

Contributions for the report of the Independent Expert on Debt relief, debt crisis prevention and human rights: the role of credit rating agencies.

- Sri Lanka similar to most countries in the world is faced with the unprecedented challenge of managing the effects of COVID-19 virus. The Government of Sri Lanka (GOSL), having monitored the spread of the virus around the world, has been proactive in its response to battling the all-encompassing effects of the COVID-19 virus.
- Preliminary assessments on the country's economy indicate that due to the border control measures that not only Sri Lanka has implemented, but the mirroring of similar actions by almost every country around the globe, has resulted in significant challenges for Sri Lanka given its dependency on Tourism, exports of specially apparels and remittances.
- The COVID-19 global crisis has created an unprecedented pressure on the country's foreign currency reserves with the decline of tourism, remittances, export revenues and the exit of investors from both the debt and equity markets. However Sri Lanka required foreign currency to meet their debt servicing and amortizations.
- Sri Lanka has been able to contain the spread of the virus with very few deaths and minimum community spread. However, the measures taken to contain the spread, together with the adverse global economic conditions have unfortunately taken a sizable toll on the country's fiscal and external well-being and health. As result, Sri Lanka, like several other middle income economies with sizable debt and heavy reliance on tourism and exports, have faced some formidable challenges. At the same time, it is also known that, although the fall-out of the pandemic affected all emerging and developing nations as well, the international financial institutions prioritized financial support for the lower income economies only.
- This policy forced many countries like Sri Lanka to rely on their own strengths to overcome the economic ramifications of this global crisis, although it has been quite stressful on our economies. It has also reduced our ability to provide further much-needed relief to our people who have been affected by this global debacle.
- Even amidst these difficulties, Sri Lanka has courageously adopted relief measures to ease the burden on domestic businesses and individuals. By granting debt moratoria, tax relief and concessional life-lines. The Government has provided cash grants to millions of affected persons to help them to face the challenges caused by this global pandemic.

- However it is noted that the rating agencies have not adjusted their rating structures in the “New normal” the world is operating and it would also be fair to say that in the same spirit some multilateral organizations too have adopted a similar stance. This has resulted in the rating agencies downgrading many countries by more than a notch and thus also affecting their ability to access capital markets. Such downgrades also creates significant vulnerabilities in the financial sectors of such countries, given that the globally adopted standards such as BASEL regulations require financial entities holding assets “distressed” due to downgrades, to make extra provisions limiting the operational efficacy of the institutions, especially at a time when the role of the financial sector is critical.
- The absence of a credible self-regulation by the Rating agencies demand that some form of regulatory mechanism be made available that also addresses potential threats to the health of a country’s financial sector. It is also required that the ratings that seem to be set mostly on a limited outlook led mostly by the external sector or the fiscal sector stability be expanded to include other aspects of a country’s outlook as well.
- In that background, and in the same spirit, Sri Lanka believes the international financial institutions that were established to bring stability to the world economy and to foster economic growth such as the International Monetary Fund and the World Bank should now offer a “debt-standstill” for the year 2021 for all emerging and developing countries to tide over this difficult period. Such a move will be in keeping with their mandate and will also enhance the ability of affected governments to provide much needed assistance to their people. It will also enhance global economic and financial stability, which is a pre-requisite for sustainable development.
- It is necessary to understand that global crises require global solutions. We must remember that a vaccine administered only to the “vulnerable” will not prevent the spread of a virus. In order to decisively end a pandemic, the vaccine must be administered to those who are not infected as well.
- In the same way, Sri Lanka appreciates that the economic fall-out caused by the pandemic has left developing nations in a vulnerable economic condition. Those countries need to be protected with a vaccine in the form of a “Debt-standstill” by the global community. If that is not done, and consequently any vulnerable economy were to falter, like so many businesses have failed, the fall-out could seriously affect global economic stability as well. That is a danger that the global community needs to avoid at all.