on bailout policy.

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ECONOMY

China "sad" that Sri Lanka went to IMF and defaulted: envoy

China's Ambassador to Colombo, Qi Zhenhong

BY **SHIHAR ANEEZ**
Monday April 25, 2022 2:23 pm

ECONMYNEXT – China is "sad" that Sri Lanka went to the International Monetary Fund (IMF) and defaulted on its debt, Ambassador Qi Zhenhong said, adding that China is watching the island nation's negotiations with the Washington-based lender.

"China has done its best to help Sri Lanka not to default but sadly they went to the IMF and decided to default," Ambassador Qi told reporters at a media briefing in Colombo.

"The debt restructuring definitely will have an impact on future bilateral loans," he said.

Ambassador Qi said in March that China was considering a request for 1.5 billion US dollars in buyer's credit and another billion-dollar loan.

The IMF determined that Sri Lanka's debt was not sustainable or could not be repaid with macro-economic adjustments involving rate and tax hikes alone and had to restructure debt to reduce the gross finance need to a manageable level.

On April 12, Sri Lanka said it was suspending payment on foreign debt and will negotiate with creditors.

Now China was waiting for IMF talks to progress and wanted more information on debt restructuring. Sri Lanka will negotiate with the Paris Club of western donors, other lenders like China and India, multilateral and separately with bondholders.

"We are closely monitoring the IMF discussion between Sri Lanka and IMF," he said.

"Countries that colonised Sri Lanka have more obligations to help at this juncture."

However China will continue to disburse old loans as agreed, he said. (Colombo/Apr25/2022)

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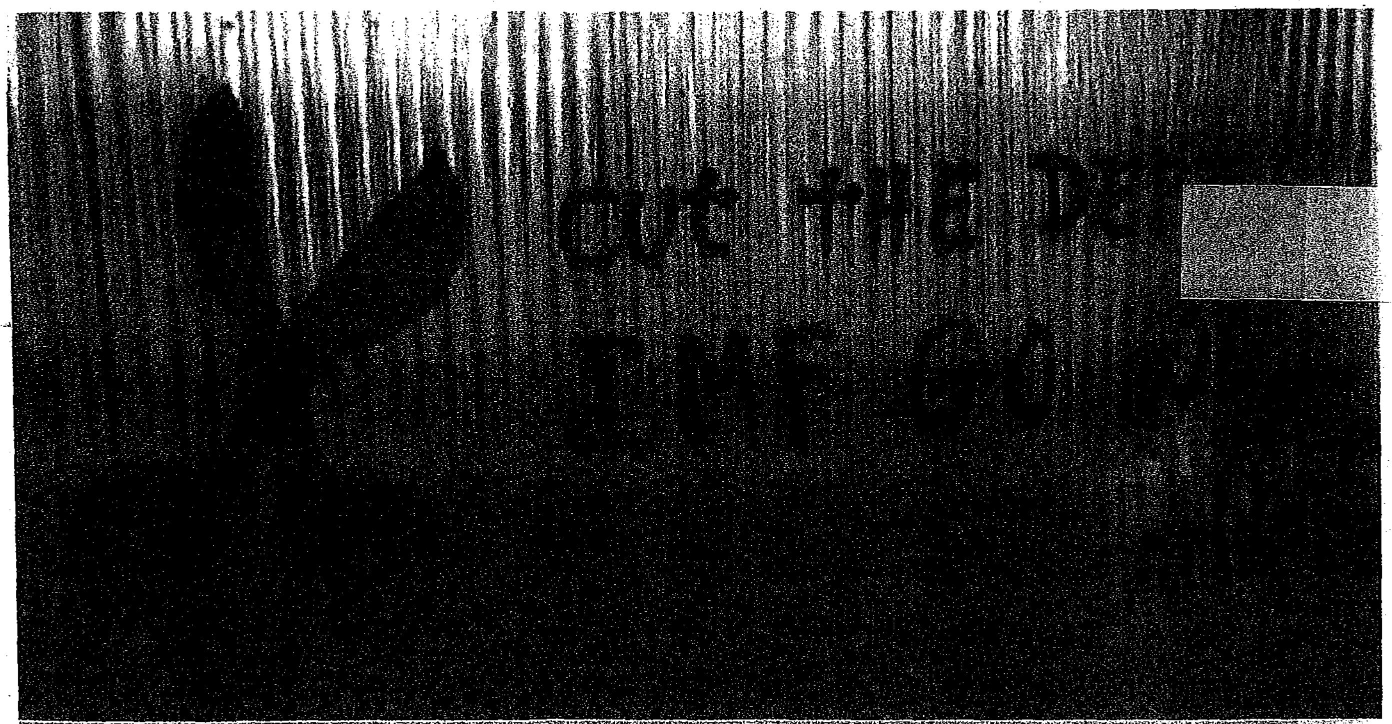
Economy

