

Public Debt Management in Sri Lanka

**Performance in 2006 and First Half 2007
Strategies for 2007 and Beyond**



**Public Debt Department
Central Bank of Sri Lanka**

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Message of the Governor

Central Bank of Sri Lanka has been engaged in the management of government debt since its inception in 1950. This authority has been granted to the Central Bank by the Monetary Law Act No. 58 of 1949, the same Act under which the Central Bank was established.

The Government raises debt mainly from financial markets, contractual savings institutions and bi-lateral and multi-lateral development partners, both domestically and externally, to finance its expenditure programmes. The government debt portfolio, which stood at Rs.654 million in 1950, had risen up to Rs.2.8 trillion by mid 2007, making it the largest single debt portfolio in the country. Therefore, effective management of debt portfolio is essential to maintain the stability of the economy.

We also believe that transparency and accountability are key factors in the process of raising and managing the government debt. Hence, it is the responsibility of the Central Bank to share with the general public, the strategy of managing the public debt. To fulfill this responsibility, the Public Debt Department of the Central Bank has compiled this publication, which will contribute to a deeper understanding of the government debt management strategy and the status of public debt.

I congratulate the staff of Public Debt Department for their efforts.

Ajith Nivard Cabraal

Governor

Central Bank of Sri Lanka

Message of the Superintendent of Public Debt

In terms of Section 113 of the Monetary Law Act No. 58 of 1949, the Central Bank of Sri Lanka is entrusted with carrying out the function of debt management on behalf of the Government of Sri Lanka. In complying with this legal obligation, the Public Debt Department of the Central Bank of Sri Lanka raises debt, both domestic and foreign commercial debt, through various debt instruments in the domestic and international markets, services both foreign and domestic debt, ensures the smooth functioning of the Government securities market and manages risks in the domestic debt portfolio.

Having recognized the importance of managing the debt portfolio, optimally in view of its impact on the Sri Lankan economy over the last few decades, the Public Debt Department undertook several initiatives to strengthen the debt management process by introducing new market infrastructure, strengthening the legal framework, improving intermediary systems and deepening the Government securities market. As a further step, in 2007, a medium term debt management strategy has been formulated addressing the current issues relating to debt management and recommending key measures for resolving these issues.

The purpose of this publication is to keep all the stakeholders well informed of the status of the debt stock and how it was managed, particularly in 2006, and first half 2007. From this year, this publication would be issued annually.

I take this opportunity to thank all those who were involved in bringing this publication into your hands, in particular, all the members of my staff for their hard work in managing this debt portfolio effectively.

C. Premaratne

*Superintendent of Public Debt
Central Bank of Sri Lanka*

Purpose of this Publication

The government debt portfolio, which was around US\$ 25 billion or SLR 2,807 billion as at end June 2007, is the largest single debt portfolio in Sri Lanka. An efficient and effective debt portfolio management is crucial, as it has a direct impact on the external and internal stability of the economy. Hence, there is a compelling need for the government to design and implement a clear debt management strategy, which would guide the government's debt management objectives.

From the point of view of transparency and accountability, the debt management strategy and the status of debt stock have to be announced, as it is a right of the general public to know the magnitude of the debt burden and the way forward strategy for managing the public debt.

The purpose of this publication is to fulfil the aforesaid obligations. Accordingly, this publication provides a comprehensive report covering the environment in which the debt is managed, the status of public debt-2006, and first half 2007, levels, composition and changes of the debt stock, implementation of the borrowing programme 2006, the proposed borrowing plan for 2007 and borrowing strategy for 2007 and its performance in first half 2007 and beyond in the medium term.

Reference tables and statistics on the operations of the debt programme are provided at the end of the report.

Objective of Debt Management

The objective of debt management is to ensure that the government's financing needs are met at the lowest possible cost consistent with a prudent degree of risk, and developing and strengthening the government securities market, while enhancing efficiency and maintaining stability.

Although the strategic objective to be pursued in government debt management has not been made explicit by any law, it is implicitly understood that debt management should be carried out in such a way as to:

- Minimise the direct and indirect cost of public debt on a long - term perspective
- Avoid volatility in debt service cost and guarantee a balanced distribution
- Prevent an excessive concentration on redemptions
- Minimize any type of rollover risk / refinancing risk
- Promote an efficient functioning of the government securities market.

Our Mission

- Raising funds required to meet the cash flow needs of the government
- Maintaining and updating the country's public debt register
- Servicing foreign and domestic debt obligations on time
- Maintaining the risk of the debt portfolio at an acceptable level
- Promoting a well functioning debt securities market
- Advising the Ministry of Finance on the appropriate debt management strategy, taking into account both prevailing and emerging macroeconomic and market conditions
- Developing and improving the infrastructure relating to the public debt management and maintaining and upgrading the same.

1. Institutional Framework for Debt Management

Agencies Responsible for Central Government Debt Management

The Parliament has the authority to determine the overall annual borrowing target, while the Ministry of Finance has the authority to raise debt. The government has delegated this authority to the Central Bank of Sri Lanka (CBSL) and the CBSL is responsible for managing the central government debt.

The Domestic Debt Management Committee (DDMC), a sub-committee set up for the purpose of domestic debt management, with representatives of both CBSL and the Treasury, meets once a month, or more frequently if necessary, to decide on a near-term borrowing program, which ensures that the Treasury's cash flow requirements are met and borrowing limits are maintained. The Public Debt Department (PDD) of the CBSL maintains

BOX 1 - AGENCIES RESPONSIBLE FOR CENTRAL GOVERNMENT DEBT MANAGEMENT

Parliament	Responsible for setting annual borrowing limit as part of annual Appropriation Act	
Central Bank	Government Treasury	
Public Debt Dept.(PDD)	External Resources Dept. (ExRD)	
<ul style="list-style-type: none"> • Mobilisation of funds from domestic sources • Mobilisation of funds from external non-concessionary commercial sources • Servicing of debt • Conduct of auctions to issue government securities • Maintenance of domestic debt data base • Maintenance of CDS • Supervision of Primary Dealers (PDs) • Developing the G-Sec. market • Dissemination of information 	<ul style="list-style-type: none"> • Mobilisation and management of external concessionary funds • Coordination with donors • Maintenance of external debt database 	
Economic Research Dept. (ERD)	Treasury Operations Dept. (TOD)	
<ul style="list-style-type: none"> • Analysis of debt statistics and conduct of debt sustainability analyses 	<ul style="list-style-type: none"> • Treasury cash management • Provision of funds for debt service 	
	Fiscal Policy Dept. (FPD)	
	Advise on:	
	<ul style="list-style-type: none"> • Fixing of total borrowing limits • Loan composition • External commercial borrowings 	
	State Accounts Dept. (SAD)	
	<ul style="list-style-type: none"> • Accounting for fiscal operations. 	

close coordination with the Treasury Operations Department of the Treasury, to ensure effective government debt and cash flow management.

Governance

The legislative framework governing public debt activities in Sri Lanka is made up of the following Acts and Ordinances, which have been amended from time to time since they were first enacted.

- (a) Monetary Law Act (MLA) of 1949 amended in 2002 – *Debt management as a function of the CBSL*
- (b) Annual Appropriation Acts for each year – *Authority for annual borrowing limit*
- (c) The Local Treasury Bills Ordinance (LTBO) of 1923 as amended in 1953, 1992, 1995, 2004 – *Issuance of Treasury bills*
- (d) The Registered Stock and Securities Ordinance (RSSO) of 1937 as amended in 1949, 1983, 1985, 1995, 2004 – *Issuance of Treasury bonds and Rupee loans*
- (e) Foreign Loans Act (FLA) of 1957 – as amended in 1962, 1963, 1980, 1984 – *Borrowing from foreign sources*
- (f) Fiscal Management Responsibility Act (FMRA) of 2003 – *Fiscal consolidation strategy and medium term fiscal path*
- (g) Treasury Certificates of Deposit Act (TCDA) of 1989
- (h) Tax Reserves Certificates Act (TRCA) of 1957

A number of directions had been issued to PDs under the above Acts and Ordinances. In addition to the above legislation, the PDD issued a code of conduct (COC) in 2003 for Primary Dealers (PDs) giving guidelines for their operations. This COC is a legally binding document and is the first of its kind issued in the financial sector.

Pursuant to section 106(1) of the Monetary Law Act (MLA), the CBSL is empowered to act as the fiscal agent and banker to the government, or agencies or institutions acting on behalf of the government, whether established by any written law or otherwise. Furthermore, as per section 113 of MLA, the CBSL is vested with the function of debt management. As per section 114 of MLA, the government should obtain the advice of the Monetary Board on monetary implications of such loans before raising a loan.

In addition to the Monetary Law Act, the annual Appropriation Act authorises the raising of loans “in or outside” Sri Lanka, on behalf of the government, to provide for the annual expenditure of the government. The annual Appropriation Act determines the aggregate amount of such borrowing, although this may be revised during the year, pursuant to supplementary legislation.

The Registered Stocks and Securities Ordinance (RSSO) and the Local Treasury Bills Ordinance (LTBO) empower the PDD to act as the agent of the government for domestic borrowing through Treasury bonds, Rupee loans and Treasury bills. The PDD services both domestic and foreign debt. Sri Lanka Development Bonds (SLDBs) are issued under the Foreign Loans Act. During the last few years, no Treasury Certificates of Deposit (TCDs) or Tax Reserve Certificates (TRCs) were issued by the PDD. Foreign concessional debt is raised by the Treasury’s External Resources Department, under the Foreign Loans Act.

2. Context of Debt Management in 2006

Borrowing Target and Borrowing Strategy

The total gross borrowing limit set under the Appropriation Act No. 39 of 2005 approved by Parliament for 2006 was Rs. 548 billion. Of this, funds to be raised through domestic sources amounted to Rs. 378 billion, while the balance was expected to be raised from foreign sources. As against this target, in 2006, a sum of Rs. 411.3 billion was raised from domestic sources, exceeding the original target. As the original commercial foreign borrowing programme was not implemented during the year as expected, a part of the commercial type foreign borrowing programme was shifted to the domestic borrowing programme, thereby exceeding the originally envisaged targets under the government securities programme. Increased reliance on commercial type foreign currency borrowing (SLDBs, borrowing from Foreign Currency Banking Units (FCBUs) and Syndicated Loans) is a new development experienced in the recent past in raising funds to finance the budget deficit.

The domestic debt management strategy adopted in 2006 aimed at mobilising funds through tradable instruments such as T-bonds including Indexed bonds and T-bills. Non-tradable Rupee loans stock was further reduced to 8 per cent of total domestic debt stock by end 2006. As a part of the debt management strategy, the investor base of the debt market was further broadened by partly liberalising the capital account of the balance of payments and opening up the T-bond market to foreigners, subject to a limit of 5 per cent of the

Table 1
GOVERNMENT BORROWING PLAN ^(a)

	Rs. Billion	
	2006 Plan	2006 Actual
Total Net Domestic Borrowing	125.0	163.8
Borrowing by Instrument		
Domestic	378.0	411.3
(a) Rupee loans	25.0	-
(b) T-bonds	277.0	268.9
(c) T-bills	10.0	20.3
(d) SLDB/FCBU	58.0	81.4
(e) CBSL advances	8.0	9.3
(f) Other (Bank O/D etc)	-	31.4
Foreign	170.0	97.7
Total	548.0	509.0

Source : Central Bank of Sri Lanka

Ministry of Finance and Planning

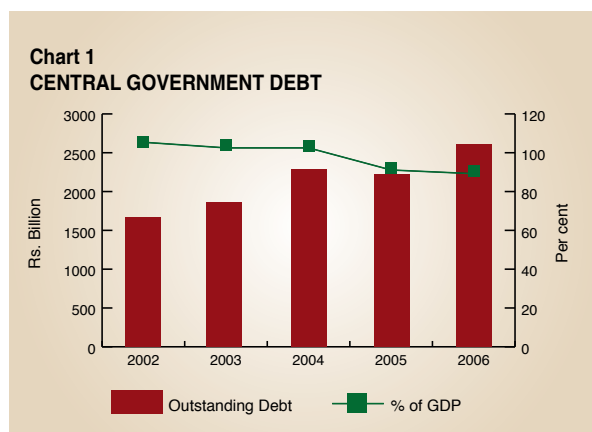
(a) Amounts in book value

T-bonds outstanding. Sri Lanka Nation Building Bonds (SLNBBs) which is a foreign currency debt instrument issued to raise funds from Sri Lankans living abroad, was also introduced in 2006. With a view to strengthening the PD system and providing a cushion for the rising market risk, a risk weighted capital adequacy framework, based on the internationally accepted BASEL risk based capital framework, was introduced for PDs.

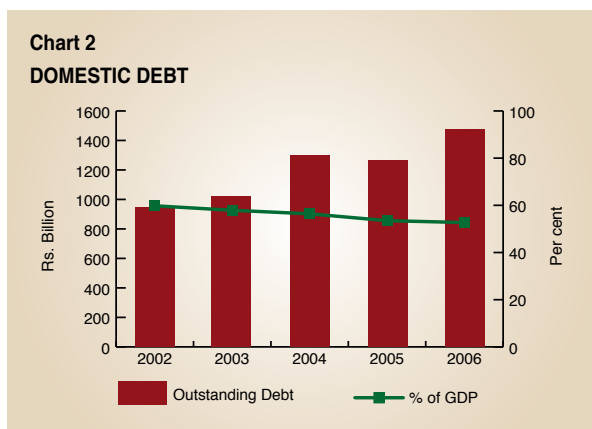
Debt Level

The total government debt stood at Rs. 2,607 billion at the end of 2006. This was an increase of Rs. 385 billion over 2005. In terms of Gross Domestic Product(GDP), the central government debt to GDP ratio, which reached its peak level at 105.4 per cent in 2002, declined to 89.2 per cent by end 2006. The main contributory factor for this decline in debt levels was the maintenance of

the growth in new contributions to the debt stock below the growth in the economy.



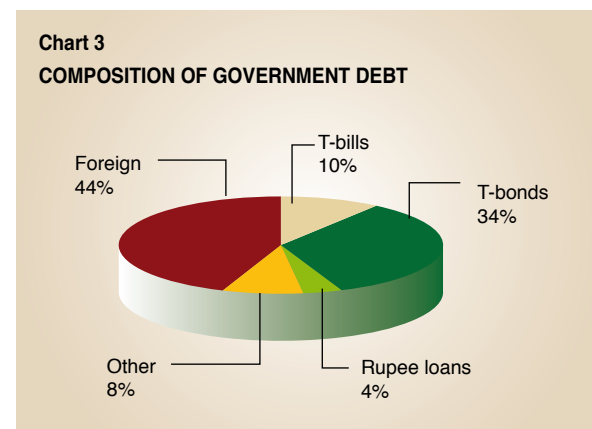
In terms of GDP, the domestic debt, which has increased since 1997, reached its peak level of 59.8 per cent in 2002. Since then, domestic debt has gradually declined to 50.5 per cent.



The Structure of the Debt Portfolio

Domestic Debt Composition

The total debt stock consists of 56 per cent of domestic debt and 44 per cent of foreign debt. Approximately over 80 per cent of the domestic debt consists of market oriented debt instruments such as Treasury bills, Treasury bonds, SLDBs etc. The share of non-marketable Rupee loans is only 8 per cent of the domestic debt. During 2006, the Government increased its reliance on foreign currency denominated borrowings in the local market to US dollar 1 billion or 9 per cent of the total domestic debt. Considering the high rollover risk and the exchange risk associated with this type of borrowing, authorities have recognized the importance of limiting the reliance on this type of borrowing in future.

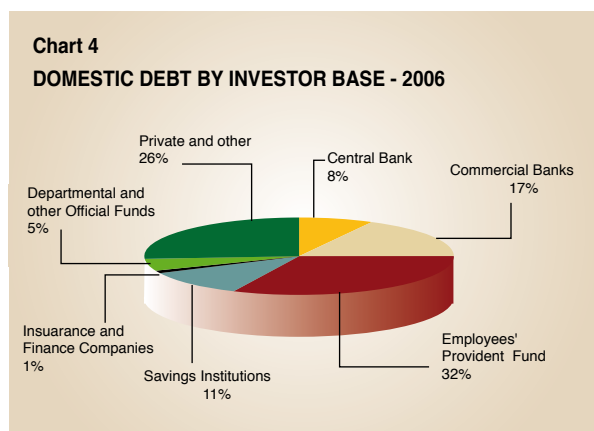


Box 2 - FEATURES OF DEBT INSTRUMENTS

Feature	T-bills	T-bonds	Rupee loans	Sri Lanka Development Bonds
Method of Issue	Auction	Auction	Tap System	Auction
Bidding	Electronic	Electronic	By Application	By Application
Interest Rate Determination by	Market	Market	Government	Market
Method of Interest Payment	At maturity	Bi-annually	Bi-annually	Bi-annually
Maturity Period	91, 182 & 364 days	2 years or more	2 years or more	2 years or more
Transferability	By electronic book entry	By electronic book entry	By registration	By registration
Primary Market for	Primary Dealers and EPF	Primary Dealers and EPF	Any Individual/ Fund	Foreign Citizens & Entities, Non-Resident Sri Lankans

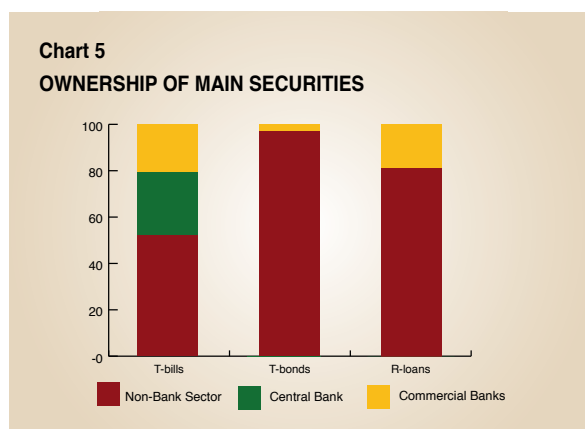
Domestic Debt by Investor Base

The domestic debt could be further analysed based on its investor base. The investor base of the three main government securities used to raise debt, i.e., T-bonds, T-bills and Rupee loans can be broadly categorised into two, namely, the bank sector and the non-bank sector. The bank sector consists of the CBSL and commercial banks. The main constituents of the non-bank sector are savings institutions, Employees Provident Funds and insurance companies. Chart 4 shows the ownership classification of the main domestic debt securities. Nearly 86 per cent of the domestic debt is owned by the non-bank sector, of which about 50 per cent is owned by contractual savings institutions such as the Employees' Provident Fund (EPF), the National Savings Bank (NSB) and the Employees' Trust Fund (ETF). The CBSL owns only 8 per cent of the domestic debt.



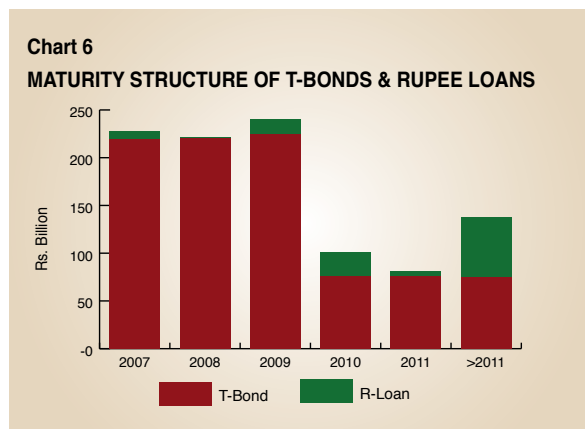
The ownership of all three government securities, i.e., T-bills, T-bonds and Rupee loans, largely lies with the non-bank sector. As at end 2006, over 97 per cent of T-bonds, 53 per cent of T-bills and 86 per cent of Rupee loans were held by the non-bank sector. In the banking sector, the CBSL had held a considerable proportion of T-bills in many years. As at end 2006, 57 per cent of the T-bill stock held by the banking sector was in the hands of the CBSL.

