Borrowing Wisely: Gaining Insights from Debt Restructuring in Ghana, Sri Lanka and Zambia

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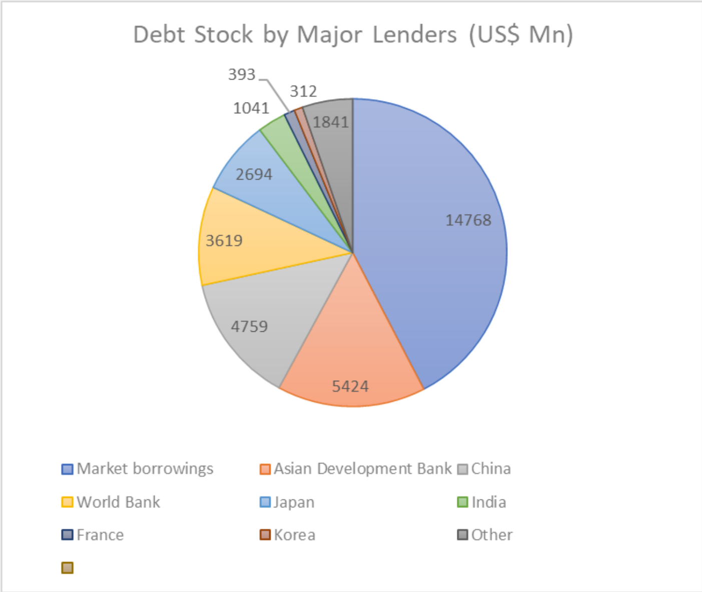
Global debt distress is a pressing issue in the developing world that also has significant implications for developed countries and multilateral organisations. Especially since the COVID-19 pandemic, many developing countries have faced worsened economic conditions due to the slow recovery of economic activities. According to the United Nations Development Program (2022), 54 developing economies currently face severe debt problems. Together, these countries represent over 3% of global GDP, 18% of the global population, over 50% of people living in extreme poverty, and 28 of the world's top 50 most climate-vulnerable countries.

Sri Lanka has been hit hard by a catastrophic economic crisis stemming from pre-existing vulnerabilities and policy missteps. These tremendous economic and social challenges include a severe recession amid high inflation, depleted reserves, unsustainable public debt, and heightened

financial sector vulnerabilities. By the end of April 2022, total outstanding external debt of the Government was US$ 34.8 billion (External Resources Department, 2023). Consequently, the Government of Sri Lanka signalled Sri Lanka was bankrupt, announcing a temporary suspension of repayment of all external debt until an orderly and consensual restructuring was secured in line with the economic adjustment program supported by the IMF.



Source: Department of External Resources (2023)

In April 2022, Sri Lanka declared bankruptcy and received IMF assistance in March 2023 nearly one year later. Ghana defaulted in December 2022 and received IMF financial assistance within 5 months in May 2023. Among the three case studies, Zambia experienced the longest waiting time for IMF assistance which was granted in August 2022 after the default in June 2020. Sri Lanka, Ghana and Zambia are examples of developing Asian and African countries that have recently visited the IMF and undergone debt restructuring processes after declaring sovereign defaults. Considering the growing financial difficulties, Bangladesh and Pakistan may also follow these defaulted countries in the near future. There are both common reasons for the debt crises in these three countries as well as country-specific factors that directly affected their respective defaults. Ghana and Zambia's engagement with creditors provide an opportunity for Sri Lanka to learn from the successes and failures of their debt restructuring negotiations, which are currently at different

stages, and this publication summarises the similarities and differences between Sri Lanka, Ghana, and Zambia, to better inform future engagements with debt restructuring processes.

1. Debt Crises in Ghana, Zambia and Sri Lanka

All the three selected economies, Ghana, Zambia and Sri Lanka, share some of the reasons in common for the debt crisis; these include low economic growth rates, losing investor and lender confidence, local currency depreciation, depleted international reserves and policy missteps. Low economic growth and reduced production capacity has meant that developing countries have failed to generate the short-term revenues required to service debt obligations and this has created serious debt distress. Table 1 summarises the key similarities and differences between the three case studies.