How the IMF Bungled the Greek Debt Crisis

Greece's public debt, which was 120% of the GDP when the IMF undertook the "rescue", has since risen to 170%. If the objective underlying the bailout was the restoration of the Greek economy to its health, it has been a clear disaster.

Aug 04, 2016 | T.T. Ram Mohan



Greek riot policemen rest in front of graffiti written on the wall of a bank during violent demonstrations over austerity measures in Athens, May 5, 2010. Credit: Reuters/Yiorgos Karahalis

In 2010, what has since come to be known as the Eurozone crisis, erupted. It all started in Greece. Yields on the Greek government bonds rose sharply and it was clear that the European country would not be able to repay its creditors by raising funds from the market.

The IMF joined the European Union and the European Central Bank (the "troika") in providing a rescue package to Greece, which consisted of €80 bn in bilateral loans provided by 15 euro area partners of Greece and €30 bn by way of a Stand-by Arrangement provided by Greece.

It turns out that the "rescue" that was done was not of Greece at all. It was a rescue of the private banks that had lent to Greece. The bank loans were duly repaid by the funding provided by the EU and the IMF.

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In other words, the taxpayers' money was used to bail out private banks – an all too familiar story of "socialisation of losses".

And what about Greece, the country that was meant to be rescued? Well, some five years on, its GDP has shrunk by nearly a third, its unemployment is at around 24%, pensions have been cut and the public services have been devastated by the fiscal austerity package forced on to it by the troika.

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Many objective commentators have come to recognise that the IMF bungled the handling of the Greek crisis and now we even have a confirmation from IMF's own watchdog, the Independent Evaluation Office (IEO).

In a scathing report that was released last month, the IEO makes clear that the IMF made a series of lapses that ultimately contributed to Greece's seemingly unending misery.

Common sense tells us what the proper response to a debt crisis should be to put the troubled economy on a path where it generates enough revenues to be able to repay its debt. Or, to use jargon, we must ensure 'debt sustainability'.

Debt sustainability happens when both, the lenders and the borrower, make adjustments. Lenders agree to write-off some of the debt, and in return, the borrower – the country facing a debt crisis – takes steps to put his house in order by raising more revenues through the sale of assets, higher taxes or better tax compliance, and by cutting back on expenditure.

If lenders refuse to accept any loss on their loans, the entire burden of adjustment falls on the borrower. Since people cannot be asked to make sacrifices beyond a certain point, the required adjustment simply doesn't happen. The result is that the country ends up more steeped in debt than it was when the rescue started off.

This is precisely what has happened with Greece. The IMF and its partners in the troika went ahead with their bailout with little regard for the issue of debt sustainability. The IEO report grimly notes:

Perhaps no other IMF decision connected with the euro area crisis has received more criticism than that of providing exceptional access financing to Greece when its sovereign debt was not deemed sustainable with a high probability. The decision not to seek pre-emptive debt restructuring left debt sustainability concerns unaddressed. It also magnified the required fiscal adjustment, and

thereby, at least in part, contributed to a large contraction of output and a subsequent loss of public support for the program.