Rupee loans are owned mostly by the EPF, followed by savings institutions. The main reason for this can be cited as the non-tradable nature of these securities, as well as the fact that these are issued in long term maturities.



Maturity Structure of the Domestic Debt Portfolio

A little over 45 per cent of the T-bonds and Rupee loans are to mature in the 2007-2008 period, while 40 per cent of the total domestic debt has to be rolled over within a one-year period. The re-opening of existing T-bond series resulted in T-bonds which were issued at different points in time maturing on the same date. Further, the market appetite for bonds with shorter duration resulted in this type of maturity structure, which has increased the refinancing risk.



Duration of Domestic Debt

In terms of duration of the debt stock, around 80 per cent consisted of medium and long-term debt

Table 2
DURATION OF DOMESTIC DEBT^(a)

Instrument	Duration (Years)		
	2004	2005	2006
T-bills	0.40	0.31	0.29
T-bonds	2.19	1.90	1.87
R-loans	2.52	4.13	4.30
Overall	1.85	1.87	1.79

Source: Central Bank of Sri Lanka

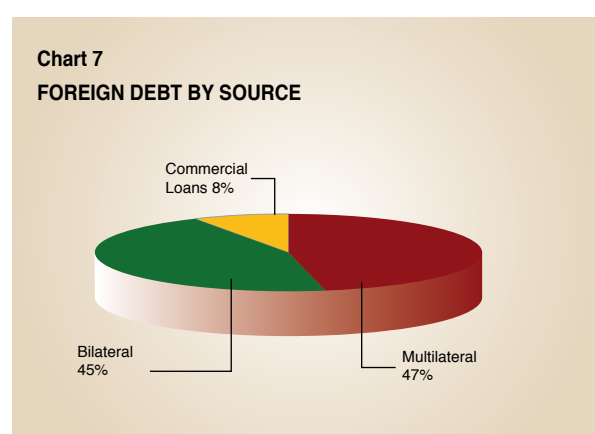
(a) weighted average maturity of the cash flow.

instruments such as T-bonds and Rupee loans with a 2-20 year original maturity.

The overall duration of the debt, meaning the duration that it takes to mature the total debt, is 1.8 years. This is on a declining trend. The declining duration of debt instruments such as T-bonds and T-bills has contributed towards this trend. In the context of rising inflation and an increasing trend in the interest rates observed during the latter part of the year, the market appetite was for the shorter end of the yield curve. This situation compelled the government to issue more of short-term maturities, leading to lower duration of the debt.

Foreign Debt

The outstanding stock of foreign debt as at end 2006 was Rs.1,131 billion or 38.7 per cent of GDP. In 2006, the foreign debt stock increased by Rs. 174.4 billion mainly due to net borrowings (Rs. 65.8 billion) and the impact of exchange rate depreciation (Rs. 108.6 billion). A large proportion (86.4 per cent) of foreign loans is for specific projects. The sources of foreign debt include bi-lateral sources (45 per cent) and multi-lateral sources (47 per cent). In addition, a small proportion of foreign debt is also raised as commercial loans (8 per cent). Major sources of bi-lateral loans are Japan, USA and Germany, while the Asian Development Bank and the World Bank are major multi-lateral sources.



Approximately 92 per cent of foreign debt is on concessional terms.

The average maturity of the foreign debt portfolio is estimated at 12 years.

Chart 8
FOREIGN DEBT BY CONCESSIONALITY

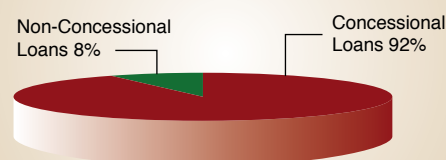


Table 3
MATURITY, GRANT ELEMENT AND INTEREST RATES

Donor Category	Grace Period (Yrs)	Repayment Period (Yrs)	Grant Element (%)	Avg. Interest Rates (% p.a.)
Bi-lateral	2 - 16	6 - 40	10 - 91	2.2
Multi-lateral	3 - 10	5 - 40	0 - 94	1.1
Commercial	0 - 10	1 - 30	(14) - 31	6.4
Export Credit	0 - 10	1 - 23	7 - 74	2.9
Average				1.8

Source : Central Bank of Sri Lanka
Ministry of Finance and Planning

Chart 9
CURRENCY COMPOSITION OF FOREIGN LOANS

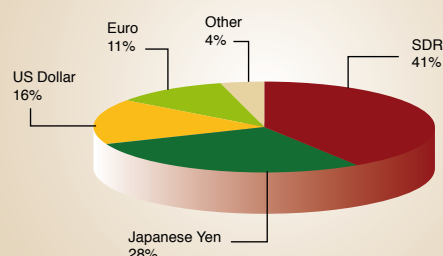


Table 4
NUMBER OF ACTIVE LOANS AS AT END 2006

Donor Category	Number of Loans
Bi-lateral	317
Japan	98
USA	74
Germany	41
Other	104
Multilateral	244
ADB	117
IDA	102
Other	25
Export Credit	42
Commercial	15
Total Loans	618

Source : Central Bank of Sri Lanka
Ministry of Finance and Planning

Table 5

AGREEMENTS SIGNED DURING THE YEAR 2006

Donor Category	Number of Loans	Amounts in Rs Mn	Amount in US \$ Mn.
Bi-lateral	8	38,014	370
Multi-lateral	9	47,697	455
Commercial	2	16,158	150
Export Credit	7	21,568	207
	26	123,436	1,182

Source : Central Bank of Sri Lanka
Ministry of Finance and Planning

Major currencies in the loan portfolio are Special Drawing Rights (SDR), Japanese yen, US dollars and Euro.

New Products and Policies Introduced in 2006 in the Domestic Debt Market

Sri Lanka Nation Building Bonds

In February 2006, a new retail type foreign currency sovereign debt instrument, known as Sri Lanka Nation Building Bond (SLNBB), was introduced to the market. The purpose of introducing this instrument was to provide an opportunity for patriotic Sri Lankan citizens to participate in the development process of the country and also to diversify the debt instruments. This was issued in US dollars, Sterling pounds and Euros for a tenure of five years.

Risk Weighted Capital Adequacy Framework (RWCAF) for Primary Dealers

A RWCAF, based on the internationally accepted BASLE risk based capital framework was introduced for PDs with effect from July 01, 2006.

Enhancement of minimum capital requirement for Primary Dealers

With a view to strengthen the PD system and to providing a cushion for rising market risk, the minimum capital requirement of PDs was increased to Rs. 300 million from Rs. 250 million, with effect from July 01, 2006.

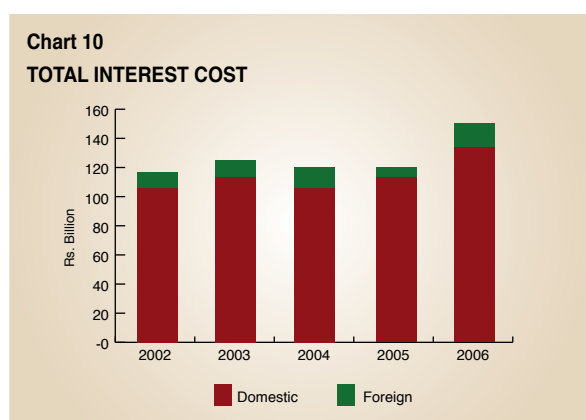
Opening of Rupee Denominated Treasury Bond Market to Foreign Investors

The rupee denominated T-bond market was opened to foreigners with effect from November 01, 2006, with a view to broadening the investor base and increasing the competition in the bond market. Only 5 per cent of the outstanding bond stock is opened for foreigners. The eligible investors are:

- Foreign country funds, mutual funds or regional funds approved by the Securities and Exchange Commission (SEC) of Sri Lanka;
- Corporate bodies incorporated outside Sri Lanka and;
- Citizens of foreign states.

3. Cost of Raising Funds in 2006

The interest cost on government debt amounted to Rs. 151 billion in 2006. This indicates that 30 cents of every rupee of revenue was spent to pay interest on the public debt, down from a peak of 43 cents in 2003.



Cost of Raising Domestic Debt

The cost of domestic debt amounted to Rs. 133.8 billion, an increase of Rs. 20.6 billion or 18 per cent in 2006 over 2005. The increase was due to borrowing at high yield rates, in particular due to high inflation and the tight monetary policy over the last three years, increased debt stock and increased reliance on short-term T-bills. A significant feature is that the cost of T-bill and T-bond borrowing has been increasing since 2004, and it is higher than the average running cost in 2005 and 2006. The increase in the cost of borrowing for T-bills is more pronounced than for T-bonds. This indicates that the average cost will be increasing in 2007.

The average running yield for T-bills and T-bonds, which reflects the average interest cost during a given year based on the debt stock held at the beginning of the year, declined in 2005, but rose in 2006.

Table 6

COST OF DOMESTIC BORROWING^(a)

(%)

Instrument	2004	2005	2006
T-bills	9.43	11.07	11.88
T-bonds	10.91	12.12	12.28
Rupee loans	8.90	10.64	10.60

Source: Central Bank of Sri Lanka

(a) Weighted average interest cost =

$$\frac{\sum \text{Amount Issued} \times \text{Yield}}{\sum \text{Amount Issued}}$$

Table 7

AVERAGE RUNNING COST^(a)

(%)

Instrument	2004	2005	2006
T-bills	9.10	8.31	10.49
T-bonds	11.21	10.42	11.00
Rupee loans	11.63	12.19	11.48

Source: Central Bank of Sri Lanka

(a) Interest paid/Outstanding stock at the beginning of the year

Cost of Raising Foreign Debt

Interest payments on external debt for 2006 stood at Rs. 17 billion. In comparison to 2005, interest payments had increased by Rs.10 billion. This increase was mainly a result of the lower interest payments in 2005 because of the debt moratorium received during 2005 on account of the tsunami. The usual foreign debt service payments resumed in 2006, according to the loan agreements. The depreciation of the rupee against foreign currencies can also be cited as another reason for the increased interest payments in 2006.

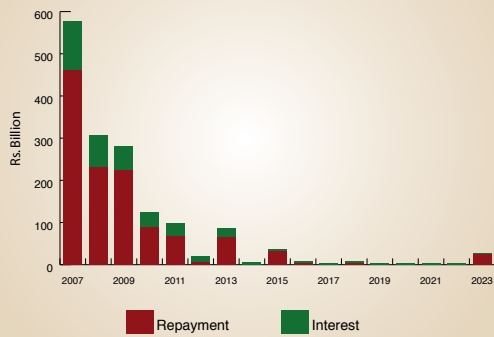
Debt Obligations

In the domestic market, government debt obligation currently continue to 2023, with the issuance of

a T-bond in 2003 with an original maturity of 20 years.

As a large portion of external debt falls into the medium to long term categories, the external debt service obligations run upto the year 2045.

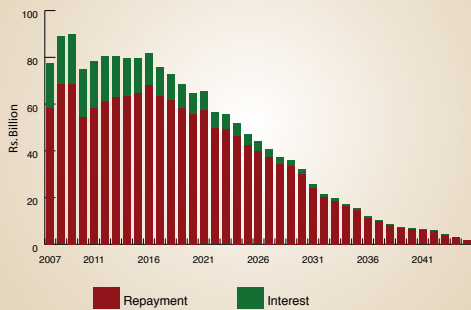
Chart 11
DOMESTIC CURRENCY DEBT SERVICE OBLIGATIONS



Total Debt Service Cost

The total debt service cost on both domestic and foreign borrowings amounted to Rs. 445 billion in 2006. This consisted of amortisation payments of Rs. 294 billion (66 per cent) and interest payments of Rs.151 billion (34 per cent). The total debt service cost as a proportion of government revenue was 93.1 per cent in 2006, showing an improvement when compared to the pre-tsunami levels in 2004 when the ratio was 96.5 per cent.

Chart 12
EXTERNAL DEBT SERVICE OBLIGATIONS



4. Market Operations in 2006

Primary Market Operations

The primary market for government securities is restricted to Primary Dealers (PDs) and the Employees' Provident Fund (EPF). Tradable government securities i.e., T-bills and T-bonds, are issued through auctions as well as through private placements to those market intermediaries. During 2006, the PDD had conducted 52 T-bill auctions and 70 T-bond auctions and had issued instruments amounting to a sum of Rs. 938 billion in gross terms.

All auctions are usually oversubscribed by considerably high amounts. This type of behaviour can be observed mainly due to the prevailing demand for government securities as an investment alternative as well as the mandatory requirement for all PDs to subscribe minimum 10 per cent of the amount offered of each maturity in the auction.

Table 8

PRIMARY ISSUE DETAILS ^(a)

	Rs. Billion			
	2003	2004	2005	2006
Treasury Bills	343	470	486	628
Auction	262	304	344	397
CBSL purchases	49	135	108	165
Placements	32	31	34	66
Treasury Bonds	215	217	230	310
Auction	80	54	52	43
Placements	135	163	177	267

Source: Central Bank of Sri Lanka

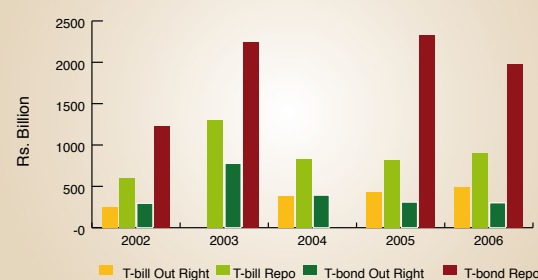
(a) Amounts in face value

Secondary Market Transactions

An analysis of secondary market trading volumes reveals that total secondary market trading volumes

had decreased in 2006 by 5.6 per cent over 2005. However, T-bill trading volumes had increased in both outright and repo markets by 12.2 per cent and 11.2 per cent, respectively. In contrast, T-bond transactions had come down in the outright market by 2.5 per cent and in the repo market by 15.1 per cent over the previous year. This clearly shows the market preference towards the shorter end of the market, due to increasing yield rates.

Chart 13
SECONDARY MARKET TRANSACTIONS



When analysing the secondary market trading volumes in the last six years, it is observed that the secondary market for government securities had been most active during 2003 and 2004. In the last five year period, the highest amount of trading volumes in the outright market is seen in 2003, in which year the primary dealers recorded a very high performance level.

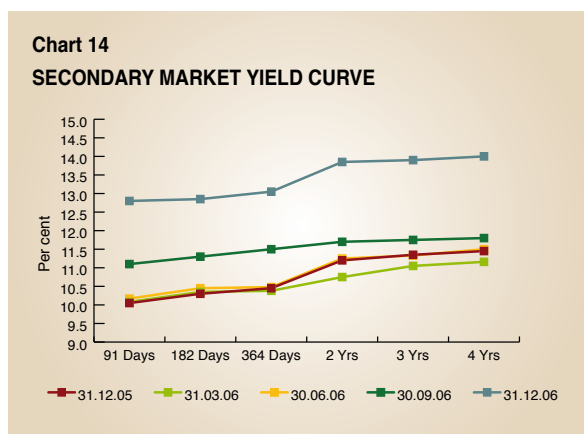
Turnover of Government Securities in the Secondary Market

The turnover ratio of government securities in the secondary market is 9.8 times, meaning that a

security has been traded in the secondary market 9.8 times during 2006.

Secondary Market Yield Rates

The rising trend in the yield rates that prevailed in the government securities market reversed from January 2006 until end April 2006 due to a number of positive factors. These factors include the resumption of peace negotiations, the downward trend in inflation as well as inflationary expectations of investors, and reduction of uncertainty in the domestic market. After May 2006, a gradual increase in the primary market rates was observed with the increase in policy rates. Four instances of increases in policy rates during 2006, along



with the reversal of the above mentioned positive factors, increased the primary market yield rates. A similar trend was observed in the secondary market yield rates as well.

5. Performance in First Half 2007

Borrowing strategy in 2007

A medium term public debt management strategy which was introduced in 2007, explains the necessity of implementing the debt consolidation programme to ease the bunching problem, introducing benchmark bond series and developing a benchmark yield curve, developing a credible and liquid debt market, introducing diversified debt instruments and restructuring the primary dealer system. In addition, it has indicated the urgency of reducing the debt financing in the budget by selecting economically viable investments in economic services through other alternative financing methods.

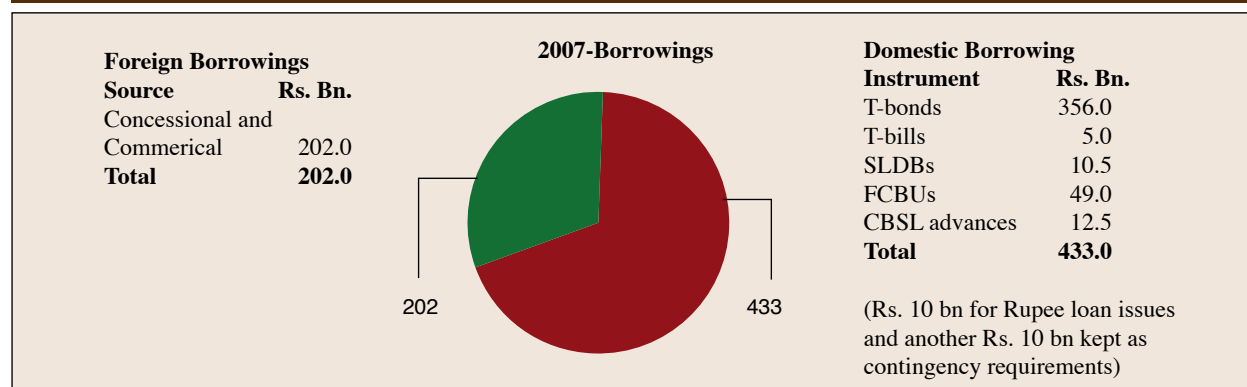
In line with the above medium term debt management strategy, attempts have been made to extend the yield curve as well as to resolve the bunching issue by issuing longer maturity bonds during the first half of the year. In achieving this, the government had to face number of major challenges such as rising inflation, high inflationary expectations, higher borrowings from domestic

sources and limited resource availability in the domestic market.

In order to lower the pressure on the domestic market and to improve the investor base for government securities, further steps have been taken to bring more foreign investors in to the government securities market. Accordingly, certain conditions on sale of T-bonds to foreigners were further relaxed in January 2007 and the previously announced minimum holding period of one year as well as the minimum maturity period of two years were removed. Consequently, the expected target on sale of T-bonds to foreigners, i.e., 5 per cent on outstanding T-bond stock, was achieved by April 2007. In addition, a part of the borrowing requirement of the government was fulfilled through foreign currency domestic sources.

Preliminary work relating to the debt consolidation programme has been completed. Further, raising funds from domestic market largely made through the re-opening of existing liquid bond series that

BOX 3-GOVERNMENT BORROWING PLAN – 2007



helped to reduce the number of bond series by two to 51 series during the first half of the year.

Sri Lanka Nation Building Bond, a new debt instrument introduced in February 2006 for non-resident Sri Lankans which was initially introduced only for a six months period, was later extended by another six months until February 2007, expanding investment opportunities to the potential investors.

Borrowing Target

The total gross borrowing limit approved for 2007, under the Appropriation Act No. 47 of 2006 is Rs.655 billion. This includes a special provision of Rs.20 billion for contingency requirements. Hence, total gross borrowing requirement for financing of the budget in 2007 amounts to Rs.635 billion. It is estimated to raise Rs.453 billion from domestic sources and Rs.202 billion from foreign sources.