Table 1: Summary of Debt Crises in Ghana, Zambia and Sri Lanka

Country	Ghana	Zambia	Sri Lanka
Total External Debt US$ (Billion)	29.1 (By Dec 2022)	26.6 (By Dec 2020)	49.6 (By Dec 2022)
External Debt as a % of GDP	42.4% (2022)	72.9% (2020)	74.7% (2022)
Date of Default	December 2022	June 2020	April 2022
Date of IMF Grant	May 2023	August 2022	March 2023
IMF Agreement	US$3 billion Extended Credit Facility 36 Months	US$1.3 billion Extended Credit Facility 38 Months	US$3 billion Extended Fund Facility 48 Months
Country specific reasons for debt crisis	Increasingly unconstrained domestic financing	Higher rates of poverty, adverse climate changes, inefficient public investment drive	Protracted twin deficit, excessive money printing
Common reasons for debt crisis	Low economic growth rate, losing investor and lender confidence, local currency depreciation, depleted international reserves, policy missteps, COVID-19, Ukraine-Russia war		
IMF Restructuring deal	Started restructuring domestic debt before the IMF assistance was granted.	Restoring sustainability through fiscal adjustment and debt restructuring	Restructure both domestic and foreign debt.
Specific terms	The ECF program aims to restore macroeconomic stability, ensure debt sustainability, and lay the foundations for higher and more inclusive growth.	creating room in the budget for much-needed social spending. Strengthening governance and reducing the risk of corruption, including by improving public financial management.	Foreign debt excludes multilateral debt.
Common terms	Focus on structural reforms and prior actions if needed under ECF and EFF schemes.		

Source: International Monetary Fund (2023), Central Bank Annual Report (2022) External Resource Department of Sri Lanka (2023)

With the depreciation of foreign exchange reserves and lower economic growth rates, investor confidence in these countries plummeted leading to projects being delayed and even cancelled, which led to employment challenges and capital flight. External debt obligations, which are owed primarily in foreign currencies, became difficult to service due to depleted foreign exchange reserves, and these countries then relied on private credit markets as a source of foreign exchange to service debt and purchase essential imports. Eventually, when servicing debt with more debt became too expensive, sovereign default was the only option.

1.1 Ghana

Both Ghana and Sri Lanka, lower-middle-income countries that experienced a debt crisis following the COVID-19 pandemic, shared many of the same factors that caused the debt crises, including depleted foreign reserves, currency depreciation, rising inflation, policy missteps, and fading confidence among domestic investors. According to Donkor (2023), when Ghana decided to make high school education (including boarding) completely free, reinstate allowances for nursing and teacher trainees, eliminate several taxes enacted by the previous government, and construct a factory in each of the country's 261 districts, these impractical political promises that were made solely with the intention of winning the elections and remaining in power to enrich them had a significant negative impact on the economy.

When the government borrowed heavily from both domestic and international markets to carry out its programs, pay enormous debts to independent power producers, and make up the revenue shortfall from eliminating and reducing 18 taxes and levies (although the government eventually introduced more taxes), it was a significant drain on the nation's finances. Furthermore, the large external shocks in recent years have made Ghana's pre-existing fiscal and debt vulnerabilities worse, leading to a loss of access to foreign markets, increasingly constricted domestic financing, and the government's reliance on monetary financing. The main similarity between the crises in Sri Lanka and Ghana was that both governments took on unsustainable levels of debt to finance fiscal deficits, which were exacerbated by exogenous shocks.

1.2 Zambia

Zambia's debt crisis stemmed from years of economic mismanagement with an inefficient public sector, which is similar to both Ghana and Sri Lanka. However, Zambia, a low-income country faces significant challenges exacerbated by relatively higher levels of poverty that have not been addressed through inclusive economic growth. In particular, Zambia faces major climate-induced obstacles in its efforts to fight poverty, lessen food insecurity, and manage natural resources sustainably. Intense rains, floods, droughts, and high temperatures are among the more frequent extreme weather events that Zambia experiences. These occurrences have a significant effect on infrastructure, energy, agriculture, water resources, biodiversity, and human health. Zambia is still one of the low-income nations that is caught in the ongoing financial crisis as a result of these climatic issues as well as dire socioeconomic conditions, facing what many economists refer to as the 'climate-debt trap' (Jensen, 2022).