Why did the troika ignore the issue of debt restructuring that is so crucial to sustainability?

The IEO report says that they were concerned about the "contagion" effects, mainly that the private creditors in other countries would start dumping the debt they were holding. The crisis in Greece would thus spread and engulf other countries in the eurozone.

While this was a legitimate concern, the IEO is of the view that the IMF should have properly examined a range of options and prepared itself for the contagion effects under each option and then presented the scenarios to the board of directors. Instead, one option was simply rushed through.

Ignoring the issue of debt sustainability was a violation of the IMF's policy of 'exceptional access', which requires it to satisfy the condition that the distressed country's debt should be sustainable 'with a high probability'.

The IMF staff went around that violation by building an exception to this condition in the situations where systemic risk was involved. What is worse is that this was done in a non-transparent manner and without adequate deliberation on the part of the IMF's board of directors.

The fact that the policy was being modified was concealed in the request for the Stand-By Arrangement itself. In other words, a small group of technocrats decided the policy on Greece without a proper oversight by the IMF's board.

The IEO points to several other failures over a long period. The IMF allowed itself to be carried away by optimism of the euro project:

Before the launch of the euro in January 1999, the IMF's public statements tended to emphasise the advantages of the common currency more than the concerns about it that were being expressed in the broader literature. How a monetary union could be effective without a fiscal, banking or political union is an issue that was flagged in the literature. The IMF ought to have made a technical analysis of this crucial question. It failed to do so.

In the run-up to the financial crisis, the IMF's surveillance failed to capture the build-up of risks in the Eurozone which was signalled by widening current account deficits of several countries. The IMF staff did not view matters with objectivity. The IEO makes some damning observations:

Lack of analytical depth, rigor, or specificity and the failure to highlight sufficiently the need for stronger remedial action in a currency union were among the factors that undermined the quality and effectiveness of surveillance. At the euro area level, IMF staff's position was often too close to the official line of European officials, and the IMF lost effectiveness as an independent assessor.

The IEO report highlights "groupthink and intellectual capture", a "culture of complacency", "ad hoc task forces" and the non-availability of crucial documents.

There were other failures as well. The IMF's working arrangements with its European partners were far from satisfactory. The growth projections for Greece and Portugal were overly optimistic, and the lessons from past crises were not applied.

Most importantly, there appears to be a complete lack of accountability within the IMF. The former finance minister of Greece, Yanis Varoufakis, who stood up to the troika and demanded the IMF functionaries who handled the crisis be dismissed, paid the price by being ousted by his own party, Syriza. Instead, the then head of the IMF's mission in Greece has since been promoted to become the European chief.

The mishandling of the Greece crisis is among the many costly errors that the IMF has made over the years. In the East Asian crisis, it had imposed a similar fiscal austerity on Thailand and other countries, a policy that was seen as having prolonged the downturn in those countries.

The IMF promoted capital account liberalisation for many years before changing its views on it in 2012. In the run-up to the crisis of 2007, it saw securitisation as promoting financial stability; as a result, it completely failed to anticipate the build-up of risks in the financial system. In June of this year, its deputy managing director went so far as to admit that neo-liberalism had been oversold. Given the record of the IMF, it is legitimate to ask: how safe is it for borrower countries to rely on IMF's advice?

Despite its record, the IMF has not proved amenable to the reform of its governance. The US and other western nations have disproportionate voting rights. The managing director's post is reserved for Europeans (with the post of World Bank president being the preserve of the US).

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April 25,
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NEWS

Govt's discussions with IMF has affected SL's request for $ 2.5 billion from China: Chinese Envoy

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By Mandana Ismail Abeywickrema

Sri Lanka's ongoing discussions with the International Monetary Fund (IMF) has had an impact on the ongoing discussion for a $ 2.5 billion assistance sought by the Government of Sri Lanka as well as future loans, Chinese Ambassador to Sri Lanka Qi Zhenhong said today (25).