Table 9
ACTUAL GROSS BORROWING – FIRST HALF 2007

Rs Billion	
Domestic	162.8
Borrowing by Instrument	
(a) Rupee Loan	4.5
(b) T-bonds	87.2
(c) T-bills	18.3
(d) SLDB/FCBU	23.8
(e) CBSL advances	12.9
(f) Other	16.1
Foreign*	82.6
O/w T-bonds for foreigners	29.2
Total	245.4

Source: Central Bank of Sri Lanka

* US dollar 210mn borrowed from BOC through HSBC recorded as foreign borrowings.

Domestic Borrowing

During first half 2007, a total of Rs.162.8 billion had been raised in book value terms compared to the annual gross borrowing target of Rs.453 billion. It can be observed that borrowing through T-bills and SLDBs had far exceeded its original planned limits. The strong investor preference towards short-term maturities, in line with the rising inflation forced the authorities to rely on such a borrowing to lower the pressure on rupee market and lower debt service cost in the future. In view of foreign currency domestic borrowing, US \$ 215.25

million worth of SLDBs with a two year maturity period were issued to the market at a rate of 6 months LIBOR plus a weighted average margin of 155bps. Non-tradable rupee loans amounting to Rs.4.5 billion was issued to Lanka IOC Ltd by using the contingency allocation during the first half of the year.

Foreign Borrowing

During first half 2007, concessional loans amounting to Rs.26 billion had been raised from bi-lateral and multi-lateral sources. A syndicated loan amounting to US dollar 210 million, equivalent to Rs.23 billion with a maturity period of 3 years was raised from HSBC bank arranged by Bank of Ceylon (BOC). Further, rupee denominated T-bonds worth of Rs.29.2 billion (book value) was issued through the primary market to foreign investors during the first half 2007. The proportion of concessional foreign loans in the total external debt stock had further decreased by one percent during the first half 2007 and now stands at 91 percent as against 92 percent as at end 2006.

Debt Level

Total debt stock as at end June 2007, stood at Rs.2,807 billion. This shows an increase of Rs.200 billion since end 2006. Domestic debt stock had increased by Rs.120 billion to Rs.1,595 billion and the foreign debt stock had increased by Rs.80 billion to Rs.1,212 billion. Of the total increase of foreign debt, the impact of the parity variation amounted to Rs.36 billion. The proportion of domestic to foreign debt had changed slightly to 57:43 ratio by mid 2007. The composition and the investor base of public debt had not changed in a noticeable manner during the first half, 2007 compared to the end 2006 position.

Duration of Domestic Debt

The duration of domestic debt has slightly come down to 1.77 years as at end June 2007 from 1.79 years at end 2006. This reflects the impact of issuing more short-term debt instruments, such as T- bills during the first half 2007.

Foreign Loan Agreements

The government entered in to 16 foreign loan agreements during the first half 2007, amounting to US \$ 1,042 million. Japan and ADB recorded as major donors accounting for 62 per cent of the total value of agreements.

Table 10
NUMBER OF AGREEMENTS SIGNED DURING FIRST HALF 2007

Donor Category	Number of loans	Amount in (Rs.Mn)	Amount in (US dollar Mn)
Bi-lateral	10	49,081	450
- Japan	3	36,334	334
- China	2	7,294	66
Multi-lateral	4	40,693	369
- ADB	2	34,486	314
- IDA	1	3,645	33
Commercial	1	23,293	210
- BOC (Syndicated Loan)		23,293	210
Export Credit	1	1,380	13
Total Loans	16	114,447	1,042

Source: Ministry of Finance and Planning

Cost of Raising Funds

The major challenge faced in raising resources from the domestic market was the rising interest rates in the domestic market. The cost of domestic borrowing of tradable securities rose sharply during first half 2007. When considering the end June 2007 position compared with end 2006, the interest rates moved up in the primary market T-bills by 391 - 464 bps and for 2-5 year T-bonds by 186-302 bps. Accordingly, on average the cost of T-bill borrowings during first half 2007 was at 16.84 per cent while during 2006, this cost was only 11.88 per cent. Similarly, cost of borrowing of T-bonds during the same periods as above were at 15.76 per cent and 12.28 per cent, respectively.

Debt Service Payments

Total debt service payments, including both interest and amortization payments during the first half 2007 amounted to Rs. 202 billion. The total interest cost during first half 2007, amounted to Rs.81 billion, Rs.9 billion higher compared to Rs.72 billion of interests cost in first half 2006, reflecting the high cost of borrowing in the recent past and increasing outstanding debt stock. Out of total interest cost, Rs.71 billion was on domestic

borrowings. The balance Rs.10 billion was on foreign debt and the interest cost on foreign debt during the corresponding period in previous year was Rs.8 billion. The high interest payments on foreign debt is mainly due to the adverse exchange rate variations.

Market Operations

Primary market operations

During first half 2007, the PDD conducted 26 T-bill auctions and 34 T-bond auctions and accepted Rs.195 billion from the market. However, due to the effect of rising interest rates, government had to rely on non-auction based systems too.

Secondary market Operations

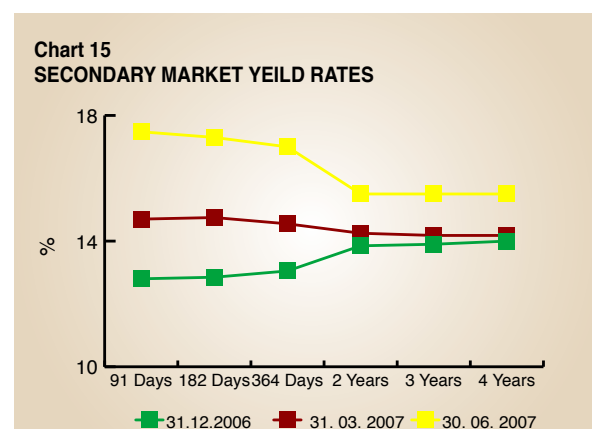
Secondary market transactions during first half 2007 shows a significant improvement compared with the corresponding period in 2006. Both T-bill and T-bond transactions had increased by 28 per cent and 7 percent respectively in the out right market. In the repo market, T-bill transactions had increased significantly, by 165 percent. However, T-bond transactions in that market had come down by 27 percent. This analysis too reflects the market preference towards short-term maturities.

Turnover of Government Securities in the Secondary Market

The annualised turnover of government securities in the secondary market stands at 13.2 times. With the increase in secondary market transactions, the turn over ratio, too would be high, compared to the previous year rate of 9.8 times.

Secondary Market Yield Rates

The rising trend in yield rates prevailed during



latter part of 2006 continued through first half of 2007. The secondary market rates for 91 days T-bills increased by 464 bps up to 17.34 percent by end June 2007. The secondary market rates for T-bonds with maturities between 2 – 4 years

increased in the range of 130-190 bps and was around 15.3 per cent.

This was in line with the increase in primary market Yield rates.

BOX 4: DEBUT INTERNATIONAL SOVEREIGN BOND ISSUE OF GOVERNMENT OF SRI LANKA

For the first time in history, Sri Lanka issued an international sovereign bond in a benchmark size of US dollars 500 million. These bonds were attached with a 8.25 per cent coupon and had an original maturity of five years. This debut international sovereign bond issue was an absolute success and was oversubscribed by more than three times, i.e., US dollars 1.6 billion.

Barclays Capital, HSBC and JP Morgan acted as Joint Managers to the sovereign bond issue while Bank of Ceylon acted as the co-manager. The investors of this sovereign bond are distributed through out Asia (30 per cent), Europe and Middle East (30 per cent) and USA (40 per cent). The investors are diverse comprising Asset Mangers (53 per cent), Banks (25 per cent), Insurance/ Pension Funds(7 per cent) Retail/ Private Banks(5 per cent) and Other Funds (10 per cent).

The net proceeds of the bond issue will be utilised by the Government of Sri Lanka to supplement (counterpart funding/bridge financing) available concessional funds to develop infrastructure projects that have been previously approved by the Government and included in the current 2007 budget, including in areas such as electricity generation, water supply, roads, port facilities and railway lines.

It is expected that the sovereign bond issue would accrue many positive effects on the economy of Sri Lanka. With these funds the foreign exchange reserves of the CBSL would increase by US dollars 500 million creating strong reserves base of over US dollars 3 billion. This has helped in setting up an international yield curve thus the private sector will be able to access the international capital market. It also helps to broaden the country's investor base and it is already experienced by the substantial increase in the interest of foreign investors in rupee denominated Government bonds, following the successful international debut bond issue.

Further, the primary market yield rates on 3 months Treasury bills which prevailed at 18.46 per cent immediately before the sovereign debt issue, dropped by 272 bps during subsequent three weeks period. Similarly the US dollar which was trading around Rs. 113.50 dropped to Rs. 110.23 level during the same period, appreciating the local rupee. These developments has significant positive impact on the overall fiscal and macroeconomic management of the country.

6. Debt management Strategy - 2007 and Beyond

Current Issues and Challenges ahead

(a) Persistently High Budget Deficit

Over the last decade, Sri Lanka has experienced an average budget deficit/GDP ratio of 8.6 per cent which is significantly high compared to other countries in the region. The budget deficit in 2007 is estimated at 7.2 per cent of GDP. These persistently high budget deficits financed largely through domestic market sources during the last few years, have resulted in a significant increase in the outstanding domestic debt.

(b) Declining of Concessional Type External Borrowings

Concessional type external borrowings from multi-lateral and bi-lateral sources have been declining on a net basis. The possibility of securing such borrowings in the future is also limited, as Sri Lanka is moving up to a middle income country category.

(c) Decline of External Grants from Foreign Donors

Grants too are on a declining path due to the same reason and at present, are about 0.7 per cent of GDP.

(d) Limited Resource Availability in the Domestic Non-Bank Sector

Alternative investment opportunities such as equity markets, new deposit mobilisation products etc., are on the increase, limiting the resources available in the domestic non-bank sector for the government securities market.

(e) Bunching of Debt Portfolio

A large portion of current outstanding government debt shows a serious daily bunching problem, under which an excessive amount of debt will mature within a limited number of days, especially between 2007 and 2009. If this is left unattended, it would increase the rollover risk.

(f) Fragmentation of Debt Stock and Absence of Benchmark Securities

The T-bond stock is highly fragmented due to the existence of a large number of bond series. This creates difficulties for PDs to make two-way quotes and develop benchmark securities.

(g) Narrow Intermediary and Investor Base

The investor base is mostly concentrated in the Western Province, while intermediaries are mostly confined to PDs and commercial banks.

Risks Associated with Public Debt in Sri Lanka

Refinance risk / Rollover risk

Refinance risk arises when maturing debt cannot be rolled over or can be rolled over only at a very high cost. In the rising interest rate scenario that has prevailed over the last few years in the domestic market, investors preferred to operate more at the shorter end of the yield curve resulting high cost for long term debt in the domestic market. A policy decision was taken in 2004 to re-open the existing T-bond series, which resulted in T-bonds been issued at different stages to mature on the same

date. In addition, a heavy reliance on domestic sources of debt is also observed. This has resulted in a very large domestic debt stock. These factors, along with a reduced duration of domestic debt stock and its average time to maturity, has created a heavy bunching of debt. The refinancing risk also adds a heavy cost to the government budget and could be a possible threat to fiscal consolidation. In the Sri Lankan context, the refinance risk could be considered a major risk in government debt.

Liquidity risk

Liquidity risk arises if government securities cannot be converted in to cash quickly and with out a loss of value. In Sri Lanka, the lack of an active secondary market is the main reason contributing towards high liquidity risk. Lack of regular issuance of government securities of different maturities, development of alternative investment opportunities in the domestic market and a limited investor base too contribute to liquidity risk.

Interest rate risk

Interest rate risk is closely connected with refinancing risk. Changes in interest rates affect debt service payments, when fixed interest rate debt is refinanced at frequent intervals and when interest rate related to variable interest rate debt is reset at each payment period.

The average time to re-fixing (ATR), i.e., the average time taken to re-fix the interest rate, and duration (D), i.e., the weighted average maturity of cashflows, are two main indicators generally used to assess the vulnerability of debt stock to the volatility of market interest rates. The ATR for domestic debt at end 2006 was limited to 2.2 years while duration of domestic debt was 1.8 years. A volatile interest rate structure would change the value of government securities issued to the market. Rising interest rates have lead to lower trading activities in the government securities market.

Exchange rate risk

This risk arises due to the impact of changes in exchange rates. As the foreign currency borrowing constitutes a considerable portion of the total

debt, changes in exchange rate may create a risk in servicing such debt. As the reliance on floating rate foreign currency denominated commercial borrowings from both the domestic and external market is increasing in Sri Lanka, it is vulnerable to exchange rate risk.

Public Debt Management Strategy (PDMS) 2007 and Beyond

A medium-term debt management strategy has been formulated for Sri Lanka, in line with the medium-term government borrowing programme and macroeconomic framework formulated by the government. Debt management strategies suggested are summarised below.

1. Implement debt consolidation programme

The bunching of T-bonds is a significant feature in the current debt stock. Therefore, the following strategies are to be adopted to smoothen the bunching issue.

- Introduce buy back / conversion techniques
- Reduce number of bond series to lower the fragmentations in the bond market and to improve secondary market operations
- Introduce benchmark bond series and develop a benchmark yield curve.

2. Develop a credible and liquid debt market

In an underdeveloped market, private placements play a significant role in mobilising funds from the local market. At present, 80 per cent of the medium and long-term fund mobilisation is through private placements as the market is not yet fully developed. However, in a developed market, the market determines interest rates without the intervention of regulators. A market determined process would provide market confidence and credibility to the government, which is vital for the existence of a liquid and credible securities market. It is expected to reduce the issuing of T-bonds through private placements in the medium to long run.

3. Introduce diversified debt instruments

Existing instruments do not protect the principal investment amount against inflation. Hence, it is necessary to develop diversified instruments to cater to a variety of investors to provide more risk return trade-off.

Available options are regular issuance of:

- Inflation protected securities
- Floating rate bonds
- Zero coupon bonds
- Retail level debt instruments
- Short-term securities for cash flow management

4. Restructuring of Primary Dealer System

Under the current regulatory framework, PD operations are restricted to the government securities business. As a result, PDs depend only on a single product market and they are subject to risk exposure, especially to market risk. Therefore, it is necessary to restructure the PD system and to allow PDs to:

- form and/or invest in a mutual fund/unit trust where the entire corpus is invested in government securities;
- invest in ordinary shares or debentures of its own group companies;
- maintain investments in other quoted shares/quoted debentures or bonds and commercial papers;
- trade (act as a broker) in corporate bonds/debentures, both quoted and unquoted;
- engage in services such as portfolio management, project appraisal, loan syndication services, merger and acquisition advisory services, consultancy services and brokering to earn fee income.

5. Reduce debt financing in the budget by selecting investments in economic services through other alternative financing methods.

- Public Private Partnerships (PPP)
 - introduce to selected income generating enterprises of the government.

- Issue restructuring bonds/ revenue backed bonds
 - to encourage public enterprises which have a sound financial background to issue such bonds.
- Build-Operate-Own (BOO)/Build- Operate-Transfer (BOT)
 - to transfer some mega projects such as roads and ports to private sector under above agreements.
- On - lending
 - government to lend funds to selected public institutions with an agreement to pay back during a stipulated time frame.

Table 11

IDENTIFIED TARGETS IN DEBT MANAGEMENT

Indicator	2006	2010
Refinancing Risk Indicators		
Average time to maturity of domestic debt (ATM)	2.4yrs	3.5yrs
Short term domestic rupee debt/ Total domestic rupee debt	20%	10%
Interest Risk Indicators		
Duration of domestic debt	1.8 yrs	2.5 yrs
Floating debt / Total debt	6%	20%
Average time to re-fixing of domestic debt (ATF)	2.3 yrs	3 yrs
Foreign Exchange Risk Indicators		
Foreign investments in T-bonds /Total bond stock	-	15%
Share of foreign currency commercial debt / Official reserves	68%	<50%
Share of external debt / Total debt	43%	35%
Overall Debt Sustainability		
Debt/GDP	89%	73%
Share of foreign debt service payments /Official reserves	23%	15%

Source: Central Bank of Sri Lanka

Medium-Term Expectations

Over the last decade, Sri Lanka has experienced an average budget deficit / GDP ratio of 8.5 per cent, which is significantly higher compared to other countries in the region. The budget deficit in 2007, was originally estimated at 8.4 per cent of GDP and subsequently reavised to 7.2 per cent of GDP. The aim of the government is to gradually reduce the budget deficit below 5 per cent of the GDP in the medium term.

7. Annexure

1. Primary Dealer System

1.1 Introduction

A primary dealer is a specialised intermediary in the government securities market. The main purpose of a primary dealer system includes strengthening the primary market by:

- (a) helping to build a stable, dependable source of demand for securities,
- (b) providing liquidity in the secondary market,
- (c) building distribution channels (to act as intermediaries) and,
- (d) providing market information, including prices, volumes and spreads between bids and offers.

1.2 Primary Dealer System (PDS) in Sri Lanka

The Monetary Board of the Central Bank of Sri Lanka appoints Primary Dealers (PDs), in terms of regulations issued under the Local Treasury Bills Ordinance (LTBO) and the Registered Stocks and Securities Ordinance (RSSO), for the purpose of dealing with the CBSL as a counter party in the primary and secondary markets for government securities and to transact in government securities on their own account and for the account of their customers.

1.3 Key objectives of the PDS in Sri Lanka

Key objectives of the PDS are as follows:

- (a) Development of the government debt securities market
- (b) Raising funds at lowest cost and facilitating better management of government debt
- (c) Strengthening monetary and fiscal management
- (d) Making the dealer surveillance more convenient and meaningful
- (e) Better targeting of incentives for PD activities e.g. tax incentives
- (f) Providing a level playing field by way of a uniform set of institutions
- (g) Eliminating conflicts of interest within organisations

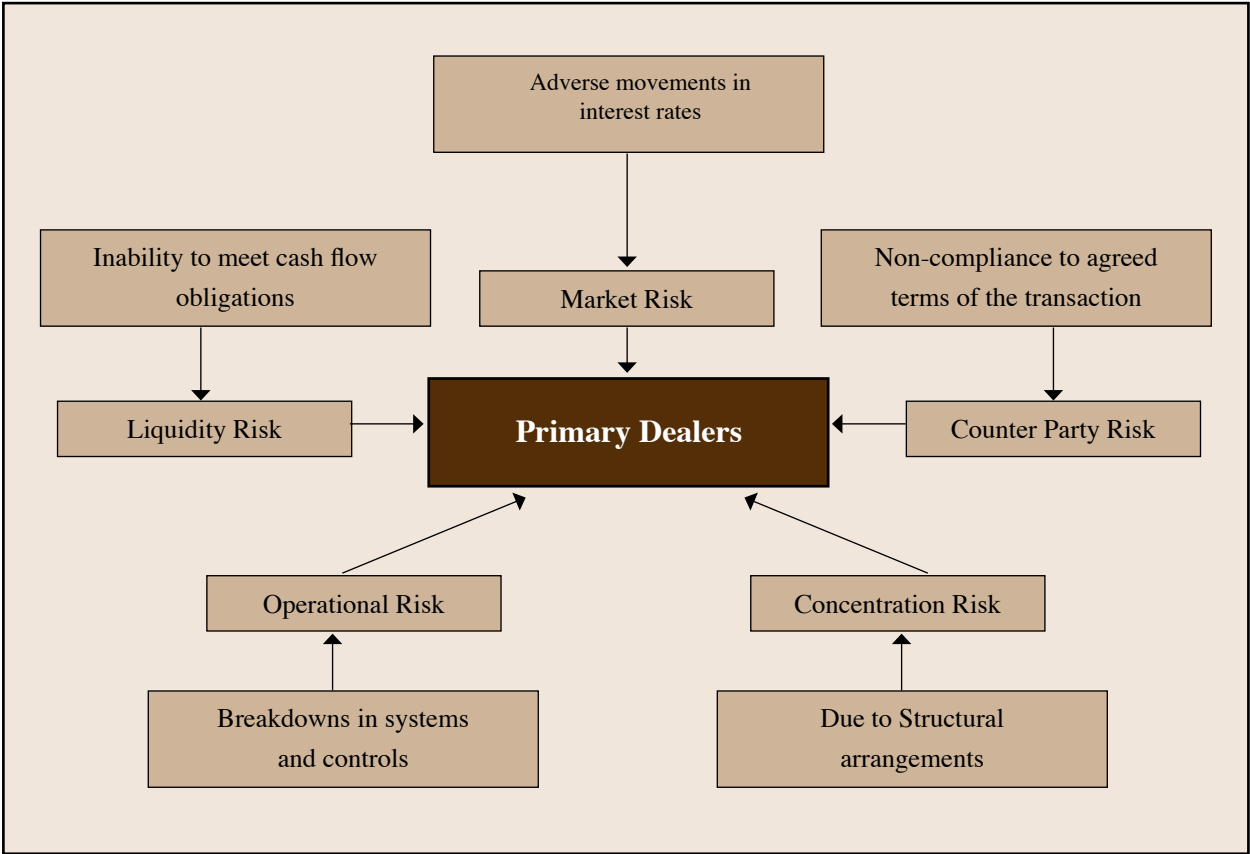
Accordingly, it is the responsibility of PDs to support the primary market in government securities by creating a stable demand for Treasury bills and Treasury bonds and to provide liquidity to the secondary market by trading in government securities. Therefore, the PD system is expected to lower the cost and risk of public borrowing, to develop the financial market, to facilitate the conduct of monetary policy and to encourage financial savings by providing a relatively risk free investment in government securities.