Akiwumi (2022) points out that as a low-income country grappling with mounting debt over decades, Zambia faced economic contractions due to its strong reliance on export earnings, falling copper prices and continuous lending from abroad. Zambia faces significant development challenges that are exacerbated by climate vulnerabilities, which have created a difficult dichotomy for policymakers. The government's growth strategy has continued to focus on export-led growth from commodities, which relies on foreign exchange revenue from volatile international markets. When prices fall, foreign exchange revenues fall, and this puts pressure on servicing external debt. With the start of the debt distress, foreign lenders refused desperate pleas from Zambia to suspend interest payments, even for a few months, draining Zambia's foreign cash reserves and finally leaving no option for Zambia but to default.

1.3 Sri Lanka

As per the Central Bank of Sri Lanka's annual report (2022), the composition of Sri Lanka's sovereign debt has recorded a notable rise in both domestic and foreign debt, particularly during the period from 2020 to 2022. Several inherent weaknesses of the economy, further exacerbated by policy lapses, steered the country towards a multifaceted disaster. Ill-timed tax reductions, an

ill-equipped attempt to swiftly adopt organic agriculture, the depletion of the country's official reserves amidst futile attempts to maintain an untarnished debt servicing record, the delay in the exchange rate adjustment, and the failure to pay heed to several early warning signals caused tremendous shockwaves across the economy.

Consequently, the economy was battered by excessive balance of payments (BOP) pressures with acute shortage of foreign exchange liquidity and pressured exchange rate, spiralling inflation and dampened economic activity amidst mass loss of livelihoods, large fiscal imbalances, public debt reaching unsustainable levels with extraordinarily high risk premia, devastating sovereign rating downgrades that constrained access to external finance, unprecedented heightening of socio-economic and socio-political tensions, and rapidly deteriorating business confidence. Businesses and the general public alike were in severe distress amidst shortages and rationing of essentials, the ballooning cost of living and cost of production, and the loss of welfare and livelihoods. Consequently, the rapid unfolding of social unrest resulted in political instability, warranting an urgent need for redefining policy priorities to steer the economy away from further turmoil.

The common theme between Ghana, Sri Lanka, and Zambia is policy mismanagement that created structural imbalances in the economy. While there were some differentiating factors at play, such as Sri Lanka's excessive money printing and disruptive agricultural policies, Ghana's impractical election promises to provide subsidies on education, tax cuts, and Zambia's reinstatement of allowances for selected employments and climate vulnerabilities, the debt crisis demonstrated many common problems that are not unique to these case studies.

When the economic shocks associated with the pandemic and the war in Ukraine translated to low tourism revenues, soaring energy prices, falling global incomes and increased debt burdens, this exposed fragilities that exacerbated their debt crises. A significant component of this fragility also comes from inefficient taxation mechanisms and unsustainable fiscal deficits that are supported by additional debts. This is a common challenge in developing countries and many of the proposed reforms by international organisations aim to address low government revenues. As a whole, these countries defaulted on debt due to exogenous shocks exposing structural imbalances that were not

addressed, and these can generally be summarised as poor governance, undiversified economies, and weak taxation structures.

2. Common Challenges in Facing the Debt Crises & Debt Restructuring

2.1 Tax Revenue Challenges and Governance Issues

Despite high public sector expenditure, Sri Lanka has yet to maintain a healthy level of government revenue, leading to an unsustainable increase in outstanding central government debt. The overreliance on indirect taxes and the imbalance between direct and indirect taxes aggravates this matter. Indirect taxes are taxes that are levied on goods and services rather than incomes or revenues; these taxes are particularly regressive because they do not differentiate between income levels. Therefore, the poorest people in society and the wealthiest people in society pay the same level of tax on their purchase of a good, which means that lower-income households pay a larger share of their disposable income on taxes.

