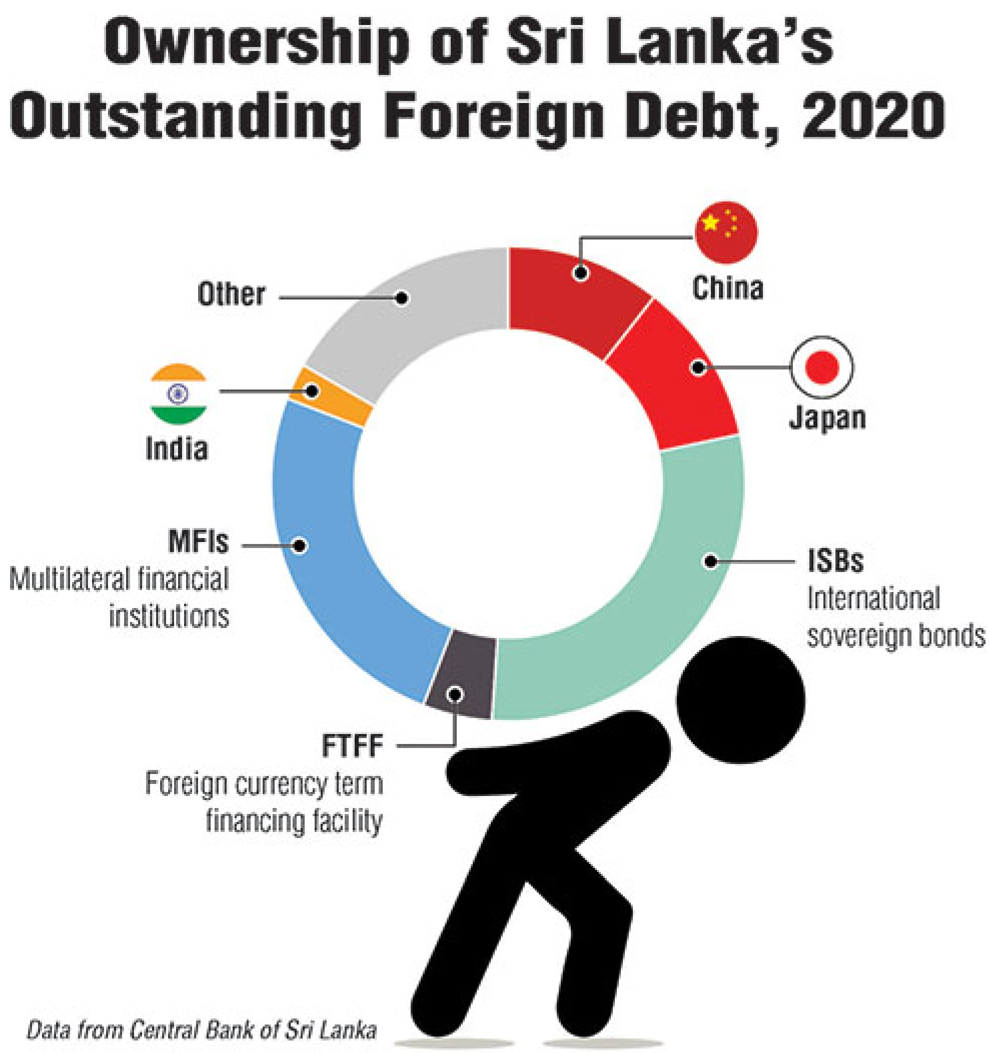
BUSINESS

Sri Lanka's Sovereign Foreign De restructure or not?

Published 1 month ago on 2022/01/14



By Dr Dushni Weerakoon

Sovereign debt restructuring can be pre-emptive or post-default. A default is inhe as it can result in a sustained loss of access to capital markets. That leaves pre-em restructuring when a country deems itself unable to service outstanding debt.

The complex creditor landscape of today though makes governments reluctant to sovereign debt restructuring. The landscape of sovereign borrowing has evolved fr group made up of multilateral organisations, a few commercial banks, and the 'Pa rich countries to something much more complicated. In recent decades, emerging developing economies have borrowed proportionately more from international bo with their dispersed private investors, and tapped new non-Paris Club lenders like From the sovereign's perspective, this makes a potential debt restructuring operat particularly complicated.

The first step in any restructuring is calculating how much a country owes and to involves sharing detailed information on all categories of sovereign debt denomin foreign currency, including collateralised liabilities an of state-owned enterprises. The adoption of an IMF pr may be conditioned as a part of a restructuring to und data, economic plan and the promise of macroeconom supervision.

Lenders will weigh the upfront losses of a debt standst restructuring against the total magnitude of

losses in the event of a default. In entering restructuri though, they will also demand to do so on the principle of comparable treatment in any proposed debt reprofilings and restructurings. Lenders will be mindful that offered does not give preferential treatment to other creditors, especially in the fa geopolitical power rivalries. This would typically mean that a country in distress a relief from friendly governments to whom it owes money and then seeks a compar from private lenders.

The Holdout Problem

Over the past decades, there has been progress in governance frameworks to deal sovereign debt crises, but considerable gaps persist. In the COVID-19 era, the G-2 Framework for Debt Treatments apply only to low-income countries (LICs), and ev not compel the participation of private creditors. Emerging markets that have und restructuring most recently (e.g. Argentina and Ecuador) are categorised in acade as countries with a track record of serial default – i.e. more than two default spell Given research evidence that countries that have defaulted on their debt obligatio past are more likely to default again in the future, creditors have an added incenti into negotiations in such cases.