Speaking to a group of selected senior journalists, the Chinese envoy said both the Governments of China and Sri Lanka were still engaged in discussions on the financial assistance package that includes $ 1 billion loan facility and $ 1.5 billion line of credit.

"The Sri Lankan Government going to IMF has had an impact on the discussions," he said, adding that debt restructuring, which is an important fact in IMF negotiations, would have an impact on future loans.

However, Zhenhong noted that China will closely watch the discussions between the government of Sri Lanka and the IMF.

He further noted that countries that had sought IMF bail outs had faced strict conditions.

However, Zhenhong added that China has already provided assistance to Sri Lanka to the tune of $ 2.8 billion in different forms.

The breakdown of the $ 2.8 billion assistance is – $ 1 b term facility, Yuan 2 b ($ 300 m) assistance, $ 1.5 b swap.

request for $ 2.5 billion from China: Chinese Envoy

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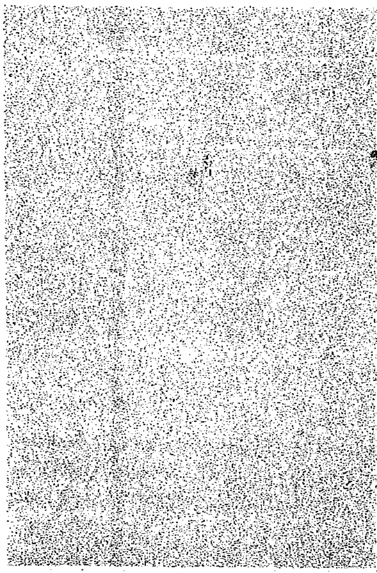

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IMF & ARGENTINA – Lessons for Sri Lanka

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Argentina gained independence from Spain in 1810. Like Sri Lanka, Argentina is rich in agriculture with vast fertile land. Unlike Sri Lanka, by 1913 Argentina became one of the world's 10th wealthiest states. Like Sri Lanka, political instability became a factor for Argentina's decline. Unlike Sri Lanka, Argentina was ruled by the military for 60 years. Agriculture production fell as a result of import substitution adopted by both governments. This created a large government, large wage increases, inefficient production & chronic inflation contributing to foreign debt for both nations. Measures taken by Argentina were to make its currency (peso) equal to US dollar & privatize state-run companies, which anyway led to default, then recovery, then again default in 2014 & 2020. Argentina has defaulted on its debt 9 times & currency devalued resulting in high inflation. Argentinians realize what went wrong & are demanding IMF be taken to international court.

Argentina like Sri Lanka had leaders following what suited their party policies instead of what the country & the people needed. The primary reasons for this was western governments & their proxies placing them in power to implement their agendas in exchange to ignore corruptions by these governments. West eventually used these corruptions as bribes to further advance agendas. Ultimately only countries & the people suffered.

Thus from an agriculture policy to industrialization to nationalism to corporate was a hallmark of governance in both countries. Argentina departed from a pro-West Catholic influence to a more state-controlled economy in the 1940s no different to what Mrs. Bandaranaike sought to achieve. That wasn't allowed to last long.

Argentina could never control inflation on top of which an armed conflict arose in 1982 with UK over Falkland Islands just like Sri Lanka began its 3 decade of armed conflict against LTTE in 1983.

It was in 1982 that Argentina went to IMF for financial assistance just as Sri Lanka went to IMF in 1983 for a Standby Arrangement. Military dictatorship ended in Dec1983 with Raul Alfonsin elected as President who too began IMF discussions which failed. Argentina even changed its currency yet in 1986 it failed to pay debt though debt was renegotiated.

New IMF agreements were reached in 1987 & 1989 but failed resulting in high inflation leaving Argentina no choice but to privatize. Were these IMF failures part of the privatization agenda? Is this what is happening to Sri Lanka as well?