The most notable modification to tax structure was the reduction of the Value Added Tax (VAT) from 15% to 8%, the reduction of tax on telecommunication tariffs by 2.5%, significant changes to income tax and Withholding tax (WHT) and the elimination of the Nation Building Tax (NBT), The Economic Service Charge (ESC) and Debt Repayment Levy. Government revenues were significantly impacted by these tax cuts, and it meant that the government was required to take on debt to finance ongoing projects and maintain government spending (Inland Revenue Department, 2023).

Misappropriation of funds and impractical tax reforms of Ghana too speeded its economic downfall. According to the Hughes (2022), the major tax reforms included the abolishment of 17.5% VAT/NHIL on real estates, financial services and import duties on spare parts and vehicles, while there were tax reductions on the national electrification scheme levy from 5% to 3%, public lighting levy from 5% to 2%, and the special petroleum tax rate from 17.5% to 13%. Taxes were also withheld for gold exporters from 3% to 1%.

Similarly in Zambia, tax revenues were insufficient to meet the requirements of debt service and finance public sector salaries, which meant that the government had to borrow more money for any other publicly financed projects.

2.2 The middle-income trap

Sri Lanka graduated to the upper middle income country status as per the World Bank classification of countries published in July 2019 (Central Bank, 2020). However, the World Bank (2020) reveals that Sri Lanka was downgraded to a lower middle income country category soon after. Sri Lanka has thus nearly always been categorised as a lower-middle income country since its elevation to the World Bank's middle-income level in 1997 (Wijewardena, 2018). The World Bank Group allocates the world's economies to four income groups including low, lower-middle, upper-middle, and high, each year based on the Gross National Income (GNI in US$) per capita of the previous calendar year. As lower middle-income countries (remain within the range from US$ 1086 to US$ 4255), Ghana and Sri Lanka are more severely affected by the debt distress as compared to the low-income country; Zambia (less than US$ 1085), due to the barriers they have in the path to the concessionary borrowing.

As a low-income country, Zambia is eligible for the Heavily Indebted Poor Countries Initiative (HIPC) and has access to much more generous debt restructuring and relief conditions. The HIPC initiative is exclusively granted to the lowest income countries to ensure that their development is not compromised by unsustainable debt. However, such concessional initiatives do not exist for other developing countries like Sri Lanka that remain above the margin of low-income countries. Hence, the current global debt crisis is dominated by middle-income countries that face a 'middle income trap', whereby limited access to concessional finance due to obsolete arbitrary income categorisation creates unsustainable debt burdens as they pursue economic growth. Debt is essential for development, especially in developing countries where government revenues are low, but infrastructure, education, health and other social spending investments require longer-sighted financing that enables governments to implement long-term projects that build capacity. Without this, countries must tow the line between investments for development while servicing increased debt burdens.

Sri Lanka, Ghana and other middle-income developing countries require imminent debt relief in the forms of concessionary financing or debt restructuring but are constrained by their middle-income status; this must indicate to the World Bank, IMF and other multilateral organisations that mechanisms must evolve to address this unprecedented debt crisis and create better initiatives to promote economic development.

2.3 China's Role in Debt Restructuring Discussions

China has become the world's largest bilateral creditor to the developing world, mainly as part of its Belt and Road Initiative to fund infrastructure and strategic investments in developing economies. According to some estimates, since 2017, it has been the largest official creditor globally, larger than the World Bank and the IMF (Reinhart & Trebesch, 2021). African Business (2023) observes that China accounted for around a third of Zambia's US$ 17 billion debt. With regard to Ghana, the IMF Country Report (2023) revealed that Ghana has 3% of external debt to China while Sri Lanka has China as the highest bilateral debt source with 45% of debt.

China faces significant challenges regarding its debt collection in the coming years, as many of its bilateral partners are struggling to service debt repayment schedules due to rising global interest rates, high inflation, and slow growth in the post COVID-19 economic recovery process. Without effective debt restructuring, debt relief, or debt forgiveness, debtor nations risk falling deeper into a debt trap, where economic policies are motivated purely to service unproductive debt repayments to their creditors to prop up the global financial system.