The PD system, which was known as an accredited PD system, first came into operation on 24 July 1992 with 18 PDs. While the accredited PDS was in operation, the need for a dedicated PDS was felt as

market participants, especially the commercial banks engaged in government securities activities, were more interested in other banking activities than developing the government securities market. Accordingly, a dedicated primary dealer system was first introduced in 2000, with 8 limited liability companies. In 2002, the PD system was expanded giving the opportunity to licensed commercial banks (LCBs) to join the system. This was aimed at infusing more competition and liquidity to the market. Further, LCBs were also expected to use their greater financial resources and branch network to market government securities to a wider investor base, thereby increasing investor access to the market. At present 11 primary dealers are operating in the market.

Risks Encountered by PDs

The figure below explains the main risks encountered by PDs.



2. Debt Market Development

IMPORTANT EVENTS IN THE DEBT SECURITIES MARKET

- 1923 - Introduction of Treasury bills for the first time under LTBO
- 1941 - Commencement of Treasury bill issues under parliamentary approval
- 1981 - Commencement of issuance of six month Treasury bills
 - Introduction of secondary market operations for Treasury bills
- 1986 - Commencement of weekly issues of Treasury bills
 - Introduction of tap system
- 1989 - Issuance of Treasury bills with multiple maturities
- 1992 - Introduction of accredited PD system
- 1993 - Introduction of repurchase agreement system for Treasury bills
- 1994 - Reforming the PD system
- 1995 - Phasing out of non-competitive bidding by Public Sector Institutional Investors
 - Introduction of reverse repos for Treasury bills
 - Fixing and prior announcement of Treasury bills to be issued under each maturity
 - Amendment of laws relating to government securities
- 1997 - Commencement of issuing Treasury bonds
- 1998 - Introduction of an electronic bidding system
- 2000 - Introduction of dedicated PD system
 - Issuance of callable bonds
- 2002 - Expansion of PD system
- 2003 - Introduction of Fiscal Management (Responsibility) Act
 - Introduction of a Code of Conduct for PDs
- 2004 - Introduction of Scripless Securities Settlement System and Central Depository System
- 2005 - Issuance of an index linked bond
- 2006 - Introduction of a Risk Weighted Capital Adequacy Framework for PDs
 - Opening up the Rupee denominated Treasury bond market for foreign investors
 - Introduction of Sri Lanka Nation Building Bonds

3. Directives Issued to PDs

The PDD had issued several directions to PDs to ensure that best practices are adopted and to strengthen the prudential requirements and the supervisory framework. The following are the major directions issued to PDs as at end December 2006.

3.1 Direction on Segregation of Proprietary Government Securities Accounts - Effective Date 01/01/2002

Government securities acquired for trading purposes on a regular basis to make profits from short-term changes in market prices have to be held in a Trading account and should be marked to market using the secondary market weighted average yields compiled by the CBSL. Government securities acquired to be held to maturity should be held in an Investment account.

3.2 Direction on Financial Statements - Effective Date 01/01/2002

PDs are required to prepare their financial statements in accordance with the accounting methodology specified in the Sri Lanka Accounting Standards. Annual financial statements should be audited by an external auditor registered with the Central Bank. Semi annual and annual financial statements should be published in newspapers within two months after the half year and six months after the end of the financial year respectively.

3.3 Directions on Custodial and Trust Holdings of Scrip Securities – Effective Date 01/01/2002

PDs should maintain a separate register specified by the PDD for scrip securities held with them on behalf of customers, physically segregated from their own securities, and held in safe and secure custody.

3.4 Direction on New Products – Effective Date 12/04/2002

PDs are required to inform the PDD of any new product they intend to launch, prior to its introduction to the market.

3.5 Direction on the Establishment of a Branch Office by Primary Dealers – Effective Date 12/04/2002

PDs are required to inform and obtain the prior concurrence of the PDD for the establishment of a branch or any other type of office which proposes to engage in trading in government securities and primary dealer business.

3.6 Direction on Repurchase and Reverse Repurchase Agreements – Effective Date 01/06/2002

Repo and reverse repo transactions should be fully covered by taking government securities as collateral.

3.7 Direction on Effective Two Way Quotes – Effective Date 11/03/2002

PDs should post firm two way quotes on the screen provided by the PDD by 10.00 a.m. daily.

3.8 Direction on Forward Rate Agreements (FRAs) and Interest Rate SWAPs (IRSs) – Effective Date 01/04/2003

This was issued to safeguard the PDS in hedging on FRAs and IRSs.

3.9 Direction on firm Two Way Quotes (Bid and Offer prices) for Benchmark Maturities – Effective Date 02/07/2002

Two way quotes for 3-12month T-bills and 2-5years T-bonds should be sent to PDD daily through e-mail and displayed on the Bloomberg screen.

3.10 Direction on Minimum Subscription levels for Treasury Bill and Bond Auctions – Effective Date 15/08/2003

Each PD should subscribe to a minimum of 10 per cent of the amount offered for each maturity at each T-bill and T-bond auction.

3.11 Direction on Accounting for Repo and Reverse Repo Transactions – Effective Date 19/12/2003

To record all repo and reverse repo transactions to reflect their true commercial effect of the transaction.

3.12 Direction on Short Selling of Securities – Effective Date 06/04/2004

PDs are prohibited from selling securities without actually holding the relevant securities in their portfolio. Securities obtained as collateral on reverse repo transactions are not considered as PDs own securities and they cannot be sold.

3.13 Direction on Adjusted Trading – Effective Date 07/06/2004

PDs are required to refrain from using away prices for recording of transactions.

3.14 Direction on enhancement of minimum capital requirement, dividend distribution and maintenance of Tier II capital by primary dealers – effective date 01/07/2005.

The PDs are required to increase the minimum capital up to Rs.250 million with effect from 01/07/2005 and to increase it further to Rs. 300 million with effect from 01/07/2006. Risk Weighted Capital Adequacy Framework will be introduced from 01/07/2006. PDs are allowed to maintain an amount not exceeding 50 per cent of the Tier I capital, as Tier II capital. PDs who maintain a capital above Rs.300million should transfer 25 per cent of its net profits after tax, annually to a special risk reserve and PDs who maintain a capital between Rs.250 million and Rs.300 million are allowed only to declare 25 per cent of their profits as dividends.

3.15 Direction on Risk Weighted Capital Adequacy Framework –Effective date 01/07/2006

This direction contains the calculation and reporting methods and requirements on risk weighted capital adequacy.

4. Organizational Structure of the Public Debt Department

The Public Debt Department (PDD) of the Central Bank of Sri Lanka (CBSL) is responsible for the management of public debt. In order to discharge its public debt management functions, the PDD is organised into the following divisions.

1. Front Office (FO)
2. Middle Office (MO)
3. Back Office (BO)
4. Supervision Division (SD)
5. LankaSecure Division (LSD)
6. Support Services Division (SSD)
7. Foreign Currency Investment Division (FCID)

4.1 Front Office (FO)

The FO of the PDD is responsible for mobilising funds required by the government, in particular from domestic sources, at the lowest possible cost, through implementing the borrowing program approved by the relevant authorities. The work of the FO with regard to debt issuance commences after parliamentary approval for the annual borrowing limit is obtained through the Appropriation Act for the respective year. Based on the limits stipulated by the Appropriation Act, the FO prepares an Annual Borrowing Program (ABP), organised by debt instrument, for the respective year. This is done in consultation with the Government Treasury Operations Department and the Economic Research Department (ERD) of the CBSL. Subsequently, the Monetary Board's approval is obtained for the implementation of the programme. The FO also prepares a Monthly Borrowing Plan (MBP). Approval for the MBP is obtained from the Domestic Debt Management Committee (DDMC), a committee consisting of representatives from PDD, ERD, Statistics Department (SD), Domestic Operations Department (DOD) of the CBSL and the General Treasury of the Ministry of Finance (MOF). The DDMC monitors the borrowing programme on a monthly basis.

4.2 Middle Office (MO)

The MO is responsible for analytical work on debt dynamics and risk management. The MO keeps track of the government-borrowing programme, maintains domestic and foreign debt databases, disseminates information to external and internal users and engages in analytical and research work on public debt.

4.3 Back Office (BO)

The main role of the BO is servicing domestic and foreign debt.

Domestic Debt Servicing

Almost all repayments with regard to domestic borrowings (except Rupee loans) are made to the participants through the Real Time Gross Settlement System (RTGS). Domestic debt service payments are made on a net basis. Receivables from PDs (mainly upon acquisition of securities at the auctions) are set off against the payables. In a net payable situation, an RTGS Outward Payment Request is generated by the system and sent to the Domestic Operations Department (DOD) for payment. In case of net receivables, payment requests are faxed to the PDs and transmitted to LankaSecure for verifications with the RTGS system.

Foreign Debt Servicing

Foreign debt payment schedules are received from creditors through External Resources Department (mostly donors, since approximately 92 per cent of the foreign debt is from concessional sources) in order to make arrangements for payments. These are verified against the database maintained in the Commonwealth Secretariat Debt Recording & Monitoring System (CS-DRMS).

4.4 Supervision Division (SD)

The supervision of PDs is carried out by the SD to ensure a safe and sound PD network and customer protection. The supervision of PDs is based on a risk-focused approach, which evaluates whether PDs have sufficient capabilities to manage the risks associated with the business in which they engage.

The main functions of the Supervision Division are;

- a. Conducting off-site surveillance
- b. Conducting on-site examinations
- c. Market monitoring
- d. Settling supervision policy issues
- e. Other activities.

4.5 LankaSecure Division

LankaSecure is an electronic system for recording transactions and holdings of government securities issued in scripless form. It commenced operations on 03 February 2004. Settlement of securities transactions takes place instantaneously through crediting / debiting relevant accounts via electronic data entry. Whenever a transaction takes place, securities are transferred from one account to another in the form of an electronic data entry, as instructed by the participant(s). The corresponding funds transfer takes place through the RTGS, in which Licensed Commercial Banks (LCBs) and PDs are participants. The settlement of securities through the Scripless Securities Settlement System (SSSS) and funds transfers through RTGS are confirmed electronically to the respective participants.

4.6 Support Services Division (SSD)

The SSD provides administrative services to the other divisions of the Department. SSD handles activities that are generally performed by the administration division of a traditional office.

4.7 Foreign Currency Investment Division (FCID)

This unit is responsible for promoting and issuing of foreign currency denominated securities.

8. Glossary

Assets/Revenue Backed Bonds – Bonds that are based on pool of Assets, or collateralised by the cash flows from a specified pool of underlying assets.

Average Running Cost – It is the interest paid as a proportion of the outstanding debt stock at the beginning of the year.

Average Time to Maturity – The time remaining until a financial contract expires. Also called time until expiration.

BASEL: Basel accords which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision.

Benchmark Bond – A bond that provides a standard against which the performance of other bonds can be measured. Government bonds are almost always used as benchmark bonds. Also referred to as “benchmark issue”.

Bunching of Debt Stock– It is an excessive amount of debt getting matured within a given period of time.

Central Depository–A computerised central system which records primary issuance of scripless securities and their trades taking place in the market.

Concessionary External Loans – Loans with a grant element of more than 35 per cent when the actual discount rate for each currency is considered.

Coupon – It is the periodic interest payment made to bond owners during the lifetime of the bond. Coupon payments are paid semi-annually. The annual rupee amount of interest is equal to the principal value times the coupon rate.

Debt Sustainability - Sustainable debt is the level of debt which allows a debtor country to meet its current and future debt service obligations in full, without recourse to further debt relief or rescheduling, avoiding accumulation of arrears, while allowing an acceptable level of economic growth.

Duration – It is the weighted average maturity of the security’s cashflows.

Floating Rate Bonds – Bonds that have a variable coupon, equal to a money market reference rate, like LIBOR plus a spread. The spread is a rate that remains constant.

Index Linked Bonds: Bonds which pays a coupon that varies according to some underlying Index usually the Consumer Price Index.

LIBOR – It is the London Inter Bank Offer Rate.

Maturity – This refers to the date on which the issuer has promised to redeem the issue by paying the principal value. The number of days or years until the date of redemption is called the maturity period.

Outright Transactions – Transactions by which ownership of the securities are transferred to the buyer.

Primary Dealers – A group of intermediaries appointed by the Central Bank to deal exclusively with government securities.

Primary Market – It is the place where securities are first issued to buyers. In the primary market securities are issued to primary dealers based on the accepted bids at the weekly auctions conducted by the Central Bank.

Repurchase Transactions – Transactions involving a sale of securities with an agreement to reverse the transaction in a future date.

Rupee Loans - A medium to long-term debt instrument issued for maturities more than two years on tap basis or as private placements by the Central Bank on behalf of the government under the Registered Stocks and Securities Ordinance. Interest rates of this instrument is determined administratively.

Secondary Market – It is the market where securities are traded and exchanged among the investors after the securities are issued from the primary market. The secondary market is available in the Central Bank as well as out side.

Scriptless Securities – Treasury bills and Treasury bonds issued in book entry form or as paperless securities.

Treasury Bills – A short-term debt instrument issued usually on a discount basis and for maturities of 91, 182 and 365 days through auctions by the Central Bank on behalf of the government under the Local Treasury Bills Ordinance.

Treasury Bonds – A medium to long-term debt instrument issued for maturities of more than two years through auctions by the Central Bank on behalf of the government under the Registered Stocks and Securities Ordinance. The maximum original maturity of Treasury bonds issued up to now is for 20 years.

Yield – Yield is the coupon or discount when expressed as a percentage of the price.

Yield Curve – A graphical depiction of the relationship between the yield on the securities and different maturities.

Zero Coupon Bonds – Zero coupon bonds are bonds that do not pay interest during the life of the bonds. Instead, investors buy zero coupon bonds at a deep discount from their face value, which is the amount a bond will be worth when it “matures” or comes due.

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CENTRAL GOVERNMENT DEBT

CENTRAL GOVERNMENT DEBT

TABLE 1

Rs. Million

Year(a)	Domestic Debt					Foreign Debt (c)	Total Debt	As a % of GDP (d)		
	Treasury Bills	Rupee Loans	Treasury Bonds (b)	Other	Total			Domestic	Foreign	Total
1950	79	436	-	14	529	125	654	13.7	3.2	16.9
1951	30	582	-	14	626	125	751	13.6	2.7	16.3
1952	93	684	-	75	852	192	1,044	18.9	4.3	23.2
1953	184	731	-	129	1,044	205	1,249	23.2	4.6	27.8
1954	105	782	-	66	953	211	1,164	20.1	4.4	24.5
1955	60	829	-	-	889	232	1,121	17.0	4.4	21.4
1956	68	882	-	-	950	258	1,208	18.6	5.1	23.7
1957	65	962	-	105	1,132	278	1,410	21.8	5.3	27.1
1958	140	1,007	-	91	1,238	293	1,531	27.8	5.3	33.1
1959	320	1,102	-	138	1,560	307	1,867	29.2	4.8	34.0
1960	550	1,217	-	170	1,937	345	2,282	28.9	5.1	34.0
1961	750	1,397	-	198	2,345	407	2,752	34.1	5.9	40.0
1962	1,000	1,515	-	179	2,694	412	3,106	38.7	5.9	44.6
1963	1,125	1,684	-	222	3,031	489	3,520	47.1	6.0	53.1
1964	1,250	1,909	-	216	3,375	549	3,924	43.3	7.0	50.3
1965	1,300	2,150	-	246	3,696	739	4,435	54.8	9.1	63.9
1966	1,425	2,475	-	295	4,195	1,074	5,269	50.3	12.9	63.2
1967	1,500	2,785	-	298	4,583	1,376	5,959	50.7	15.2	65.9
1968	1,750	3,118	-	329	5,197	1,578	6,775	48.5	14.7	63.2
1969	1,750	3,409	-	354	5,513	1,800	7,313	47.1	15.4	62.5
1970	1,950	3,925	-	420	6,295	2,394	8,689	46.1	17.5	63.6
1971	2,025	4,512	-	446	6,983	2,795	9,778	49.7	19.9	69.6
1972	2,325	5,103	-	498	7,926	2,936	10,862	71.5	19.3	90.8
1973	2,250	5,812	-	522	8,584	3,705	12,289	66.7	20.1	86.8
1974	2,250	6,591	-	604	9,445	2,859	12,304	51.7	12.0	63.7
1975	2,350	7,560	-	949	10,859	3,705	14,564	40.9	13.9	54.8
1976	2,700	9,001	-	990	12,691	4,968	17,659	58.4	16.4	74.8
1977	2,500	10,391	-	1,501	14,392	10,593	24,985	39.5	29.1	68.6
1978	2,635	12,049	-	1,684	16,368	14,583	30,951	72.6	34.2	106.8
1979	3,000	14,929	-	1,705	19,634	15,840	35,474	37.5	30.2	67.7
1980	9,800	17,611	-	1,659	29,070	22,276	51,346	43.7	33.5	77.2
1981	13,920	20,025	-	1,573	35,518	29,172	64,690	41.8	34.3	76.1
1982	17,320	25,800	-	2,147	45,267	35,267	80,534	81.1	35.5	116.6
1983	17,400	31,953	-	2,416	51,769	46,688	98,457	42.6	38.4	81.0
1984	14,860	33,228	-	3,564	51,652	53,681	105,333	33.6	34.9	68.5
1985	22,280	36,570	-	3,761	62,611	67,673	130,284	80.3	41.7	122.0
1986	26,173	39,130	-	4,196	69,499	86,208	155,707	86.7	48.0	134.7
1987	29,850	44,957	-	4,190	78,997	111,812	190,809	40.2	56.8	97.0
1988	43,700	49,797	-	5,099	98,596	125,657	224,253	44.4	56.6	101.0
1989	57,246	54,217	-	6,099	117,562	156,298	273,860	46.7	62.0	108.7
1990	67,968	54,677	-	11,251	133,896	176,883	310,779	41.6	55.0	96.6
1991	72,968	66,823	-	12,328	152,119	214,579	366,698	40.9	57.6	98.5
1992	87,096	69,180	-	13,744	170,020	235,539	405,559	40.0	55.4	95.4
1993	97,196	105,707	-	10,782	213,685	270,224	483,909	42.8	54.1	96.9
1994	98,896	137,554	-	12,669	249,119	301,812	550,931	43.0	52.1	95.1
1995	113,771	157,928	-	17,711	289,410	346,286	635,696	43.3	51.9	95.2
1996	124,996	205,975	-	25,731	356,702	359,685	716,387	93.2	46.8	140.0
1997	114,996	239,475	10,000	23,269	387,740	376,331	764,071	43.5	42.3	85.8
1998	119,996	250,570	48,915	43,945	463,426	461,273	924,699	45.5	45.3	90.8
1999	124,996	262,056	104,867	51,546	543,465	507,866	1,051,331	49.1	45.9	95.0
2000	134,996	263,888	204,124	73,652	676,660	542,040	1,218,700	53.8	43.1	96.9
2001	170,995	292,813	229,174	122,983	815,965	636,741	1,452,706	58.0	45.3	103.3
2002	210,995	287,701	347,128	102,562	948,386	721,956	1,670,342	59.8	45.6	105.4
2003	219,295	248,414	483,107	69,153	1,019,969	843,882	1,863,851	56.1	46.4	102.5
2004	243,886	164,758	643,349	91,396	1,143,389	996,138	2,139,527	54.8	47.7	102.5
2005	234,174	140,563	751,569	139,415	1,265,721	956,620	2,222,341	51.9	39.2	91.1
2006	257,732	116,713	885,972	215,103	1,475,520	1,131,074	2,606,594	50.5	38.7	89.2
2007 end June (c)	280,122	116,176	931,676	267,378	1,595,352	1,212,127	2,807,479	n.a.	n.a.	n.a.