Argentina privatized almost every state owned enterprise except for a couple of banks. Privatization meant moving from public ownership to private profit and they raised prices to ensure their profits and they raised prices to ensure their profits increased providing no solace to the people. These are areas that Sri Lanka has yet to experience and is likely to experience going blindly with the 'privatization' chant.

Argentina went again to IMF in 1999 for a $7.2b standby arrangement. Argentine debt was held in bonds & inspite of selling it could not meet debt payments. A situation no different to what Sri Lanka just experienced.

Argentina like Sri Lanka suffered an economic & political crisis. Value of the currency in both depreciated, unemployment in both countries increased, income poverty grew.

Privatization was not the answer that Argentina found out too late – they could blame economic neoliberalization because privatization proved a failure. Why is it then that the IMF worshippers and stooges of private organizations promoting privatization for Sri Lanka? It is only because a handful stand to benefit.

Privatization in Argentina was promoted by the Washington Consensus just as it is promoting same in Sri Lanka.

2002 saw Argentina appoint 2 Presidents in the space of 2 weeks, a likely scenario with the calls for present President of Sri Lanka to resign. President Kirtchner decided to liquidate Argentinian debt to IMF ($9.8b)in a single payment without refinancing with Venezuela buying Argentine bonds for $1.6b. By 2008 Venezuela held $6b in Argentine debt.

Fast forward to 2021 Argentinians are urging its government not to sign a debt restructuring deal with IMF – quite the opposite is happening in Sri Lanka.

People are protesting not to sign with IMF in one country and in the other country people protesting to sign!

The People of Argentina were well aware of the IMF & the misery it brought Argentinians with austerity measures. **Argentina owed IMF $44b** due since 2018. The agreement was to pay $19b each in 2022 and 2023.

IMF austerity measures generally hit only the majority poor of both countries & would be hardly felt by the richer which was why most of the upper echelons in both countries were quick to jump to accept IMF austerity measures. So long as it didn't affect them, any bailout was acceptable.

Argentinians suffered much during the 2001 financial meltdown – currency was devalued, bank withdrawals were banned after Argentina defaulted on $93b debt. This is exactly what is happening to Sri Lanka in 2022 after Sri Lanka's govt declared default. Both countries lacked dollars to trade. Argentinians do have dollars but they were in tax havens – this is the allegation being thrown in Sri Lanka too.

In looking at Argentina & IMF, Sri Lanka needs to realize that Argentina did not get anywhere from IMF bailouts on its advice. Argentinian economy did not improve – it just got worse.

In the case of Argentina, IMF was not interested in addressing the root causes of Argentina's financial crisis, no different to the situation in Sri Lanka. Plastering the problem is not the solution, short or even long term. Both countries require to create production capacities to trigger growth.

Trade Unions, general public, human rights activists all joined with slogans against the IMF.

""We don't have to bow our heads and pay the Fund as the government of Alberto Fernández is doing.

We say that scams are not to be paid, and we say no to the impunity of those responsible for surrendering our sovereignty.

We've seen this story many times before in Argentina, and it always ends with an adjustment for working people."

Myriam Bregman

IMF has given billions on credit but always with a condition – countries had to sell off valuable state assets & cut country budgets often only hitting the middle class and poor. Since 1956 Argentina has taken IMF funding 22 times as against the 15 times by Sri Lanka since 1965. Argentina took $57b in 2018.

Just like US-agents operating think tanks in Sri Lanka who had been former IMF officials and are pushing Sri Lanka to come under IMF control, Argentina's $57b loan was as a favor because the president of the IADB was an ex-IMF board member.

Argentina's loan came timed for elections to sway victory in favor of pro-US candidate and it will be interesting how IMF will drag discussions ahead of possible Sri Lanka's elections in early 2023.