China has been reluctant to engage immediately in debt restructuring negotiations besides their own domestic debt pressures; if China sets a precedent for generous and straightforward debt restructuring, this risks opening the floodgates to serial defaults on its bilateral debts through the BRI and creating further pressures on the Chinese economy (Colombo Gazette, 2023). China has so far delayed some debt restructuring negotiations and demonstrated its vital role in gaining approval from the IMF, which indicates to other developing countries that it may face additional challenges if they opt to default on their own external debt. Given the scale of global debt distress,

a unilateral default could create a dangerous financial contagion whereby other debtor nations give up on their liabilities and thus significantly reduce the assets of their creditors leading to economic crisis.

In China's case, debt servicing payments comprise a significant source of government revenue due to its status as a major bilateral creditor. Creating more difficult circumstances for developing countries to default on their external debt serves China's interests as they need to maintain this vital source of revenue to manage their own domestic debt pressures. Considering these issues, as a strategic creditor with less preference for losses, China typically prefers lengthy extensions on debt repayments and resists any reductions in the outstanding principal. China's Foreign Minister has strongly defended the country's debt record, noting that China allowed dozens of the world's poorest countries to delay debt repayments in 2020 and 2021 (Bradsher, 2023).

China - Ghana Debt Negotiations

After long and complex negotiations, China and the Paris Club agreed on a debt restructuring deal for Ghana that enabled IMF financial assistance. The IMF, which approved a US$ 3 billion relief package for Ghana in May 2023, warned that delays in debt restructuring agreements with external creditors will hurt the successful implementation of the bailout programme. China plays a central role in this matter as a bilateral lender for Ghana with US$ 1.9 billion which is 3% of the total debt of Ghana (IMF Country Report, 2023). As pointed out by Nyabor (2023), the danger associated with Ghana's debt to China is that about US$ 619 million of Ghana's debt with China is collateralised, backed by assets including cocoa, bauxite, and oil. Such collateral-related debts put Ghana at risk of losing important resources if they fail to make timely repayments, especially in the case of China's unwillingness to make concessions on this. Africa Programme Officer at the Natural Resource Governance Institute alarmed that China's rigid stance on the debt repayments may extend even to the tax revenue of Ghana in the failure of repaying sufficient bauxite, collateralised items. Hence, China's role as a lender remains critical and the agreements to be made in the creditor platforms is of decisive importance for the debt sustainability of Ghana. Even though Ghana lacks hopes for a flexible and cordial response from China in debt restructuring and

especially regarding a haircut, the IMF has continuously stressed the importance of a fair deal with the creditors for a debt recovery.

China - Zambia Debt Negotiations

Zambia is slightly ahead of Sri Lanka and has completed the first IMF review which Sri Lanka faced recently with comments on further actions for recovery. Even though Zambia had to endure nearly two years of delay in the debt restructuring process, the country was able to bargain for a fair deal with the support of other lender countries that convinced China to reach an agreement. The Export-Import Bank of China agreed to reduce the coupon on its US$ 4 billion in recognised official claims to 1% for the remainder of Zambia's IMF program. The Zambian agreement with China is to pay interest rates of as low as 1% until 2037, push out maturities on US$6.3 billion in bilateral debt to 2043, representing an average extension of more than 12 years. Rates will increase to 2.5% after 14 years under the baseline scenario. Principal repayments will begin in 2026, at 0.5% or about US$30 million yearly, until 2035 (Hill, 2023). However, these agreements will be subject to the condition that the remedy would be adjusted if the economy is judged to be upgraded to medium debt-carrying capacity.