Source : Central Bank of Sri Lanka

Department of Census and Statistics

(a) From 1950 to 1973, outstanding position as at end September and since then as at end December.

(b) Excludes T-bonds of Rs. 4,397 issued to CWE in 2003 and T-bonds issued to non residents in 2007.

(c) Includes the outstanding defence loans and T-bonds issues to non residence in 2007.

(d) From 2003 to 2006, based on the national accounts estimates by the Department of Census and Statistics.

(e) Provisional

CENTRAL GOVERNMENT DEBT

OUTSTANDING CENTRAL GOVERNMENT DEBT

TABLE 2

Rs. Million

Item	End Dec. 2002	End Dec. 2003	End Dec. 2004	End Dec. 2005	End Dec. 2006	End June 2007 (a)
Total Domestic Debt	948,386	1,019,969	1,143,389	1,265,721	1,475,520	1,595,352
By Maturity						
Short - Term	259,205	249,621	269,784	262,153	314,868	365,433
Treasury bills	210,995	219,295	243,886	234,174	257,732	280,122
Provisional advances from the Central Bank	31,033	31,204	34,791	39,746	49,015	61,099
Import bills held by commercial banks	12,801	180	734	222	366	606
Other liabilities to the banking sector net of bank deposits	-3,247	-8,511	-14,490	-15,856	2,887	18,738
Other (Administrative Borrowing)	7,623	7,453	4,863	3,868	4,868	4,868
Medium and Long -term	689,181	770,348	873,605	1,003,568	1,160,652	1,229,919
Rupee securities (b)	287,701	248,414	164,758	140,563	116,713	116,176
Treasury bonds (c)	347,128	483,107	643,349	751,569	885,972	931,676
Treasury certificates of deposit	11	11	11	11	11	11
Sri Lanka Development Bonds	24,177	8,816	26,083	25,519	62,469	88,603
Other (d)	30,164	30,000	39,404	85,906	95,486	93,454
By Debt Instrument	948,386	1,019,969	1,143,389	1,265,721	1,475,520	1,595,352
Rupee securities	287,701	248,414	164,758	140,562	116,713	116,176
Treasury bills	210,995	219,295	243,886	234,174	257,732	280,122
Treasury bonds (c)	347,128	483,107	643,349	751,569	885,972	931,676
Treasury certificates of deposit	11	11	11	11	11	11
Sri Lanka Development Bonds	24,177	8,816	26,083	25,519	62,469	88,603
Provisional advances	31,033	31,204	34,791	39,746	49,015	61,099
Other	47,341	29,122	30,511	74,140	103,607	117,665
By Institution	948,386	1,019,969	1,143,389	1,265,721	1,475,520	1,595,352
Banks	248,243	228,411	272,981	298,410	369,194	380,371
Central Bank						
By debt instrument	76,342	44,587	113,017	78,364	117,624	103,890
Treasury bills	44,923	13,365	78,162	38,951	69,370	43,339
Treasury bonds	-	-	-	-	-	-
Provisional advances	31,033	31,204	34,791	39,746	49,015	61,099
Other	386	18	64	-333	-761	-548
Commercial Banks						
By debt instrument	171,901	183,824	159,965	220,046	251,570	276,481
Rupee loans	43,981	43,481	41,481	41,481	22,088	17,090
Treasury bills	28,895	44,637	40,681	39,151	52,805	32,383
Treasury bonds (c)	35,523	65,246	33,350	55,118	25,680	31,485
Sri Lanka Development Bonds	24,177	8,816	26,083	25,519	62,469	88,603
Other	39,325	21,644	18,369	58,778	88,528	106,920
Sinking fund	100	100	100	100	100	100
Rupee loans	100	100	100	100	100	100
Non bank sector						
By debt instrument	700,043	791,459	870,408	967,211	1,106,225	1,214,881
Rupee loans	243,620	204,833	123,277	98,982	94,525	98,986
Treasury bills	137,177	161,293	125,043	156,072	135,557	204,400
Treasury bonds (c)	311,605	417,861	609,999	696,451	860,292	900,191
Treasury certificates of deposit	11	11	11	11	11	11
Other	7,630	7,461	12,078	15,695	15,840	11,293
By institution	700,043	791,459	870,408	967,211	1,106,225	1,214,881
National Savings Bank	116,632	138,939	151,158	169,590	166,456	166,077
Employees' Provident Fund	283,655	323,182	362,736	406,557	469,618	518,854
Other	299,756	329,338	356,519	391,064	470,150	529,949
Total Foreign Debt	721,956	843,882	996,138	956,620	1,131,074	1,212,127
By Type	721,956	843,882	996,138	956,620	1,131,074	1,212,127
Project Loans	640,354	769,559	914,232	865,494	977,099	1,016,867
Non-Project Loans	81,603	74,323	81,906	91,126	153,975	195,260
Commodity	68,050	68,891	73,835	69,116	90,024	95,805
Other (e)	13,553	5,431	8,070	22,010	63,951	99,454
By Institution	721,956	843,882	996,138	956,620	1,131,074	1,212,127
Concessional Loans	702,368	822,839	970,299	919,230	1,045,346	1,066,452
Multilateral	344,297	404,937	475,246	486,854	564,214	573,949
Bilateral	358,071	417,902	495,053	432,376	481,132	492,503
Non-Concessional Loans	19,588	21,043	25,838	37,190	85,727	145,675
Multilateral	394	219	1,801	343	4,185	10,346
Bilateral	1,096	836	575	805	27,708	31,193
Commercial Loans (e)	18,098	19,988	23,462	36,042	53,834	104,136
Total Outstanding Government Debt	1,670,342	1,863,851	2,139,526	2,222,341	2,606,594	2,807,479

Source : Central Bank of Sri Lanka

Ministry of Finance and Planning

(a) Provisional

(b) Include long-term bonds of Rs.24,088 million and Rs.4,480 million issued in 1993 and 1996 respectively.

(c) Excludes Tbonds issued to non residents in 2007

(d) Includes the outstanding balance to OBUs

(e) Include the outstanding defence loans and Tbonds issued to non residents.

CENTRAL GOVERNMENT DEBT

TABLE 3

COMPOSITION OF OUTSTANDING CENTRAL GOVERNMENT DEBT(a)

Rs. Million

Source	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007(b)
1. Foreign Debt	376,331	461,273	507,866	542,040	636,741	721,957	843,882	996,138	956,620	1,131,074	1,212,217
1.1 Project Loans (c)	320,867	400,284	444,423	477,845	542,942	640,354	769,559	914,232	865,494	977,099	1,016,867
1.2 Non -Project Loans	55,464	60,989	63,443	64,195	93,799	81,603	74,323	81,906	91,126	153,975	195,260
Commodity (d)	53,816	59,626	62,182	63,009	67,000	68,050	68,892	73,835	69,116	90,024	95,805
Other (e)	1,648	1,363	1,261	1,186	26,799	13,553	5,431	8,071	22,010	63,951	99,454
2. Domestic Debt	387,740	463,426	543,465	676,660	815,965	948,386	1,019,969	1,143,389	1,265,721	1,475,520	1,595,352
2.1 Rupee Loans	239,475	250,570	262,056	263,888	292,813	287,701	248,414	164,758	140,563	116,713	116,176
of which Sinking Funds (f)	100	100	100	100	100	100	100	100	100	100	100
2.2 Treasury Bills	114,996	119,996	124,996	134,996	170,995	210,995	219,295	243,886	234,174	257,732	280,122
2.3 Treasury Bonds	10,000	48,915	104,867	204,124	229,174	347,128	483,107	643,349	751,569	885,972	931,676
2.4 Sri Lanka Development Bonds	-	-	-	-	14,749	24,177	8,816	26,083	25,519	62,469	88,603
2.5 Treasury Certificates of Deposits	83	12	11	12	11	11	11	11	11	11	11
2.6 Central Bank Advances (g)	18,307	20,192	22,969	27,169	30,127	31,033	31,204	34,791	39,746	49,015	61,099
2.7 Other (h)	4,879	23,741	28,566	46,472	78,096	47,341	29,122	30,510	74,039	103,508	117,665
Total	764,071	924,699	1,051,331	1,218,700	1,452,706	1,670,342	1,863,851	2,139,526	2,222,341	2,606,594	2,807,569

Source : Central Bank of Sri Lanka
Ministry of Finance and Planning

(a) This excludes medium and long term loans issued in respect of supplier's credit of Rs.49,458 million, borrowing of public corporations and the private sector with a government guarantee at Rs. 49,661 million, short term IMF drawings amounting to Rs.26,316 million and other short term debt of Rs.104,638 million at end December 2006.

(b) Provisional

(c) Represents the amounts withdrawn and outstanding on the loans contracted with the IBRD, USA, Canada, Denmark, People's Republic of China, Germany, UK, India, IDA, ADB, Netherlands, Kuwait, OPEC, Japan, UAE, IFAD, Skandinaviska Enskilda Bankens -Sweden, Salomons Brother's Incorporated-New York, Bank Indosuez, BFCE -France and Citibank International of USA.

(d) Represents the amounts withdrawn and outstanding on the loans contracted with the USA, Canada, Germany, Japan, France, India, Italy and Netherlands.

(e) Includes cash loans received from the ADB, USA, OPEC and outstanding defence deferred payments.

(f) Represents the market value of investments held by the joint investment Fund on behalf of the sinking funds.

(g) Excludes contributions to international financial organizations.

(h) Includes administrative borrowings arising from foreign loans channelled through government or semi - government agencies and outstanding National Development Bonds. Outstanding balance of borrowing from offshore Banking Units (OBUs) of US dollar 300 million at end 2001, US dollar 300 million at end 2002, US dollar 304 million at end 2003, US dollar 300 million at end 2004, US dollar 715 million at end 2005 and US dollar 779 million at end 2006 are also included. Other liabilities of the government to the banking sector are also adjusted."

CENTRAL GOVERNMENT DEBT

TABLE 4

OWNERSHIP OF OUTSTANDING CENTRAL GOVERNMENT DEBT (a)

Rs.Million

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006(b)
1. Domestic Debt	387,740	463,425	543,464	676,660	815,965	948,386	1,019,968	1,143,389	1,265,722	1,475,520
1.1 Banking sector	100,536	113,054	139,671	199,030	256,808	248,243	228,411	272,981	298,411	369,194
Central Bank	19,770	27,179	48,867	97,778	92,871	76,342	44,587	113,017	78,364	117,624
Commercial Banks (c)	80,766	85,875	90,804	101,252	163,937	171,901	183,824	159,965	220,047	251,570
1.2 Non Bank Sector	287,204	350,372	403,793	477,630	559,157	700,143	791,557	870,408	967,311	1,106,225
Market Borrowings	280,902	345,012	399,306	469,703	550,783	692,520	784,104	858,321	951,547	1,098,279
Savings Institutions (d)	63,028	67,260	79,555	87,263	94,976	116,632	138,939	151,158	169,590	166,608
Sinking Funds (e)	100	100	100	100	100	100	100	100	100	100
Insurance Funds	9,292	13,052	16,935	18,969	21,449	26,853	24,828	27,398	20,704	15,239
Provident and Pension										
Funds (f)	144,406	163,534	187,955	218,615	245,028	292,081	333,289	369,205	423,283	469,717
Official Funds (g)	15,438	15,522	19,243	24,640	27,052	32,612	40,739	46,341	65,825	74,898
Private Business										
and Individuals (h)	48,638	85,544	95,518	120,116	162,178	224,242	246,209	264,119	272,045	371,817
Non Market Borrowings	6,302	5,360	4,487	7,927	8,374	7,623	7,453	12,088	15,764	7,946
2. Foreign Debt	376,331	461,273	507,866	542,040	636,741	721,956	843,883	996,172	956,620	1,131,074
Total	764,071	924,699	1,051,330	1,218,700	1,452,706	1,670,342	1,863,853	2,139,560	2,222,342	2,606,594

Source : Central Bank of Sri Lanka
Ministry of Finance and Planning

- (a) Data on Treasury bills outstanding are adjusted for secondary market transactions. Treasury bonds, which were introduced in March 1997, are also adjusted for secondary market transactions.
- (b) Provisional
- (c) Includes long term bonds issued by the government in connection with the restructuring of the two state banks in 1993 and 1996, respectively.
- (d) Includes the value of long term bonds of Rs.4,480 million issued by the government to re-capitalise the liabilities of the NSB in 1996
- (e) The Public Debt Sinking Funds (the investment Fund (w.e.f. September 1971) and the National Housing Sinking Fund.
- (f) Trusts, Benevolent, Pension and Provident Funds and Employees Provident Fund.
- (g) The Central Government, Local Authorities, State Corporations, Departmental and other official funds.
- (h) This includes the value of Treasury Bonds, Treasury Certificates of Deposits and Treasury bill holdings other than those of the institutional investors; the Employees Provident Fund, the Employees Trust Fund and the National Savings Bank.

DOMESTIC DEBT

TABLE 5

DETAILS OF OUTSTANDING TREASURY BONDS AS AT END JUNE 2007

Maturity Date	Issue Date	Series	ISIN	Face Value (Rs. Mn.)
Fixed Rate Bonds				
01/07/2007	01/07/2002	11.75% 2007C	LKB00507G016	23,613
01/08/2007	01/08/2002	11.75% 2007D	LKB00507H014	15,270
15/08/2007	15/08/2003	7.80%2007A	LKB00407H157	29,150
16/08/2007	16/08/2002	11.75%2007E	LKB00507H162	1,250
02/09/2007	02/09/2002	11.75%2007F	LKB00507I020	19,567
01/10/2007	01/10/2002	11.75%2007G	LKB00507J010	24,400
07/10/2007	07/10/2002	11.75%2007H	LKB00507J077	6,000
01/11/2007	01/11/2003	7.80%2007B	LKB00507K018	4,300
01/11/2007	01/11/2002	11.75%2007J	LKB00407K011	26,655
01/01/2008	01/01/2003	11.75%2008A	LKB00508A017	28,171
15/01/2008	15/01/2003	9.75%2008A	LKB00508A157	20,500
01/04/2008	01/04/2003	9.75%2008B	LKB00508D011	22,850
26/06/2008	26/06/2002	11.50% 2008A	LKB00608F261	9,000
19/07/2008	19/07/2002	11.50% 2008B	LKB00608G194	1,000
01/08/2008	01/08/2002	11.50%2008C	LKB00608H010	20,325
02/09/2008	02/09/2002	11.50%2008D	LKB00608I026	9,200
13/09/2008	13/09/2002	11.50%2008E	LKB00608I133	1,500
15/09/2008	15/09/2003	7.70%2008A	LKB00508I150	12,700
01/10/2008	01/10/2002	11.50%2008F	LKB00608J016	31,063
07/10/2008	07/10/2002	11.50%2008G	LKB00608J073	7,500
01/11/2008	01/11/2002	11.50%2008H	LKB00608K014	34,718
01/01/2009	01/01/2003	11.50%2009A	LKB00609A013	29,605
15/01/2009	15/01/2003	9.50%2009A	LKB00609A153	26,580
01/02/2009	01/02/2006	7.50%2009A	LKB00309B018	39,115
15/03/2009	15/03/2006	7.50%2009B	LKB00309C156	29,820
02/05/2009	02/05/2003	9.50%2009B	LKB00609E023	26,301
01/06/2009	01/06/2006	7.50%2009C	LKB00309F019	29,557
01/08/2009	01/08/2003	7.60%2009A	LKB00609H018	28,216
01/11/2009	01/11/2003	7.60%2009B	LKB00609K012	29,370
01/02/2010	01/02/2006	7.20%2010A	LKB00410B014	39,889
01/04/2010	01/04/2004	7.60%2010A	LKB00610D015	34,056
01/11/2010	01/11/2006	7.20%2010B	LKB00410K015	10,945
01/02/2011	01/02/2006	7.00%2011A	LKB00511B019	39,467
01/08/2011	01/08/2006	7.00%2011B	LKB00511H016	15,510
15/10/2011	15/10/2006	7.00%2011C	LKB00511J152	24,736
01/03/2012	01/03/2007	6.85%2012C	LKB00512C015	7,100
15/04/2012	15/04/2006	6.85%2012A	LKB00612D151	41,884
15/10/2012	15/10/2006	6.85%2012B	LKB00612J158	8,260
15/01/2013	15/01/2003	8.50%2013A	LKB01013A157	16,000
01/04/2013	01/04/2007	10.50%2013A	LKB00613D019	11,900
15/07/2013	15/07/2003	8.50%2013B	LKB01013G154	22,680
01/08/2013	01/08/2003	7.50%2013A	LKB01013H012	32,865
01/11/2013	01/11/2003	7.50%2013B	LKB01013K016	40,790
01/02/2018	01/02/2003	8.50%2018A	LKB01518B013	12,376
15/07/2018	15/07/2003	8.50%2018B	LKB01518G152	400
15/08/2018	15/08/2003	7.50%2018A	LKB01518H150	3,000
01/10/2023	01/10/2003	7.00%2023A	LKB02023J016	1,000
Index Linked Bonds				
14/12/2008	14/12/2005	1.00%2008A	LKE00308L149	22,000
30/06/2009	30/06/2006	1.00%2009A	LKE00309F305	3,000
30/06/2010	30/06/2006	1.00%2010A	LKE00410F301	3,000
Total				978,154

Source: Central Bank of Sri Lanka

DOMESTIC DEBT

TABLE 6

DETAILS OF OUTSTANDING SRI LANKA DEVELOPMENT BONDS AS AT END JUNE 2007

Maturity Date	Issue Date	Series	ISIN	Face Value (US dollar. Mn.)
28/06/2008	28/06/2006	SLDB2008A	LKG00208F281	250.00
20/09/2008	20/09/2006	SLDB2008B	LKG00208I202	70.00
28/06/2009	28/06/2006	SLDB2009A	LKG00309F287	50.00
18/08/2009	18/08/2006	SLDB2009B	LKG00309H184	175.00
20/09/2009	20/09/2006	SLDB2009C	LKG00309I208	35.00
16/03/2009	16/03/2007	SLDB2009D	LKG00209C161	215.25
Total				795.25

