

CURRENT STATUS OF DEBT RELIEF

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Total foreign debt outstanding of Sri Lanka as at end December, 2004 was at Rs. 996 billion, of which a sum of Rs.495 billion is owned by bilateral sources while a sum of Rs. 475 billion is owned by multilateral sources such as ADB and World Bank. Of the total bilateral debt outstanding, 88 per cent or Rs.437 billion is owned by the Paris Club creditors while the rest is due to China, Korea, India, Kuwait and Saudi Arabia.

Total foreign debt service payments for the year 2005 is estimated to be in the region of Rs. 58 billion consisting of principal payments (Rs. 39 billion) and interest payments (Rs. 19 billion) Of which debt service payments to Paris Club members are estimated at Rs. 31 billion while those to other bilateral sources are at Rs. 2 billion.

G7 countries at the meeting of the Finance Ministers and Central Bank Governors held on February 05, 2005 agreed to defer debt service payments upto end 2005 in support of the post Tsunami reconstruction work. Following this decision, Sri Lanka has requested a debt relief as a budgetary and Balance of Payment support for post Tsunami relief rehabilitation and reconstruction work, from all Paris Club members and other bilateral donors such as Korea, China, India, Kuwait etc. The Government requested from these countries to defer debt service payments for a period of 3-5 years as such relief will provide much needed fiscal and balance of payment space to face the challenges ahead on account of post Tsunami relief rehabilitation and reconstruction.

Paris Club creditors (including G7 countries) at the meeting held on 9th March, 2005 agreed to defer debt service payments due from Tsunami affected countries who request for such relief until December 31, 2005 subject to provisions of national laws of the creditor countries. As per this decision, the deferred amounts would be repaid over five years of which one year of grace. Moratorium interest accrued in 2005 will be capitalized and paid as the deferred amounts. The moratorium interest rates will be determined on a bilateral basis.

In consultation with the Paris Club creditors through their Embassies, the Government of Sri Lanka has deferred debt service payments due in 2005 to all Paris Club creditors (except USA) and some bilateral creditors such as Korea and China since 11th February until the terms and conditions are agreed in the near future. However, the debt service payments on commercial loans and export credit from these bilateral sources are duly paid

Current status of debt moratorium is indicated in Table 1. The Government of Italy has agreed to convert their debt to Sri Lanka into grant aid while China also has agreed to write-off three loans in full and one loan in partial and agreement on this behalf has already been signed. The Governments of Denmark and Canada have informed that they do not intend to charge any interest on the deferred payments for their loans. The Government of Germany has confirmed debt moratorium excluding loans raised from capital market. Meanwhile, U.S.A. has informed that they are in the process of obtaining congressional approval for participating in the Paris Club offer of March 10. The US Government's decision on this will be informed by May. Agreements on debt moratorium have to be signed with all Paris Club creditors..

Total savings from the debt moratorium is expected to be in the region of US\$ 294 million for the year 2005. Savings from the debt moratorium as of 20 th April, 2005 is at US\$78 million

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