China - Sri Lanka Debt Negotiations

As per the statistics of Department of External Resources (2023), in the bilateral negotiations with external creditors of Sri Lanka, China plays an influential role as the Non-Paris Club (NPC) creditor to whom Sri Lanka owes the most (US$ 4.7 billion from the entire NPC outstanding of US$ 6.7 billion at the end of March 2023). Chinese loans had financed a spree of large infrastructure projects, including highways, an airport and a port. China will have to play a major role in Sri Lanka's debt restructuring process, with $7.4 billion or 19.6% of outstanding public debt owed to China at the end of 2021 (Moramudali & Panduwawala, 2022). In the Sri Lankan case, China offered assurances of bilateral support but declined to join the official creditors' platform to negotiate a common debt restructuring plan for Sri Lanka with India, Japan, and the Paris Club. This reluctance of China's decision has increased the complexities of Sri Lanka's debt restructuring before its first IMF review in September. Much like Ghana and Zambia, Sri Lanka also owes

significant debt to China and has engaged with the Chinese government to create more sustainable repayment schedules.

In light of the two scenarios observed in Ghana and Zambia, Sri Lanka stands to glean valuable insights. Notably, the situation in Ghana underscores the inherent risks associated with collateralised debts from China, which could potentially harm a nation's economic resources. Additionally, it is worth highlighting that Sri Lanka may find itself in a more favourable position during debt negotiations with China, as evidenced by the outcomes in Zambia where debt restructuring discussions primarily resulted in the extension of long-term payments rather than securing significant relief measures from the Chinese authorities.

3. IMF Recommendations

Often, countries that come to the IMF face more than one type of crises as challenges in one sector spread throughout the economy. Crises can slow growth, increase unemployment, lower incomes, and create uncertainty, leading to a deep recession. In an acute crisis, defaults or restructuring of sovereign debt may be unavoidable. Countries with unbearable debt distress seek the IMF assistance as the last resort. Not only for the monetary value of the relief received, the IMF also gives credibility for the willing economy to raise funds from other lending forces. However, a responsibility lies with the financial institutions and experts of each country to assess their ability and to effectively evaluate the pros and cons of debt financing by explicitly regulating it.

With respect to Sri Lanka, it was required to initially adopt a debt restructuring process with the creditors. At its inception, the debt restructuring focused only on the bilateral foreign creditors, including Paris Club and Non-Paris Club members. Aligning with the minimum level of adjustments suggested by the IMF (2023) to reduce the public debt-to-GDP ratio from 128% to below 95%, gross financing needs (GFN) from 34.6% to 13% and foreign debt servicing from 9.4% to 4.5% of GDP to restore macroeconomic stability and debt sustainability, the Central Bank of Sri Lanka agreed to domestic debt restructuring (DDR) along with foreign debt restructuring. To keep the commercial banks from failing, DDR applies only to treasury bills and bonds under

the Central Bank of Sri Lanka, along with pension funds such as the Employees Provident Fund and Employees' Trust Fund under the government.

After successful negotiations with the IMF and its bilateral creditors, Sri Lanka was approved of the US$3 billion Extended Fund Facility (EFF) to support economic reform and debt restructuring processes. This is Sri Lanka’s 17th visit to the IMF and critics are questioning whether this leads to a successful debt restructuring process. Sri Lanka has had little success in these processes in the past. However, Sri Lanka must learn from past experiences and other debt-distressed developing countries to ensure that the economy can emerge from the debt crisis sustainably and rebuild. The IMF's grant of US$3 billion to Ghana in May 2023 as Extended Credit Facility and IMF approved an ECF of US$1.3 billion for 38 months for Zambia in August 2022 to restore macroeconomic stability and debt sustainability.

Even though the global economy showed several debt-burdened nations lining up for financial aid as their last option, the IMF was regrettably not a dependable supply of foreign exchange to help stabilise nations right away after a default. Because of the IMF's loan policies, financing guarantees, arrears policies, etc., sizable official creditors are able to prevent IMF disbursements by refusing to provide financing assurances. This effectively prevents the IMF from intervening when it is most needed and reduces the IMF's capacity to act as the last-resort provider of foreign currency liquidity in the global economy. It is obvious that the IMF needs new mechanisms to enable it to carry out its primary duties even if a high-leverage creditor refuses to cooperate.