In Argentina, the pro-US candidate lost but it meant the winner was saddled with repayment of $20b no different to the good governance ISBs that the present govt ended up having to pay. The scenario was identical.

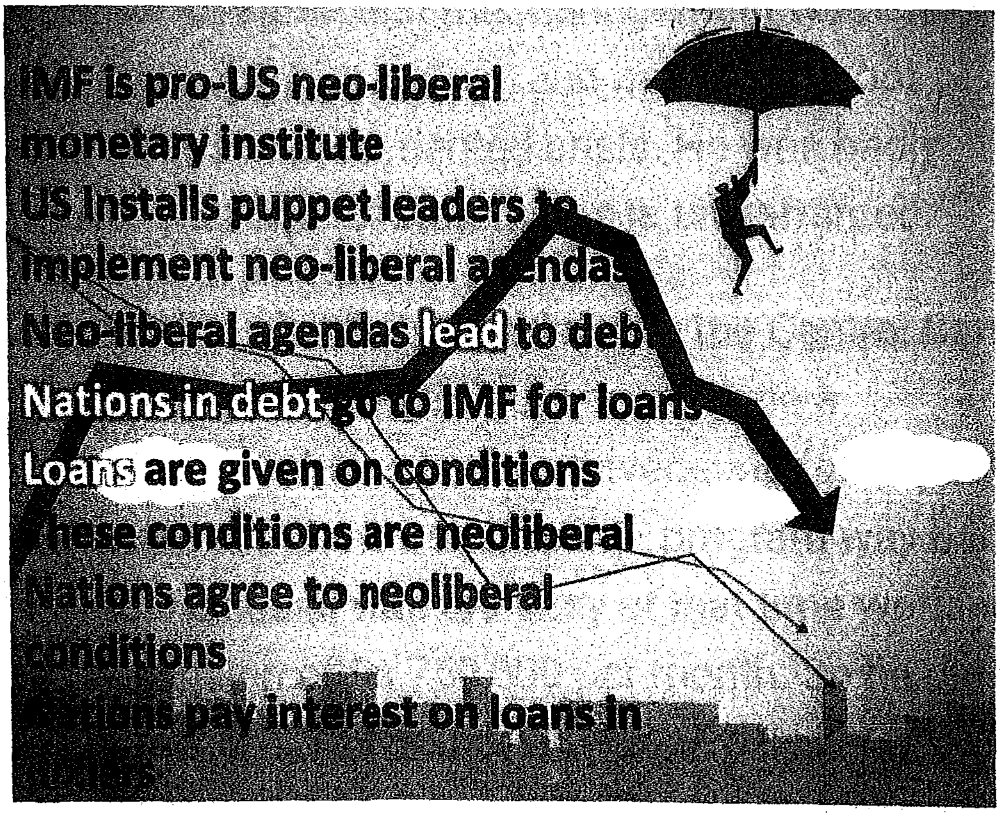
The IMF loan to Argentina enabled the wealthy to take their money out of the country. IMF was not bothered – they were happy that the government was agreeing to privatize and cut down on benefits to the people & IMF was not bothered that people were suffering as the government was not bothered too.

IMF issued an unprecedented report claiming its 2018 loan ($44.5b over 10 years) failed to 'deliver on its objectives'. IMF even placed formal restrictions on Argentina's fiscal response to Covid – 125,000 people died. Health, education, income of public workers are always what IMF wants govts to cut spending on.

Argentina then visited Russia and China & agreed to join China's Belt & Road Initiative. That was when the trouble started just as was the case for Sri Lanka.

It is true governments are the cause, but these causes are invariably created by these international vultures who tempt governments to take loans as taking loans means their entities can give more loans as bailouts with interest.

The Argentinians are demanding IMF be held responsible for its financial colonialism and take Argentina's case to the International Court of Justice to reclaim Argentina's sovereignty. The People of Argentina are demanding international justice against what IMF has done & the success of this will encourage other nations to pursue same.



Shenali D Waduge