

Sri Lanka seals debt deal with Official Creditor Committee after financial crisis

Updated - June 26, 2024 09:53 pm IST Published - June 26, 2024 05:51 pm IST - Colombo

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A man walks past posters which said 'good news' in Colombo on June 25, 2024, as President Ranil Wickremesinghe is expected to announce a debt restructuring deal with bilateral lenders after a sovereign default in April 2022. | Photo Credit: AFP

In what it termed a significant milestone, Sri Lanka on Wednesday sealed a deal with the Official Creditor Committee [OCC], to restructure the debt owed to its bilateral lenders including India, and signed a separate agreement with China for debt treatment.

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“Sri Lanka reached a final restructuring agreement for \$5.8 billion of debt with its bilateral lenders’ Official Creditor Committee in Paris... This agreement grants significant debt relief, allowing Sri Lanka to allocate funds to essential public services & secure concessional financing for development needs,” President Ranil Wickremesinghe’s office said.

✿ A Flourish hierarchy chart

The OCC is a platform comprising 17 countries including India and members of the Paris Club such as Japan, that have extended loans to Sri Lanka. It was formed in May 2023 with the aim of simplifying Sri Lanka’s debt negotiations after the country defaulted on its external debt, in the wake of an unprecedented financial crash in 2022.

China, Sri Lanka’s largest bilateral lender, opted to stay out of the platform, but attended the discussions as an observer. Colombo has been negotiating its debt treatment with Beijing bilaterally and has clinched a deal, the President’s office said on Wednesday. “Sri Lanka signed debt treatment agreements in Beijing with the China Exim Bank to restructure USD 4.2 billion of debt,” a statement said. Sri Lankan authorities are yet to share details of the terms of the restructuring deal with OCC and China.

Meanwhile, Sri Lanka is yet to reach an agreement with its bond holders. A recent *Bloomberg* report said the second round of direct talks between the two parties is scheduled this week, to finalise treatment of \$ 12 billion owed to private creditors, who hold the largest chunk of Sri Lanka’s external debt in international sovereign bonds.

The International Monetary Fund (IMF) has underscored the need for “timely debt restructuring” in Sri Lanka’s economic recovery programme, even as large sections of the population continue to reel under the impact of the debilitating crisis.