Source: Central Bank of Sri Lanka

TABLE 7

DETAILS OF OUTSTANDING RUPEE LOANS AS AT END JUNE 2007

Maturity Date	Issue Date	Series	Interest Rate	Face Value (Rs. Mn.)
01/07/2007	01/07/1999	12.25%2006-2007 "E"	12.25	1,500
01/09/2007	01/09/1999	12.25%2006-2007 "F"	12.25	2,000
01/04/2008	01/04/1998	11.50%2007-2008	11.50	1,500
01/01/2009	01/01/1999	12.50%2008-2009	12.50	3,000
01/01/2009	01/01/2001	13.00%2007-2009	13.00	4,000
05/01/2009	05/01/2007	11.00%2009	11.00	4,461
01/02/2009	01/02/1999	12.50%2008-2009 "A"	12.50	1,000
01/02/2009	01/02/2001	13.00%2007-2009 "A"	13.00	410
01/03/2009	01/03/1999	12.50%2008-2009 "B"	12.50	1,000
01/06/2009	01/06/1999	12.50%2008-2009 "C"	12.50	1,000
01/07/2009	01/07/1999	12.50%2008-2009 "D"	12.50	1,000
01/07/2009	01/07/2003	9.25%2005-2009	9.25	1,200
01/08/2009	01/08/2003	8.00%2005-2009	8.00	250
01/10/2009	01/10/2003	8.00%2005-2009 "A"	8.00	2,300
01/01/2010	01/01/2000	12.00%2008-2010	12.00	5,000
01/01/2010	01/01/2005	8.90%2007-2011 "A"	8.90	500
01/04/2010	01/04/2000	12.00%2008-2010 "A"	12.00	1,000
01/05/2010	01/05/2000	12.00%2008-2010 "B"	12.00	1,000
01/06/2010	01/06/2000	12.00%2008-2010 "C"	12.00	1,000
01/07/2010	01/07/2000	12.00%2008-2010 "D"	12.00	8,000
01/08/2010	01/08/2000	12.00%2008-2010 "E"	12.00	1,000
01/09/2010	01/09/2000	12.00%2008-2010 "F"	12.00	2,500
01/10/2010	01/10/2000	12.00%2008-2010 "G"	12.00	2,000
01/11/2010	01/11/2000	12.00%2008-2010 "H"	12.00	711
01/11/2010	01/11/2004	8.90%2006-2010	8.90	872
15/11/2010	15/11/2000	12.00%2008-2010 "I"	12.00	1,000
01/04/2011	01/04/2005	9.15%2009-2011	9.15	4,634
01/07/2011	01/07/2005	10.60%2009-2011	10.60	378
01/04/2012	01/04/2005	9.30%2009-2012	9.30	3,575
01/04/2013	01/04/2005	9.40%2009-2013	9.40	2,868
01/04/2015	01/04/2005	9.50%2009-2015	9.50	26,000
01/05/2015	01/05/2005	9.50%2009-2015 "A"	9.50	1,366
01/07/2015	01/07/2005	11.00%2009-2015	11.00	4,063
01/02/2023	01/02/1993	12.00%2023	12.00	24,088
Total				116,176

Source: Central Bank of Sri Lanka

DOMESTIC DEBT
TABLE 8
CHANGES IN RELATIVE COMPOSITION OF GOVERNMENT SECURITIES (a)

	1970	1980	2000	2003	2004	2005	2006	2007 H1
A. Maturity (%)								
Short term	37	40	31	24	39	21	21	23
Medium and long term	63	60	69	76	61	79	79	77
B. Marketability (%)								
Marketable	31	33	50	69	85	80	82	82
Non-marketable	69	67	50	31	15	20	18	18
C. Investor base (%)								
Central Bank	39	38	14	4	10	6	6	7
Commercial banks	6	3	15	18	14	17	8	17
Captive sources	52	58	52	42	45	47	56	43
Others	2	1	19	35	31	30	30	34
D. Maximum maturity in the yield curve								
Primary market (yrs)	1	1	3	20	4	8	6	6
Secondary market (yrs)	1	1	3	6	15	6	6	6

(a) Treasury Bill, Treasury Bonds and Rupee Loans only

 Source : Central Bank of Sri Lanka
 Ministry of Finance and Planning

TABLE 9
MATURITY PROFILE OF DOMESTIC DEBT AS AT END JUNE 2007 (a)

Rs. Million

Maturity Year	Instrument					Total
	T-Bill	T-Bond (b)	R-Loan	SLDB (c)	FCBU (c)	
2007 (Jul-Dec)	224,198	150,205	3,500	-	31,239	409,142
2008	55,924	220,527	1,500	35,653	31,839	345,443
2009		241,564	19,621	52,950	5,314	319,448
2010		87,890	24,583	-	-	112,473
2011		79,713	5,011	-	-	84,724
2012		57,244	3,575	-	-	60,819
2013		124,235	2,868	-	-	127,103
2015			31,430	-	-	31,430
2018		15,776		-	-	15,776
2023		1,000	24,088	-	-	25,088
Total	280,122	978,154	116,176	88,603	68,392	1,531,446

Source : Central Bank of Sri Lanka

(a) Other liabilities to the banking sector are not included.

(b) Including Inflation Linked Bonds and T-bonds issued to Non residence. Excludes T-bonds of Rs. 4,397 issues to CWE in 2003

(c) Exchange Rate used for conversion is 1US dollar=Rs.111.415 (End June rate)

DOMESTIC DEBT
FUTURE DOMESTIC CURRENCY DEBT OBLIGATIONS AS AT END JUNE 2007 (a)
TABLE 10

Rs.Million

Year	Capital	Interest	Grand Total
2007	359,967	78,322	438,289
2008	292,754	117,966	410,720
2009	288,894	90,888	379,782
2010	113,375	61,447	174,822
2011	88,678	59,723	148,401
2012	75,518	59,070	134,588
2013	125,018	55,372	180,390
2014	-	7,642	7,642
2015	31,430	6,342	37,772
2016	-	4,595	4,595
2017	-	4,595	4,595
2018	13,700	9,784	23,484
2019	-	2,961	2,961
2020	-	2,961	2,961
2021	-	2,961	2,961
2022	-	2,961	2,961
2023	25,088	1,515	26,603
Grand Total	1,414,422	569,104	1,437,631

Source : Central Bank of Sri Lanka

(a) Represents interest and capital payments due on Treasury Bonds, Treasury Bills and Rupee Loans as at end June 2007. Capital payments are in book values and interest payments include coupon payments and discounts on Treasury Bills, Treasury Bonds and Rupee Loans.

OWNERSHIP OF TREASURY BILLS (a)
TABLE 11

Rs. Million

Ownership	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006(b)
1. Bank Sector	37,549	24,358	40,155	50,606	75,934	73,818	58,002	118,843	78,102	122,175
1.1 Central Bank	6,692	9,508	27,322	42,238	64,842	44,923	13,365	78,162	38,951	69,370
1.2 Commercial Banks	30,857	14,850	12,833	8,388	11,092	28,895	44,637	40,681	39,151	52,805
2. Non Bank Sector	77,447	95,638	84,841	84,390	95,061	137,177	161,293	125,043	156,072	135,557
2.1 Employees' Provident Fund	3,949	2,978	3,285	5,430	3,112	2,953	5,198	5,000	5,659	4,793
2.2 Other Provident Funds	84	209	414	418	-	816	906	805	-	-
2.3 Savings Institutions	6,435	6,600	8,537	15,417	13,889	22,645	36,534	31,513	39,938	33,608
2.4 Insurance and Finance Companies	16,029	11,470	13,509	9,641	7,576	9,179	7,742	562	18,034	7,909
2.5 Departmental and Other Official Funds	14,114	10,054	8,343	1,480	547	3,040	6,898	9,957	19,574	15,032
2.6 Private and Other	36,836	64,327	50,753	52,004	69,937	98,544	104,016	77,206	72,867	74,215
Total Assets	114,996	119,996	124,996	134,996	170,995	210,995	219,295	243,886	234,174	257,732

 Source : Central Bank of Sri Lanka
 Ministry of Finance and Planning

(a) Adjusted for secondary market transactions
 (b) Provisional

DOMESTIC DEBT

TABLE 12

OWNERSHIP OF TREASURY BONDS (a)(b)

Rs Million

Ownership	1999	2000	2001	2002	2003(c)	2004(c)	2005(c)	2006(c)(d)
1. Bank Sector	8,405	38,648	22,214	35,523	65,246	33,350	55,118	25,680
1.1 Central Bank	452	30,936	1,616	-	-	-	-	-
1.2 Commercial Banks	7,953	7,712	20,598	35,523	65,246	33,350	55,118	25,680
2. Non -Bank sector	96,462	165,476	206,960	311,605	417,861	609,999	696,452	860,292
2.1 Employee's Provident Fund	27,635	50,003	64,758	109,093	187,665	283,428	344,830	408,756
2.2 Other Provident Funds	147	444	-	591	287	240	-	-
2.3 Savings Institutions	20,656	25,472	28,964	42,292	54,499	92,227	104,235	112,062
2.4 Insurance and Finance Companies	7,987	10,940	16,258	21,159	20,740	26,551	8,214	13,690
2.5 Departmental and Other Official Funds	907	13,176	16,061	17,010	17,375	23,641	34,922	52,719
2.6 Private and Other	39,130	65,436	80,919	121,460	137,294	183,912	204,251	273,065
Total Assets	104,867	204,124	229,174	347,128	483,107	643,349	751,569	885,972

Source : Central Bank of Sri Lanka
Ministry of Finance and Planning

- (a) Issuance of Treasury bonds was commenced from 1997
(b) Adjusted for secondary market transactions.
(c) Excludes government bonds of Rs. 4,397 million issued to Co-operative Wholesale Establishment (CWE) in November 2003
(d) Provisional

TABLE 13

OWNERSHIP OF RUPEE LOANS

Rs. Million

Ownership	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006(a)
1. Bank Sector	44,321	44,321	44,068	44,068	44,068	43,981	43,481	41,481	41,481	22,088
1.1 Central Bank	-	-	-	-	-	-	-	-	-	-
1.2 Commercial Banks(b)	44,321	44,321	44,068	44,068	44,068	43,981	43,481	41,481	41,481	22,088
2. Non Bank Sector	195,154	206,249	217,988	219,820	248,745	243,720	204,933	123,277	99,081	94,625
2.1 Savings Institutions(c)	54,950	50,288	50,362	46,374	53,123	51,695	47,906	27,418	25,418	20,938
2.2 Sinking Funds	100	100	100	100	100	100	100	100	100	100
2.3 Departmental and Other Official funds(d)	503	4,897	9,237	9,238	10,444	11,732	17,550	12,742	9,754	9,754
2.4 Employees' Provident Fund	127,818	142,821	150,661	156,309	177,157	171,609	130,319	74,308	56,068	56,068
2.5 Other provident Funds	9,455	5,531	5,813	6,006	6,351	7,019	7,144	5,425	6,105	6,131
2.6 Insurance Corporations	1,508	1,793	993	993	285	285	285	285	-	-
2.7 Insurance Companies	-	-	-	-	408	408	-	-	-	-
2.8 Other State Corporations	756	755	756	746	831	831	1,575	-	1,575	1,575
2.9 Other (e)	64	64	66	54	46	41	54	2,999	61	61
Total Assets	239,475	250,570	262,056	263,888	292,813	287,701	248,414	164,758	140,562	116,713

Source : Central Bank of Sri Lanka
Ministry of Finance and Planning

- (a) Provisional
(b) Includes long term bonds issued by the government in connection with the restructuring of the two state banks in 1993 and 1996 respectively.
(c) Includes the value of long term bonds of Rs.4,480 million issued by the Government to re - capitalise the liabilities of the NSB in 1996.
(d) From 1998, the Employees Trust Fund is included. Before 1998, it was included under Other Provident Funds.
(e) Comprises co-operative banks, other companies, clubs, institutions and individuals.

FOREIGN DEBT

TABLE 14

COMPOSITION OF OUTSTANDING FOREIGN DEBT AS AT END JUNE 2007

Rs. Million

Creditor Category/ Use of Funds	Bilateral	Multilateral	Commercial	Export Credit	Total Debt	% of Total
Cash	536	104	22,283	-	22,923	1.9
Commodity	45,893	-	-	-	45,893	3.8
Food	34,154	-	-	-	34,154	2.8
Goods & Services	15,758	-	-	-	15,758	1.3
Programme	13,290	89,126	4,178	-	106,594	8.8
Project	381,181	471,655	5,922	38,260	909,018	75.0
Tech. Assistance	-	1,255	-	-	1,255	0.1
Other	20,884	-	55,647	-	76,531	6.3
Total Debt	523,697	562,140	88,030	38,260	1,212,127	100.0
%	43.2	46.4	7.3	3.2	100.0	

Source : Central Bank of Sri Lanka
Ministry of Finance and Planning

TABLE 15

OWNERSHIP OF OUTSTANDING FOREIGN DEBT

Rs. Million

Source	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006(a)	2007 June (a)
1. Multi-lateral	173,428	211,730	228,736	250,096	289,686	341,326	405,156	477,079	459,837	534,356	562,140
ADB	76,186	94,583	104,150	115,353	136,064	164,017	195,895	235,741	230,510	269,211	283,846
EEC	371	406	422	-	-	-	-	-	-	-	-
EIB	-	-	-	-	-	-	599	3,545	4,838	9,345	9,847
IBRD	730	600	397	89	521	379	204	221	220	228	236
IDA	92,481	111,771	119,045	129,403	146,853	169,336	199,782	226,926	213,916	242,940	254,702
IFAD	3,188	3,765	4,078	4,678	5,532	6,381	7,116	7,886	7,109	7,997	8,376
OPEC	382	298	187	91	136	464	538	1,329	1,582	2,098	2,295
Nordic Dev: Fund	90	307	457	482	580	749	1,023	1,431	1,662	2,537	2,838
2. Bi-lateral	188,576	234,585	267,383	277,317	305,511	349,007	398,925	465,513	433,382	508,840	523,697
Canada	5,541	5,482	6,004	6,219	6,582	6,626	7,746	8,521	8,635	8,753	9,624
France(b)	5,664	6,542	5,922	5,907	6,439	7,596	8,735	10,177	8,726	9,714	9,885
Germany	25,652	30,132	27,656	28,338	32,953	39,545	46,657	56,301	49,374	86,719	90,472
India	784	1,135	1,074	1,146	1,855	2,786	6,702	10,311	10,118	12,382	15,377
Japan	98,738	132,374	164,801	172,932	185,081	217,151	255,277	301,434	277,882	305,897	304,552
Kuwait	1,761	2,087	2,056	2,180	2,497	2,884	2,939	3,388	3,573	3,794	3,879
Netherlands	3,085	3,295	2,759	2,505	2,453	2,610	2,645	2,574	2,196	2,080	1,640
People's Republic of China	1,112	1,670	2,108	2,088	3,219	3,373	3,115	3,342	3,604	5,121	5,527
Saudi Arabian Fund	492	377	217	38	63	-	-	-	43	327	481
Switzerland	634	735	676	-	-	-	-	-	-	-	-
USA	41,927	45,789	47,268	51,053	58,064	57,937	55,229	57,078	55,341	57,310	57,317
Other	3,186	4,967	6,842	4,911	6,305	8,499	9,881	12,387	13,892	16,744	24,942
3. Financial Markets	14,327	14,958	11,747	14,627	41,544	31,624	39,801	53,579	63,401	87,877	126,290
Riggs National Bank	873	917	923	965	3,754	3,831	3,746	3,980	3,769	3,843	3,907
Indo-Suez Bank (France & Stockholm)	242	231	193	178	179	144	129	108	82	-	-
Bankers Trust Co. France	814	853	858	896	977	948	877	876	786	-	-
France	1,133	1,156	898	979	837	158	-	-	-	-	-
Solomon Bros. Inc. - New York	839	864	852	869	923	868	774	739	627	560	526
Citi Bank/NEXI	-	-	-	-	-	-	9,635	10,433	18,082	21,527	26,630
Other (c)	10,426	10,937	8,023	10,740	34,874	25,676	24,640	37,411	40,055	61,947	95,227
Total	376,331	461,273	507,866	542,040	636,741	721,956	843,882	996,138	956,620	1,131,074	1,212,127

Source : Central Bank of Sri Lanka
Ministry of Finance and Planning

(a) Provisional

(b) Includes Loans from Financial Institutions

(c) Outstanding Defence Loans are Included since 2001

FOREIGN DEBT

TABLE 16

FOREIGN LOANS - 2006

Rs. Million

Type and Source	Gross Receipts	Repayments	Net Change in the Liability(a)	Liability as at end December
1. Project Loans	78,254	33,716	122,947	977,099
Asian Development Bank	18,570	5,483	37,911	269,110
Australia	-	839	(580)	5,824
Austria	421	-	1,167	5,359
Canada	-	254	112	5,782
Denmark	2,466	40	2,725	4,347
Finland	2,239	163	2,263	2,500
France	31	725	689	8,974
Germany	5,741	3,036	12,308	54,212
Hong Kong	271	-	390	3,385
India	-	-	106	2,036
International Development Association	10,418	4,319	28,846	242,940
Japan	28,040	14,524	24,173	286,175
Korea	1,998	448	3,325	15,689
Kuwait	390	420	213	3,794
Netherlands	-	422	(175)	1,517
Norway	-	122	(81)	238
People's Republic of China	931	815	783	10,249
Saudi Arabian Fund	299	28	285	327
Sweden	189	225	232	1,646
UK	-	116	368	3,659
USA	-	1,125	198	24,958
Other	6,250	612	7,689	24,378
2. Non - Project Loans	19,443	12,273	51,507	153,975
2.1 Commodity Loans	3,227	5,163	25,813	90,024
France	-	41	14	343
Germany	-	415	24,190	30,154
India	1,147	-	1,679	10,346
Japan	-	2,396	(1,971)	9,564
Netherlands	-	252	(94)	972
USA(b)	-	1,896	(99)	33,685
Pakistan	2,080	26	2,063	2,328
Canada	-	137	31	2,632
2.2 Other Loans	16,216	7,110	25,694	63,951
Asian Development Bank	-	2	8	101
USA	-	256	22	4,426
China	-	39	29	892
Other	16,216	6,813	25,635	58,533
memo: Liability due to variations in exchange rates			108,582	
Grand Total	97,697	45,989	174,454	1,131,074

(a) This includes the impact of exchange rate variation

(b) Comprises P.L.480 loans and from the Agency for International Development

Source : Central Bank of Sri Lanka
Ministry of Finance and Planning

FOREIGN DEBT

TABLE 17

FOREIGN LOAN DISBURSEMENTS BY SOURCE

Rs. Million

Category	Disbursements							
	1999	2000	2001	2002	2003	2004	2005	2006 (a)
1. Donor	24,889	26,966	40,934	47,623	87,536	73,031	73,031	97,697
Bi-lateral	12,823	16,804	26,455	18,835	29,786	35,110	24,966	38,613
Multi-lateral	10,880	9,490	12,500	23,787	41,119	29,219	33,827	33,942
Commercial	-	-	-	-	10,082	-	10,419	16,158
Export Credits	1,186	672	1,979	5,001	6,549	8,702	3,819	8,984
2. Use of Funds	24,889	26,966	40,934	47,623	87,536	73,031	73,031	97,697
Cash	-	-	-	-	-	-	10,209	14,540
Commodity	28	6	871	317	-	11	-	-
Food	-	385	701	-	-	-	-	-
Goods & Services	-	-	-	905	2,321	3,196	280	3,227
Military	-	-	553	-	-	-	-	-
Programme	-	-	2,252	6,389	33,012	3,091	1,987	5,362
Project	24,860	26,575	36,557	40,012	52,118	66,331	60,323	73,052
Technical Assistance	1	-	-	-	85	401	232	127
Other	-	-	-	-	-	-	-	1,389