All told, with the creditor landscape transformed, debt restructuring is still very m matter of ad hoc negotiations between a sovereign and its creditors.

The creditors are aware of their special legal protection that comes down to a que money due but not paid. At the same time, creditors too have virtually no choice b negotiate as there will be inadequate assets to satisfy every creditor's claims even successful legal remedy. In the extreme, 'vulture funds' have used litigation as an strategy to buy the debt at a hefty discount and pursue full payment through the c Confronted with this reality, a negotiated resolution should appeal to both credito debtor country.

At the centre of such a coordinated effort will be creditor (especially bondholder) c The composition of such committees – inclusive of large institutional investors, h etc. – is critical to obtain a relatively quick resolution. However, there are no guar fast and efficient mechanisms, and countries still risk fighting creditor lawsuits fr who may hold out.

Such potential holdout creditors may not necessarily take the view that what is go many is always good for the few. A disgruntled holdout creditor has the leverage t disturbing headlines, especially when countries resume bond market access once a some point. Holdout creditors can be reined in through exit consents – where a m holders can amend terms, or as more commonly used now, employ collective actic (CACs) in bond agreements to bind minority holders. In the latter case, a specified supermajority of holders (usually 75%) can bind a minority to the terms of a debt restructuring. But much depends on whether a debtor country's outstanding stock international sovereign bonds contains these clauses. Some countries have also ac vulture fund legislation that limits holdout creditor recovery as a deterrent.

Net Benefit Calculation

High uncertainty during a restructuring, and the risk of prolonged negotiations m restructuring is still the last resort, to be done only if you must. A restructuring is exercise with reputational downsides, loss of market access and more expensive d issuances, weighed down further by concerns about adverse legal implications. Fo policymakers, a decisive step can be taken after a careful net benefit calculation o country's economic conditions are likely to deteriorate further without a restructu whether a timely restructure may reduce the total magnitude of upfront losses an to a sustainable level at the lowest cost to both the country and its creditors.

Link to Talking Economics blog: https://www.ips.lk/talkingeconomics/2022/01/12/ sovereign-foreign-debt-to-restructure-or-not/

Dr Dushni Weerakoon is the Executive Director of the Institute of Policy Studies o (IPS) and Head of its Macroeconomic Policy research. She joined IPS in 1994 after her PhD, and has written and published widely on macroeconomic policy, regiona integration and international economics. She has extensive experience working in development committees and official delegations of the Government of Sri Lanka. Weerakoon holds a BSc in Economics with First Class Honours from the Queen's U Belfast, U.K., and an MA and PhD in Economics from the University of Mancheste with Dr Dushni – dushni@ips.lk)

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First Capital holds strong despite econo challenges

Published 11 hours ago on 2022/02/21

First Capital Holdings PLC (the Group), a member of the Janashakthi Group, reported a after Tax of LKR 235Mn for the quarter ended 31st December 2021.

The Group's Corporate Finance, Wealth Management and Stock Brokering businesses w key drivers of these results during what was a particularly challenging period for the m large. The profits include a reversal of over provision of income tax amounting to Rs. 1

First Capital's Corporate Finance division reported a Profit after Tax of Rs. 47Mn for th months ended 31st December 2021. This includes fee income on structuring and placer corporate debt securities of Rs. 36Mn and trading gains of Rs. 84Mn on sale of corporat and equity securities.

The Group's Wealth Management division reported a Profit after Tax of Rs. 77Mn for th

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Opportunity for local corporates to raise foreign currency denominated capital through CSE

Published 11 hours ago on 2022/02/21

The Colombo Stock Exchange (CSE) has enabled local entities incorporated or establish Sri Lanka to issue and list foreign currency denominated shares in the main market seg (Diri Savi and Main Boards) of the CSE.

This new financing option for local companies is a result of the new strategic plan the C launched in 2020. Having obtained necessary clearances from the Securities & Exchang Commission of Sri Lanka, the Listing Rules and the Trading Rules of the CSE and the C Rules of the Central Depository Systems (Pvt.) Ltd. have been suitably amended to faci the listing, trading and clearing & settlement of foreign currency denominated shares issued by local entities. The aforementioned regulatory framework has been effective s 14th February 2022.

The Chairman of the CSE, Dumith Fernando, welcoming the move, stated, "The enabli

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Huawei launched new devices available for pre-order in Sri Lanka

Published **11 hours ago** on **2022/02/21**

Huawei, a global innovative smartphone manufacturer unveiled Huawei Nova 8i along many other innovative products at an exclusive launch event held recently, adding yet feature-packed device to the Nova line of smartphones that offer more value for a conv price. The event was held at Hilton Colombo under the patronage of representatives of Huawei Management Team along with Media Outlets.

Commenting on the newly launched smartphone Huawei Country Manager Chris Cai, s "We are delighted to launch this smartphone to the Sri Lankan market. We firmly believ it will be warmly embraced by our Huawei customer base due to its many novel features Huawei Nova 8i is the latest feature-packed device in the Nova series and this elegantly designed smartphone is made to be beautiful in the user's hand, becoming the best frie our valued consumers. It accompanies and empowers them to enjoy a richer, more fulfi with its intelligence, unparalleled battery life, and the powerful camera performance."

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