4. Lessons for Debt Restructuring

Both Sri Lanka and Ghana as lower middle-income countries defaulted before the debt restructuring process. This causes relatively higher losses to investors and hints that there will be delays in reaching an amicable settlement with foreign creditors. This is why reaching the IMF prior to a default is important without being rejected by the other potential lenders. Given the emerging debt crises in the developing world, it is essential for the international financial institutions either to form globally accepted sovereign debt management mechanisms and support

these economies for a speedy recovery or to change the prevailing conditions related to lower middle-income countries' access to concessional financing.

As mentioned earlier, the HIPC is an initiative granted exclusively to the low-income countries to ensure that their development is not compromised by unsustainable debt. However, the current global debt crisis is dominated by middle-income countries that are facing a 'middle income trap', whereby limited access to concessional finance due to obsolete arbitrary income categorisation. Countries under the HIPC are eligible for relief on 100% of their debts and can access much more generous restructuring conditions. Hence, these economies may be entitled to restructure debts owed to senior creditors (the multilateral lenders), such as the World Bank and Asian Development Bank, to restructure their debt. However, Sri Lanka and Ghana are not eligible for restructuring debts owed to senior creditors as a lower middle-income country. Restructuring the debts owed to senior creditors is one of the main concerns raised by China as their defence against the delay in common creditor discussions.

Another major challenge posed by the ongoing debt crisis is the scale of opportunity cost facing developing countries. When Sri Lanka services external debt repayments, not only is it spending a significant share of its public revenue, but it is also foregoing essential spending on infrastructure, education, healthcare, and other crucial public services that alleviate poverty and promote economic development. It is vital that creditors recognise the opportunity cost of debt servicing and address them at their core. The Zambian government was successful in bargaining to pay only US$750 million, compared to the original US$6.3 billion. This reduction in debt obligations unlocks resources for Zambia to spend on other development programs and promotes investment in sustainable development, which will create a more resilient economy for managing debt obligations in the medium and long run. This was further complemented by IMF and World Bank financing of US$188.8 million and US$75 million, respectively, to carry out new development projects in Zambia.

In the Sri Lankan context, IMF conditionalities influence changes to institutional structures, job opportunities, salaries, tax subsidies, etc. Hence, the Sri Lankan government and the Central Bank of Sri Lanka (CBSL) need to ensure that the transparency and accountability of the IMF program

are maintained throughout the procedure and that the maximum level of relief is gained through adjustments to the principal and interest rates during the restructuring process. According to Verité Research (2023) IMF tracker findings, Sri Lanka has completely met 35% of commitments and 7% partly. There are pending commitments of 43% and 15% of commitments, of which the progress is not publicly available at the moment. However, Sri Lanka's ability to meet these commitments does not dictate the success or failure of an IMF programme. IMF conditionalities have failed in many previous case studies and it is crucial to recognise that this programme is not a solution in isolation, there must be significant reforms to address structural imbalances in the Sri Lankan economy and create new growth opportunities to prevent another return to the IMF.

5. Conclusion and Takeaways

Given their classification as lower middle-income countries, Sri Lanka and Ghana are excluded from concessional lending opportunities such as HIPC provided by international organisations. This must signal to multilateral organisations that mechanisms must evolve for debt-distressed middle-income countries to recover their economies from higher debt levels, rather than being held back by arbitrary income categorisation.

As observed in countries like Zambia, prolonged debt restructuring processes have led to increased debt burdens over time. Sri Lanka needs to undertake expeditious and proactive engagements with its creditors to prevent additional economic costs. Timely discussions are crucial to safeguard the nation's financial stability and mitigate potential economic repercussions from extended debt restructuring.

China has a significant role to play as a major creditor to developing countries, including Sri Lanka. Solutions must involve comprehensive debt restructuring that enables governments to have the fiscal space needed to service its debt obligations on long-term infrastructure projects, while ensuring it can fund essential development projects, social spending, and public sector institutions to promote economic recovery.

Even though countries seek IMF assistance considering it the last resort, some of the IMF conditionalities exacerbate inequalities and vulnerabilities through austerity policies. To overcome the challenges of IMF policies, access to alternative sources of concessional finance to address the opportunity costs of debt is essential for economic development.

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