(a) Provisional

Source : Central Bank of Sri Lanka
Ministry of Finance and Planning

DEBT SERVICE PAYMENTS

TABLE 18

GOVERNMENT DEBT REPAYMENTS AND INTEREST PAYMENTS

Rs. Million

Year	Principal Re - payments			Interest Payments		
	Domestic	Foreign	Total	Domestic	Foreign	Total
1977	513	434	947	811	136	947
1978	664	501	1,165	1,055	285	1,340
1979	683	499	1,182	1,277	357	1,634
1980	902	600	1,502	1,787	412	2,199
1981	1,001	607	1,608	3,025	713	3,738
1982	1,938	674	2,612	4,189	915	5,104
1983	3,860	1,165	5,025	5,336	1,270	6,606
1984	764	1,465	2,229	5,115	1,623	6,738
1985	5,108	1,789	6,897	5,458	1,970	7,428
1986	4,505	3,020	7,525	6,553	2,209	8,762
1987	902	4,690	5,592	7,593	2,564	10,157
1988	4,471	5,209	9,680	9,694	2,896	12,590
1989	3,796	5,742	9,538	11,015	3,337	14,352
1990	7,304	4,906	12,210	16,990	3,678	20,668
1991	12,901	4,881	17,782	17,960	4,113	22,073
1992	18,123	7,955	26,078	21,201	4,739	25,940
1993	20,327	6,963	27,290	25,101	5,102	30,203
1994	15,065	7,606	22,671	32,520	5,511	38,031
1995	28,069	8,477	36,546	32,064	6,162	38,226
1996	22,749	10,491	33,240	42,184	6,739	48,923
1997	15,232	13,251	28,483	48,554	6,692	55,246
1998	41,617	18,351	59,968	47,598	7,300	54,898
1999	20,322	21,440	41,762	53,371	8,752	62,123
2000	81,244	23,282	104,526	62,185	9,015	71,200
2001	56,844	27,921	84,765	84,560	9,747	94,307
2002	130,786	37,057	167,843	105,897	10,617	116,514
2003	185,083	34,425	219,508	113,540	11,586	125,126
2004	147,740	33,041	180,781	105,878	13,904	119,782
2005 (a)	203,347	21,360	224,707	113,164	6,995	120,159
2006 (a)	247,536	45,989	293,525	133,787	16,990	150,777
2007 H1 (a)	78,923	41,948	120,871	73,386	10,048	83,434

(a) Provisional

Source : Central Bank of Sri Lanka
Ministry of Finance and Planning

GOVERNMENT BORROWINGS
TABLE 19
ISSUES AND MATURITIES OF DOMESTIC DEBT IN 2006 AND FIRST HALF 2007

Rs. Million

Maturity	2006			2007 H1		
	Issues (a)	Repayments (a)	Net Issues	Issues (a)	Repayments (a)	Net Issues
Treasury bills						
91 day	299,505	308,296	(8,791)	170,410	154,659	15,751
182 day	72,462	69,132	3,330	22,703	29,462	(6,759)
364 day	74,454	100,099	(25,645)	48,280	43,313	4,967
Other	181,445	126,781	54,664	139,576	131,145	8,431
Total	627,866	604,308	23,558	380,969	358,579	22,390
Treasury bonds						
1 year	-	11,250	(11,250)	-	15,957	(15,957)
2 year	24,023	107,224	(83,201)	11,282	2,546	8,736
3 year	119,972	23,550	96,422	13,123	15,150	(2,027)
4 year	69,505	19,221	50,284	5,395	26,100	(20,705)
5 year	79,803	-	79,803	44,294	8,700	35,594
6 year	8,980	14,500	(5,520)	25,195	-	25,195
7 year	-	-	-	43,415	-	43,415
8 year	7,865	-	7,865	7,055	-	7,055
11 year	-	-	-	10,876	-	10,876
Total	310,148	175,745	134,403	160,635	68,453	92,182
Rupee loans						
2 year	-	-	-	4,461	-	4,461
4/6 year	23	-	23	2	-	2
7/8 year	-	-	-	-	5,000	(5,000)
1/10 year	-	19,393	(19,393)	-	-	-
10 year	-	4,480	(4,480)	-	-	-
Total	23	23,873	(23,850)	4,463	5,000	(537)
Sri Lanka Dev. Bonds						
2 year	51,343	25,924	25,419	-	215	(215)
3 year	8,782	-	8,782	-	-	-
Total	60,125	25,924	34,201	-	215	(215)
Loans from FCBUs						
<= 1 Year	19,674	24,887	(5,213)	-	-	-
1.5 Years	1,623	3,180	(1,557)	-	-	-
2 Years	-	-	-	222	7,150	(6,928)
Total	21,297	28,067	(6,770)	-	-	-
Grand Total	1,019,459	857,917	152,760	546,067	432,247	113,819

(a) Face Value

Source : Central Bank of Sri Lanka

TABLE 20
AUCTION AND PRIMARY ISSUE DETAILS - 2006 AND FIRST HALF 2007

Rs. Million

	2006			2007 H1		
	Treasury Bills	Treasury Bonds	Rupee Loans	Treasury Bills	Treasury Bonds	Rupee Loans
Auctions						
Number of Auctions	52	70	-	26	17	-
Amount Offered	543,981	87,500	-	308,478	46,500	-
Amount Received	914,110	161,771	-	491,933	71,206	-
Amount Accepted	396,802	42,848	23	187,599	7,250	4,463
CBSL Issues	165,724	-	-	113,777	-	-
Placements	65,340	267,300	-	79,593	153,385	-
Total Issues	627,866	310,148	23	380,969	160,635	4,463

Source: Central Bank of Sri Lanka

GOVERNMENT BORROWING LIMITS AND USAGE IN 2006 AND FIRST HALF 2007

Rs. Million

	Face Value	Book Value	Face Value	Book Value
	Approved Limit for 2006		Usage in 2006	
1. Gross Borrowing Limit				
1.1. Domestic	401,282	377,722	424,420	379,955
1.2. Foreign	170,278	170,278	97,967	92,967
Total	571,560	548,000	522,117	477,652
2. Sources of Financing	Proposed Programme		Usage in 2006	
2.1 Domestic Financing	401,282	377,722	424,420	379,955
2.1.1 Rupee Loans	25,000	25,000	23	23
2.1.2. T.bonds	300,000	276,940	310,148	268,904
2.1.3. T.bills (net)	10,500	10,000	23,558	20,337
2.1.4. CBSL Advances	8,398	8,398	9,267	9,267
2.1.5. SLDBs	26,166	26,166	60,125	60,125
2.1.6. FCBUs	31,218	31,218	21,297	21,297
2.1.7. Others	-	-	-	-
2.2 Foreign Financing	170,278	170,278	97,697	97,697
2.2.1. Project/Programme Loans	170,278	170,278	78,254	78,254
2.2.2. Others (Including Syndicate Loan)	-	-	19,443	19,443
Total Financing	571,560	548,000	522,117	477,652
	Approved Limit for 2007		Usage in First half 2007	
1. Gross Borrowing Limit				
1.1. Domestic	510,509	443,000	224,228	175,836
1.2. Foreign	202,000	202,000	54,123	54,123
Total	712,509	645,000	278,351	229,959
2. Sources of Financing	Proposed Programme		Usage in First half 2007	
2.1 Domestic Financing	510,509	443,000	224,228	175,836
2.1.1 Rupee Loans	10,000	10,000	4,463	4,463
2.1.2. T.bonds* (a)	423,000	356,000	160,635	116,366
2.1.3. T.bills (net)	5,500	5,000	22,390	18,268
2.1.4. CBSL Advances	12,509	12,500	12,927	12,927
2.1.5. SLDBs	10,500	10,500	23,592	23,592
2.1.6. FCBUs	49,000	49,000	222	222
2.1.7. Others	-	-	-	-
2.2 Foreign Financing (b)	202,000	202,000	54,123	54,123
2.2.1. Project/Programme Loans	156,000	156,000	30,831	30,831
2.2.2. Others (Including Syndicate Loan)	46,000	46,000	23,292	23,292
Total Financing	712,509	645,000	278,351	229,959

Source : Central Bank of Sri Lanka
Ministry of Finance and Planning

(a)* Includes T-bonds issued to non-residents

(b) Excludes T-bonds issued to non-residents

GOVERNMENT BORROWINGS
TABLE 22
FINANCING OF THE GOVERNMENT NET CASH DEFICIT

Rs. Million

Item	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006(a)
1. Net Cash Surplus (+) / Deficit (-)	(48,994)	(91,206)	(85,230)	(127,735)	(148,490)	(143,543)	(141,077)	(171,182)	(210,064)	(245,581)
1.1 Revenue	195,336	189,216	205,021	221,322	252,822	277,430	300,761	332,435	396,003	496,869
1.2 Expenditure(b)	(244,330)	(280,422)	(290,251)	(349,057)	(401,312)	(420,973)	(441,838)	(503,617)	(606,067)	(742,451)
2. FINANCING OF THE DEFICIT	48,994	91,206	85,230	127,735	148,490	143,543	141,077	171,182	210,064	245,581
2.1 Domestic Market Borrowings	39,645	72,291	75,717	115,327	122,876	127,167	79,830	112,563	119,303	163,805
Ruppee Loans	48,500	52,296	22,986	42,210	50,910	38,419	48,113	564	43,679	23
Less: Direct Repayments	15,000	41,558	11,500	40,378	21,986	43,532	87,400	84,219	67,875	23,873
Net	33,500	10,738	11,486	1,832	28,924	(5,112)	(39,287)	(83,656)	(24,196)	(23,850)
Treasury bills	(4,676)	3,578	3,830	6,147	30,032	39,835	14,917	25,026	(9,402)	20,300
Treasury bonds	10,000	37,741	53,380	90,555	21,014	109,039	137,093	156,669	108,113	97,429
Sri Lanka Development Bonds (SLDBs)	-	-	-	-	14,605	8,799	(15,179)	16,361	-	34,254
Central Bank Advances	612	1,885	2,777	4,200	2,958	906	171	3,587	4,955	9,269
Treasury Certificates of Deposits	(151)	(59)	(2)	11	-	-	-	-	-	-
Other Borrowings from Banks(c)	4,152	13,308	4,623	13,760	39,639	(42,196)	(15,617)	(2,109)	47,492	33,221
Use of Cash Balances	(3,793)	5,101	(376)	(1,179)	(14,296)	15,896	(2,268)	(3,316)	(7,659)	(6,818)
2.2 Domestic Other Borrowings	(9,369)	(930)	(842)	3,175	719	(816)	(170)	4,680	4,300	-
2.3 Domestic Grants	-	-	-	-	-	-	250	-	-	-
2.4 Foreign Finance	18,720	19,845	10,356	9,233	24,896	17,192	61,169	53,937	86,461	81,776
Project Loans	23,815	30,354	25,033	26,984	33,375	45,877	85,317	69,600	64,691	78,254
Less: Repayments	7,131	8,430	12,357	11,774	14,398	17,737	20,422	24,472	17,274	33,715
Net	16,684	21,924	12,676	15,210	18,977	28,140	64,895	45,128	47,417	44,539
Non-project (Commodity) Loans	591	642	2	386	190	1,293	2,321	3,196	280	3,227
Less: Repayments	2,784	3,132	3,598	5,526	4,789	5,328	4,783	5,493	390	5,163
Net	(2,193)	(2,490)	(3,596)	(5,140)	(4,599)	(4,035)	(2,462)	(2,297)	(110)	(1,936)
Other loans(d)	-	-	-	-	13,752	-	-	5,501	10,209	16,216
Less: Repayments	3,100	6,789	5,485	5,982	8,734	13,992	9,220	3,076	3,695	7,111
Net	(3,100)	(6,789)	(5,485)	(5,982)	5,018	(13,992)	(9,220)	2,425	6,514	9,105
Grants	7,329	7,200	6,761	5,145	5,500	7,079	7,956	8,691	32,640	30,068

 Source : Central Bank of Sri Lanka
 Ministry of Finance and Planning

(a) Provisional

(b) Consists of government expenditure excluding contributions to sinking funds, direct repayment of public debt and subscriptions to international financial organisations. Also excludes book adjustments arising from losses on Advance Account operations incurred and financed in previous financial years. Hence, the figures may not tally with the figures published in the Accounts of the Government of Sri Lanka.

(c) Includes cash items in process of collection in the Central Bank and commercial banks, government import bills, overdraft and FCBU borrowings from the banking sector.

(d) Includes cash loans received from the I.M.F., Iraq, China, OPEC, Japan and military equipment loans and Euro currency commercial loans.

COST OF BORROWING
TABLE 23
ANNUALIZED WEIGHTED AVERAGE YIELD RATES OF TREASURY BILLS , TREASURY BONDS AND RUPEE LOANS (a)

Per cent per annum

Instrument	2001	2002	2003	2004	2005	2006	2007 H1
Treasury Bills (Days)(b)							
91	16.09	12.69	9.13	8.46	10.07	10.65	15.22
182	17.32	12.90	9.04	8.44	9.40	10.68	14.98
364	18.34	13.84	9.02	8.55	9.88	10.89	15.02
Overall average	17.37	13.23	9.07	8.49	9.96	10.69	15.16
Treasury Bonds (Years)							
2	19.82	14.88	10.75	9.78	10.62	12.47	14.05
3	15.60	14.29	9.69	9.83	11.19	10.96	14.14
4	-	14.54	9.97	9.61	11.08	11.01	13.83
5	-	14.69	10.97	10.31	10.83	11.05	14.13
6	-	14.83	9.56	9.30	-	10.90	14.32
7	-	-	-	-	-	-	14.34
8	-	-	-	-	-	-	13.67
10	-	-	8.72	11.11	11.63	-	-
11	-	-	-	-	-	-	14.11
15	-	-	9.01	-	-	-	-
Overall average	18.07	14.57	9.59	9.82	10.91	11.05	14.18
Rupee Loans (Years)(c)							
	-	-	-	-	-	-	-
2	15.00	-	-	-	-	-	9.90
5	14.03	13.00	11.93	-	8.90	-	-
6	-	-	8.40	8.00	9.23	9.54	-
7	-	-	-	-	9.30	-	-
8	-	-	-	-	9.40	-	-
10	13.00	-	-	-	-	-	-
Overall average	14.31	13.00	11.66	8.00	9.58	9.54	9.90

(a) Excludes 10% withholding tax. Effective from 3rd May 2002, Government has imposed withholding tax on interest of Government Securities.

Source : Central Bank of Sri Lanka

(b) The issue of Treasury bills with maturities of 91 days, 182 days, and 364 days in place of 3,6,12 month maturities respectively, commenced in October, 1999.

(c) For Callable Rupee Loans the compulsory date of repayment was considered.

COST OF BORROWING

TABLE 24.1

TREASURY BOND AUCTIONS IN DETAIL 2006

Series	Settlement Date	Maturity Date	Maturity Period (Years)	Amount Offered (Rs. Mn.)	Bid Received (Rs. Mn.)	Bid Accepted (Rs. Mn.)	Coupon Rate	Weighed Average Yield (a)
11.50%2008H	02/01/2006	01/11/2008	3	3,000	4,020	950	11.50	11.22
9.50%2009B	02/01/2006	02/05/2009	3	3,000	4,000	800	9.50	11.25
7.60%2010A	02/01/2006	01/04/2010	4	2,000	2,365	200	7.60	11.10
11.50%2008H	16/01/2006	01/11/2008	3	2,000	2,741	525	11.50	11.22
11.50%2008H	20/01/2006	01/11/2008	3	1,000	1,483	538	11.50	11.22
9.50%2009B	27/01/2006	02/05/2009	3	2,000	2,355	550	9.50	11.25
7.50%2009A	01/02/2006	01/02/2009	3	750	1,270	525	7.50	11.10
7.20%2010A	01/02/2006	01/02/2010	4	750	1,095	-	7.20	-
7.00%2011A	01/02/2006	01/02/2011	5	750	795	-	7.00	-
7.50%2009A	10/02/2006	01/02/2009	3	1,000	1,745	300	7.50	11.15
7.50%2009A	15/02/2006	01/02/2009	3	1,000	1,845	1,000	7.50	11.16
7.50%2009A	24/02/2006	01/02/2009	3	1,000	2,140	920	7.50	11.16
7.50%2009A	01/03/2006	01/02/2009	3	4,000	5,675	2,848	7.50	11.16
7.20%2010A	01/03/2006	01/02/2010	4	500	930	300	7.20	11.25
7.00%2011A	01/03/2006	01/02/2011	5	500	1,020	300	7.00	11.34
7.50%2009A	10/03/2006	01/02/2009	3	1,000	4,085	1,000	7.50	11.16
7.50%2009B	15/03/2006	15/03/2009	3	1,500	5,775	1,500	7.50	11.10
7.20%2010A	15/03/2006	01/02/2010	4	500	2,035	500	7.20	11.20
7.20%2010A	24/03/2006	01/02/2010	4	750	1,580	750	7.20	11.20
7.00%2011A	24/03/2006	01/02/2011	5	750	1,680	490	7.00	11.29
7.50%2009B	03/04/2006	15/03/2009	3	1,000	3,710	1,000	7.50	11.04
7.20%2010A	03/04/2006	01/02/2010	4	750	2,795	750	7.20	11.15
7.00%2011A	03/04/2006	01/02/2011	5	500	3,295	500	7.00	11.26
7.00%2011A	07/04/2006	01/02/2011	5	1,000	6,515	1,000	7.00	10.83
7.00%2011A	19/04/2006	01/02/2011	5	500	1,650	-	7.00	-
6.85%2012A	19/04/2006	15/04/2012	6	500	1,385	-	6.85	-
7.50%2009B	25/04/2006	15/03/2009	3	1,000	3,280	600	7.50	10.85
7.20%2010A	25/04/2006	01/02/2010	4	1,000	1,905	400	7.20	10.87
7.50%2009B	02/05/2006	15/03/2009	3	1,500	3,800	1,500	7.50	10.85
7.20%2010A	02/05/2006	01/02/2010	4	1,000	1,680	500	7.20	10.87
7.00%2011A	02/05/2006	01/02/2011	5	750	2,190	750	7.00	10.90
6.85%2012A	02/05/2006	15/04/2012	6	750	1,294	100	6.85	10.90
7.50%2009B	15/05/2006	15/03/2009	3	1,000	2,035	200	7.50	10.87
7.20%2010A	15/05/2006	01/02/2010	4	1,000	2,048	625	7.20	10.90
7.50%2009B	19/05/2006	15/03/2009	3	1,000	1,360	-	7.50	-
7.50%2009B	26/05/2006	15/03/2009	3	1,000	1,215	-	7.50	-
7.50%2009C	01/06/2006	01/06/2009	3	1,000	2,025	1,000	7.50	10.90
7.20%2010A	01/06/2006	01/02/2010	4	750	1,635	750	7.20	10.92
7.00%2011A	01/06/2006	01/02/2011	5	750	1,610	750	7.00	10.95
7.50%2009C	09/06/2006	01/06/2009	3	1,000	1,715	580	7.50	10.90
7.50%2009C	16/06/2006	01/06/2009	3	1,500	3,570	670	7.50	10.90
7.50%2009C	26/06/2006	01/06/2009	3	1,000	1,695	350	7.50	10.95
7.50%2009C	03/07/2006	01/06/2009	3	1,000	2,110	1,000	7.50	10.96
7.20%2010A	03/07/2006	01/02/2010	4	1,000	2,120	1,000	7.20	11.00
7.50%2009C	17/07/2006	01/06/2009	3	2,000	3,180	1,300	7.50	11.05
7.20%2010A	17/07/2006	01/02/2010	4	2,000	3,340	1,500	7.20	11.10
7.00%2011A	17/07/2006	01/02/2011	5	1,000	2,042	1,000	7.00	11.20
7.50%2009C	19/07/2006	01/06/2009	3	1,000	1,600	500	7.50	11.05
7.50%2009C	01/08/2006	01/06/2009	3	2,000	2,800	-	7.50	-
7.60%2010A	01/08/2006	01/04/2010	4	2,000	2,820	100	7.60	11.20
7.00%2011B	01/08/2006	01/08/2011	5	1,000	2,600	1,000	7.00	11.20
7.50%2009C	11/08/2006	01/06/2009	3	1,000	1,850	850	7.50	11.05
7.00%2011B	15/08/2006	01/08/2011	5	1,000	1,900	1,000	7.00	11.20
7.60%2010A	23/08/2006	01/04/2010	4	1,500	2,150	500	7.60	11.25
7.00%2011B	23/08/2006	01/08/2011	5	1,000	1,649	500	7.00	11.36
7.50%2009C	01/09/2006	01/06/2009	3	1,500	2,775	1,250	7.50	11.16
7.60%2010A	01/09/2006	01/04/2010	4	1,500	2,521	1,012	7.60	11.25
7.00%2011B	01/09/2006	01/08/2011	5	2,000	3,610	1,745	7.00	11.36
7.60%2010A	04/09/2006	01/04/2010	4	1,000	1,880	600	7.60	11.25
11.50%2008C	15/09/2006	01/08/2008	2	2,000	3,020	400	11.50	11.05
11.50%2008C	22/09/2006	01/08/2008	2	1,000	1,220	-	11.50	-
11.50%2008C	02/10/2006	01/08/2008	2	1,000	1,225	-	11.50	-
7.50%2009B	27/10/2006	15/03/2009	3	1,000	1,160	-	7.50	-
7.60%2009B	01/11/2006	01/11/2009	3	2,000	2,205	100	7.60	13.51
7.20%2010B	01/11/2006	01/11/2010	4	2,000	2,210	100	7.20	13.61
7.00%2011C	01/11/2006	15/10/2011	5	2,000	2,235	100	7.00	13.73
7.50%2009B	10/11/2006	15/03/2009	3	1,000	1,860	-	7.50	-
7.50%2009B	15/11/2006	15/03/2009	3	1,000	1,240	-	7.50	-
9.75%2008B	01/12/2006	01/04/2008	2	2,000	3,115	1,270	9.75	14.36
9.75%2008B	14/12/2006	01/04/2008	2	1,000	1,615	-	9.75	-

