SRI LANKA'S DEBT CRISIS: THE CASE FOR STRONGER CHINESE AND INDIAN ROLES IN NEXT RESTRUCTURING FRAMEWORK

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Post-pandemic, several low- and middle-income countries such as Sri Lanka sought International Monetary Fund (IMF) assistance but their high debt caused delays in receiving IMF bailouts. While debt restructuring was traditionally coordinated by the Paris Club, recent cases have been challenged by a broader range of creditors, such as China, India and private lenders, complicating negotiations.

Sri Lanka's programme was impacted by the lack of a robust sovereign debt restructuring framework which, along with country specific inefficiencies, hampered fast resolution. Costly delays emerged, only partially alleviated by the IMF's neutral facilitation and guidance. With many middle-income and frontier markets at risk, deeper reforms are needed which should include also the new lenders. Early positive signs are emerging: IMF and external reforms may streamline processes, while G20 discussions on a new framework are ongoing. The new Global Sovereign Debt RoundTable holds promise for improving coordination and information sharing.

(Click on the link to read the above in Chinese, French and Spanish)

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***Chinese*:**

斯里兰卡债务危机：在下一轮重组框架中中印两国应发挥更大作用的理由

疫情后，斯里兰卡等多个中低收入国家寻求国际货币基金组织（IMF）的援助，但由于高债务水平，导致IMF救助的发放出现延误。尽管债务重组传统上由巴黎俱乐部协调，但近年来，包括中国、印度和私人贷款人在内的更广泛债权人参与，使谈判变得更加复杂。

斯里兰卡的项目受制于缺乏健全的主权债务重组框架，加之该国特有的低效问题，导致解决进展缓慢。高昂的延误成本仅在一定程度上通过IMF的中立协调与指导得到缓解。随着许多中等收入和新兴市场国家面临风险，亟需更深层次的改革，新兴债权人也应被纳入进来。早期的积极迹象正在显现：IMF 和外部改革有望简化流程，二十国集团 (G20) 也在就新框架进行讨论。新的全球主权债务圆桌会议有望提升协调与信息共享水平。

***French*:**

CRISE DE LA DETTE AU SRI LANKA: PLAIDOYER EN FAVEUR D'UN RÔLE ACCRU DE LA CHINE ET DE L'INDE DANS LE PROCHAIN CADRE DE RESTRUCTURATION

Après la pandémie, plusieurs pays à revenu faible ou intermédiaire, comme le Sri Lanka, ont sollicité l'aide du Fonds monétaire international (FMI), mais leur niveau d'endettement élevé a retardé la mise en œuvre des plans de sauvetage du FMI. Alors que la restructuration de la dette était traditionnellement coordonnée par le Club de Paris, ces cas récents ont été compliqués par l'implication d'une gamme plus large de créanciers, tels que la Chine, l'Inde et des prêteurs privés, rendant les négociations plus complexes.

Le programme du Sri Lanka a été affecté par l'absence d'un cadre solide de restructuration de la dette souveraine, ce qui, conjugué à des inefficacités propres au pays, a empêché une résolution rapide. Des retards coûteux sont apparus, seulement partiellement atténués par la facilitation et la position de neutralité du FMI. De nombreuses économies émergentes ou à revenu intermédiaire étant à risque, des réformes plus profondes s'imposent, incluant les nouveaux prêteurs. Des signes encourageants apparaissent : les réformes intérieures et extérieures au FMI pourraient rationaliser les procédures, tandis que les discussions du G20 sur un nouveau cadre se poursuivent. Le nouveau Global Sovereign Debt RoundTable offre des perspectives prometteuses pour renforcer la coordination et le partage d'informations.

Spanish:

LA CRISIS DE LA DEUDA DE SRI LANKA: EL ARGUMENTO A FAVOR DE UN PAPEL MÁS FUERTE DE CHINA E INDIA EN EL PRÓXIMO MARCO DE REESTRUCTURACIÓN

Tras la pandemia, varios países de ingresos bajos y medios, como Sri Lanka, buscaron asistencia del Fondo Monetario Internacional (FMI), pero su elevado nivel de deuda causó retrasos en la recepción de los rescates del FMI. Aunque la reestructuración de la deuda era tradicionalmente coordinada por el Club de París, los casos recientes se han visto complicados por la participación de un grupo más amplio de acreedores, como China, India y prestamistas privados, dificultando las negociaciones.

El programa de Sri Lanka se vio afectado por la falta de un marco sólido de reestructuración de la deuda soberana que, junto con ineficiencias específicas del país, dificultó una resolución rápida. Surgieron retrasos costosos, solo parcialmente mitigados por la facilitación y orientación neutral del FMI. Con muchos países de ingresos medios y mercados frontera en riesgo, se necesitan reformas más profundas que también incluyan a los nuevos acreedores. Ya se observan señales positivas: las reformas del FMI y externas podrían agilizar los procesos, mientras continúan las discusiones del G20 sobre un nuevo marco. La nueva Mesa Redonda Global de Deuda Soberana ofrece esperanzas para mejorar la coordinación y el intercambio de información.

Executive Summary

1. Debt levels of developing and frontier countries soared after the Global Financial Crisis and rose further with the pandemic. Along with higher debt levels countries increasingly borrowed from new lenders, in particular China and India, and many issued international sovereign bonds.

2. Countries facing high debt problems usually turn to the International Monetary Fund (IMF) for emergency financing tied to adjustment programmes. However, in most severe cases where a country defaults, IMF lending is contingent on prior debt reduction.

3. Sovereign debt restructuring once involved a small group of mostly sovereign lenders, coordinated by the "Paris Club", with a clear and predictable process.

4. The rise of new lenders, such as China and India which are outside the Paris Club, and increasing private sector involvement make the old process obsolete. Restructuring now requires more complex negotiations involving the new sovereign lenders and bondholder representatives.

5. Sri Lanka, once a promising middle-income frontier market, ran into economic difficulties due to policy mistakes and various economic and political shocks. In April 2022 the country defaulted on its external debt.

6. Without a restructuring framework involving all creditors, Sri Lanka had to negotiate separately with different groups; the lack of a predictable process and creditor mistrust slowed progress.

7. Sri Lanka's IMF programme and related international financing were delayed by nearly one year during which the economy shrank, inflation soared and living conditions severely deteriorated. While Sri Lanka is now performing well under its programme, the crisis exacted a heavy cost.

8. The Sri Lanka example underscores the need to accelerate efforts to engage China, India and other emerging lenders in a formal global sovereign debt restructuring framework.