(a) Effect from 3 May 2002, Government imposed a 10% withholding tax on interest from Government Securities. The rates quoted include this tax.

Source: Central Bank of Sri Lanka

TABLE 24.2

TREASURY BOND AUCTIONS IN DETAIL - FIRST HALF 2007

Series	Settlement Date	Maturity Date	Maturity Period (Years)	Amount Offered (Rs. Mn.)	Bid Received (Rs. Mn.)	Bid Accepted (Rs. Mn.)	Coupon Rate	Weighed Average Yield (a)
07.60%2009B	01/01/2007	01/11/2009	3	1,500	3,000	-	7.60	-
07.20%2010B	01/01/2007	01/11/2010	4	1,500	3,370	-	7.20	-
07.60%2009B	16/01/2007	01/11/2009	3	1,500	3,515	-	7.60	-
07.20%2010B	16/01/2007	01/11/2010	4	1,500	2,250	-	7.20	-
07.60%2009B	26/01/2007	01/11/2009	3	1,000	1,830	400	7.60	13.10
11.50%2009A	02/02/2007	01/01/2009	2	1,500	4,120	1,500	11.50	13.35
07.20%2010B	02/02/2007	01/11/2010	4	1,500	3,500	500	7.20	13.65
07.00%2011C	02/02/2007	15/10/2011	5	1,000	3,170	1,000	7.00	13.69
11.50%2009A	15/02/2007	01/01/2009	2	1,000	1,370	-	11.50	-
07.20%2010B	15/02/2007	01/11/2010	4	1,000	1,930	860	7.20	13.81
07.60%2009B	23/02/2007	01/11/2009	3	1,000	1,120	-	7.60	-
11.50%2009A	01/03/2007	01/01/2009	2	1,500	2,100	800	11.50	14.07
07.60%2010A	01/03/2007	01/4/2010	4	1,500	2,065	615	7.60	14.10
07.60%2010A	09/03/2007	01/04/2010	4	1,000	1,990	-	7.60	14.17
07.60%2010A	15/03/2007	01/04/2010	4	1,500	1,667	-	7.60	-
07.60%2009B	23/03/2007	01/11/2009	3	1,000	1,175	-	7.60	-
07.20%2010B	23/03/2007	01/11/2010	4	1,000	1,150	-	7.20	-
10.50%2013A	03/04/2007	01/04/2013	6	2,000	2,606	-	10.50	-
06.85%2012A	24/04/2007	15/04/2012	5	1,000	1,655	-	6.85	-
07.00%2011B	03/05/2007	01/08/2011	5	1,000	1,500	400	7.00	14.32
06.85%2012A	03/05/2007	15/04/2012	5	1,000	1,810	400	6.85	14.22
07.00%2011B	11/05/2007	01/08/2011	4	1,000	1,105	-	7.00	-
06.85%2012A	11/05/2007	15/04/2012	5	1,000	1,355	-	6.85	-
07.00%2011B	17/05/2007	01/08/2011	5	1,000	1,100	-	7.00	-
06.85%2012A	17/05/2007	15/04/2012	5	1,000	2,214	-	6.85	-
06.85%2012A	25/05/2007	15/04/2012	5	1,000	1,000	-	6.85	-
07.20%2010A	01/06/2007	01/02/2010	3	3,000	3,345	-	7.20	-
07.00%2011A	01/06/2007	01/02/2011	4	3,000	3,300	-	7.00	-
06.85%2012A	01/06/2007	15/04/2012	5	3,000	3,325	-	6.85	-
07.50%2013A	01/06/2007	01/08/2013	7	2,000	2,308	-	7.50	-
06.85%2012A	08/06/2007	15/04/2012	5	1,000	1,111	-	6.85	-
06.85%2012A	15/06/2007	15/04/2012	5	1,000	1,200	-	6.85	-
07.50%2013A	15/06/2007	01/08/2013	7	1,000	1,700	775	7.50	15.04
06.85%2012A	22/06/2007	15/04/2012	5	1,000	1,250	-	6.85	-

Source: Central Bank of Sri Lanka

(a) Effect from 3 May 2002, Government imposed a 10% withholding tax on interest from Government Securities. The rates quoted include this tax.

COST OF BORROWING

TABLE 25.1

TREASURY BILL AUCTIONS IN DETAIL 2006

Issue Date	Amount Offered (Rs. Mn.)			Amount Received (Rs. Mn.)			Amount Accepted (Rs. Mn.)			Weighted Average Yield Rates (a)		
	91 Days	182 Days	364 Days	91 Days	182 Days	364 Days	91 Days	182 Days	364 Days	91 Days	182 Days	364 Days
06/01/2006	4,700	1,540	4,100	13,348	1,831	5,149	7,464	438	1,358	10.10	10.34	10.37
13/01/2006	4,200	1,686	3,500	10,290	1,995	4,345	5,846	256	1,065	10.10	10.36	10.37
20/01/2006	5,000	1,960	4,000	12,363	2,305	5,403	7,983	309	1,561	10.10	10.37	10.37
27/01/2006	5,500	1,888	4,000	13,270	2,272	4,588	8,780	525	795	10.10	10.36	10.37
03/02/2006	5,300	1,770	4,700	11,885	2,387	5,245	8,493	909	928	10.10	10.36	10.37
10/02/2006	5,300	1,771	4,700	9,285	2,884	6,714	5,603	1,749	2,504	10.11	10.37	10.37
17/02/2006	4,300	2,044	4,100	9,056	2,575	4,635	5,022	620	1,025	10.11	10.37	10.37
24/02/2006	4,300	2,225	4,300	9,427	3,232	4,953	6,917	1,054	1,363	10.11	10.37	10.37
03/03/2006	3,900	1,872	4,000	7,159	4,896	6,166	2,820	4,233	2,719	10.11	10.36	10.38
10/03/2006	3,800	2,930	4,200	11,798	3,612	5,090	6,908	1,286	1,455	10.11	10.38	10.38
17/03/2006	3,000	2,385	3,800	6,902	3,361	4,450	5,409	1,187	1,078	10.11	10.38	10.38
24/03/2006	3,100	3,062	3,600	7,348	4,437	4,613	5,326	1,843	1,297	10.12	10.37	10.39
31/03/2006	3,100	3,185	3,600	9,643	5,066	5,104	6,100	2,085	1,700	10.10	10.35	10.38
07/04/2006	3,176	3,281	4,085	10,853	6,063	4,903	4,629	3,780	2,133	10.05	10.30	10.36
14/04/2006	2,300	2,539	3,600	6,972	2,904	4,043	5,432	159	338	10.05	10.30	10.37
21/04/2006	3,000	3,358	4,400	7,914	4,631	5,395	5,472	1,295	1,628	10.06	10.32	10.37
28/04/2006	3,500	4,077	4,500	8,940	6,031	6,975	5,608	2,834	3,047	10.06	10.35	10.38
05/05/2006	3,500	3,941	4,500	10,314	5,779	5,494	7,764	2,419	1,309	10.06	10.36	10.38
12/05/2006	2,700	3,174	3,600	5,632	5,533	4,832	4,316	2,153	1,662	10.08	10.36	10.38
19/05/2006	2,700	3,205	3,600	8,179	6,631	4,082	5,516	3,098	503	10.08	10.36	10.38
26/05/2006	3,000	3,631	3,800	8,942	4,818	4,396	7,815	1,366	1,130	10.09	10.36	10.38
02/06/2006	1,900	2,135	2,500	3,674	3,624	3,339	1,851	1,375	1,309	10.09	10.36	10.38
09/06/2006	2,500	3,047	3,300	4,646	4,147	4,239	2,727	1,149	1,550	10.09	10.36	10.38
16/06/2006	2,500	3,248	3,300	6,183	3,885	3,847	4,882	744	1,002	10.09	10.38	10.40
23/06/2006	2,200	2,699	2,800	4,201	3,122	3,272	1,789	220	366	10.13	10.44	10.45
30/06/2006	3,600	3,461	3,000	8,755	3,823	4,595	5,213	513	2,195	10.17	10.45	10.46
07/07/2006	2,800	2,745	3,500	6,792	3,361	4,265	3,994	741	1,047	10.22	10.45	10.46
14/07/2006	2,800	3,399	3,500	6,834	4,643	4,223	3,948	1,224	1,059	10.25	10.45	10.50
21/07/2006	2,700	2,842	3,000	6,788	3,571	4,016	4,433	1,011	1,294	10.26	10.45	10.51
28/07/2006	2,700	3,042	3,100	9,407	4,079	3,590	6,260	789	793	10.28	10.45	10.51
04/08/2006	3,200	3,790	3,800	9,887	4,674	4,383	7,621	1,041	1,124	10.33	10.49	10.55
11/08/2006	3,400	3,558	3,800	8,656	4,398	4,524	5,681	1,105	1,514	10.38	10.53	10.60
18/08/2006	3,600	3,519	3,400	8,389	4,312	4,736	5,516	370	1,956	10.44	10.59	10.66
25/08/2006	4,400	4,200	3,906	11,430	5,136	4,776	8,803	1,201	1,186	10.49	10.63	10.68
01/09/2006	3,500	3,429	3,300	10,104	4,022	3,972	6,574	610	1,582	10.51	10.63	10.70
08/09/2006	2,800	2,780	2,800	8,135	4,199	3,533	4,041	1,064	984	10.51	10.63	10.70
15/09/2006	3,000	2,814	3,000	6,196	3,919	3,842	3,947	1,114	1,237	10.53	10.65	10.71
22/09/2006	2,300	2,118	2,300	4,409	3,409	2,937	1,411	1,361	508	10.53	10.65	10.71
29/09/2006	3,300	3,294	3,400	3,755	3,695	3,890	-	-	-	-	-	-
06/10/2006	3,300	3,326	3,400	5,174	3,913	4,005	1,569	512	340	10.75	10.79	10.86
13/10/2006	4,200	4,083	3,800	8,596	4,584	4,486	3,383	475	1,155	11.25	11.29	11.36
20/10/2006	3,900	3,621	3,800	8,660	4,199	4,421	4,338	260	583	11.87	11.89	11.96
27/10/2006	4,600	4,458	4,400	13,004	5,075	4,978	7,896	569	1,063	11.93	12.02	12.03
03/11/2006	4,800	4,332	4,500	10,561	4,952	5,174	3,891	324	717	11.94	12.10	12.14
10/11/2006	4,600	4,372	4,500	13,016	6,088	5,982	8,700	1,564	2,131	11.93	12.12	12.15
17/11/2006	4,800	4,469	4,700	10,568	5,293	5,391	6,705	918	1,132	11.99	12.18	12.22
24/11/2006	5,200	5,086	5,100	12,788	5,741	6,005	7,739	837	1,315	12.15	12.29	12.39
01/12/2006	4,500	4,369	4,400	9,362	5,104	5,508	7,496	1,175	1,728	12.32	12.47	12.58
08/12/2006	4,300	3,908	4,200	8,754	4,254	4,750	5,203	366	981	12.54	12.61	12.74
15/12/2006	4,200	3,876	4,000	11,516	4,360	5,110	4,266	601	1,425	12.55	12.63	12.77
22/12/2006	4,600	4,343	4,400	9,089	4,856	4,969	3,569	771	1,003	12.75	12.78	12.95
29/12/2006	3,400	3,057	3,100	5,814	3,457	4,407	1,175	310	1,600	12.76	12.78	12.98

Source: Central Bank of Sri Lanka

(a) Effect from 3 May 2002, Government imposed a 10% withholding tax on interest from Government Securities. The rates quoted include this tax.

TABLE 25.2

TREASURY BILL AUCTIONS IN DETAIL - FIRST HALF 2007

Issue Date	Amount Offered (Rs. Mn.)			Amount Received (Rs. Mn.)			Amount Accepted (Rs. Mn.)			Weighted Average Yield Rates (a)		
	91 Days	182 Days	364 Days	91 Days	182 Days	364 Days	91 Days	182 Days	364 Days	91 Days	182 Days	364 Days
05/01/2007	2,500	1,929	2,200	7,084	2,296	2,720	2,480	421	794	12.77	12.79	12.99
12/01/2007	2,900	2,220	2,600	7,528	2,884	4,007	4,023	712	1,729	12.79	12.81	13.00
19/01/2007	3,500	2,623	3,200	8,545	3,119	4,140	5,342	533	1,295	12.80	12.82	13.02
26/01/2007	3,500	2,687	3,300	5,746	3,127	3,770	1,958	242	224	13.07	13.08	13.26
02/02/2007	4,500	4,085	4,300	8,751	4,611	4,872	4,909	611	1,202	13.37	13.32	13.58
09/02/2007	4,330	3,600	4,100	11,770	4,223	5,527	4,523	838	1,976	13.55	13.59	13.86
16/02/2007	4,400	3,455	4,200	8,138	4,055	5,016	4,530	455	1,036	13.75	13.77	14.09
23/02/2007	4,800	2,678	4,500	12,633	3,071	6,022	5,798	625	2,515	13.78	13.82	14.12
02/03/2007	5,000	3,140	4,900	11,163	4,100	6,252	8,843	1,683	2,368	14.06	14.07	14.20
09/03/2007	4,800	3,235	4,800	12,117	3,690	5,453	8,827	542	1,423	14.23	14.27	14.27
16/03/2007	4,800	3,215	4,700	9,835	3,694	5,602	5,836	555	1,376	14.36	14.33	14.41
23/03/2007	4,900	3,246	4,900	10,416	3,714	5,683	5,242	445	1,065	14.44	14.46	14.47
30/03/2007	3,200	2,246	3,300	5,395	2,883	3,997	1,605	338	150	14.62	14.69	14.53
06/04/2007	4,000	2,715	4,200	9,567	3,150	4,890	5,217	638	1,445	14.89	14.88	14.70
13/04/2007	3,600	2,392	3,800	6,517	2,755	4,462	2,317	260	742	15.01	14.98	14.07
20/04/2007	3,500	2,867	3,850	5,283	3,240	4,566	3,753	1,489	1,786	15.44	15.71	15.51
27/04/2007	5,200	4,082	5,000	6,824	5,166	7,006	3,474	1,447	3,861	16.01	15.84	15.69
04/05/2007	4,200	3,016	4,800	6,510	3,461	5,660	3,370	675	1,228	16.56	16.36	16.19
11/05/2007	4,500	3,312	5,000	16,633	4,497	6,956	5,710	550	1,767	16.52	16.33	16.15
18/05/2007	4,500	3,527	5,600	10,673	4,002	6,223	6,494	458	908	16.60	16.40	16.18
25/05/2007	4,400	3,537	5,800	14,189	4,232	6,570	7,970	825	1,787	16.69	16.44	16.30
01/06/2007	4,800	4,563	5,400	9,786	5,160	6,966	8,315	853	2,811	16.91	16.69	16.57
08/06/2007	4,800	4,501	5,700	15,126	5,442	7,011	4,417	330	1,372	16.94	16.69	16.60
15/06/2007	4,700	4,495	5,700	12,901	4,961	6,352	9,816	826	1,189	17.09	16.84	16.75
22/06/2007	4,700	4,432	5,800	11,246	4,998	6,833	8,902	385	1,143	17.40	17.12	16.89
29/06/2007	3,200	2,400	3,400	7,362	3,100	4,008	0	0	0	0.00	0.00	0.00

Source: Central Bank of Sri Lanka

(a) Effect from 3 May 2002, Government imposed a 10% withholding tax on interest from Government Securities. The rates quoted include this tax.

SECONDARY MARKET OPERATIONS
TABLE 26
VOLUMES TRADED IN THE SECONDARY MARKET AS REPORTED BY PRIMARY DEALERS

Rs.Million

Item	2001	2002	2003	2004	2005	2006	2007 H1
1. Outright Transactions							
1.1 T-bills							
Purchased	38,007	27,092	37,408	71,048	66,591	72,636	102,499
Sold	164,296	214,917	265,757	311,537	367,635	414,549	244,618
Total	202,303	242,009	303,166	382,585	434,226	487,185	347,117
1.2 T-bonds							
Purchased	24,857	107,987	346,801	171,282	135,859	130,176	120,470
Sold	49,067	185,814	426,865	220,266	172,376	170,311	120,250
Total	73,924	293,801	773,665	391,548	308,235	300,487	240,720
2. Repurchase Transactions							
2. T-bills							
Repo	298,840	396,523	1,058,459	264,909	488,518	575,982	407,180
Reverse repo	162,715	201,931	240,911	557,742	324,338	328,961	440,823
Total	461,555	598,454	1,299,371	822,651	812,856	904,943	848,003
2.2 T-bonds							
Repo	481,869	1,006,379	1,938,581	2,176,654	1,257,020	1,194,443	405,413
Reverse repo	376,825	225,896	304,995	859,897	1,074,628	783,516	445,246
Total	858,694	1,232,275	2,243,576	3,036,551	2,331,648	1,977,959	850,659

Source: Central Bank of Sri Lanka