

# **Public Debt Management in Sri Lanka**

## **Performance in 2007 and Strategies for 2008 and beyond**



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



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# *Message of the Governor*

The Central Bank of Sri Lanka has engaged in public debt management as an agency function on behalf of the government, since its inception. It is responsible for raising funds for government budgetary operations and to service the debt. To date, Sri Lanka has been able to maintain an unblemished record of debt service obligations where it has neither defaulted nor delayed any debt service payment. This is an enviable track record shared by few emerging market sovereigns in the world.

The public debt portfolio is the single largest debt portfolio in Sri Lanka with a total debt stock of Rs.3,070 billion as at end 2007. Given the fact that these debt are raised from a variety of investors, both locally and externally, and it has a significant impact on the stability of the Sri Lankan economy, the stakeholders including the general public, have an interest in knowing how the public debt portfolio is managed. In order to satisfy this need while gaining the confidence of those stakeholders, and also to maintain transparency in our activities, the Public Debt Department commenced publishing this bulletin as an annual publication since last year.

Undoubtedly, 2007 was a challenging year for the Sri Lankan economy. As a result, managing the public debt portfolio effectively was also not an easy task. However, Sri Lanka has been able to face those challenges and maintain a healthy economic growth, while managing the public debt with considerable success. In 2007, GDP recorded a 6.8 per cent growth. The debt to GDP ratio is now on a steadily declining path. In 2007 it was reduced to 85.8 per cent from 88.7 per cent in the previous year. It is expected to decline further to 82.4 per cent by end 2008. These improvements indicate that Sri Lanka is gradually and steadily moving towards reaching the levels stipulated in the Fiscal Management (Responsibility) Act within a reasonable time frame. Nevertheless many challenges remain, which require continued action to maintain these favorable trends in the medium-term.

I wish the staff of Public Debt Department well in their endeavours to ensure effective management of Sri Lanka's public debt.

**Ajith Nivard Cabraal**

*Governor*

*Central Bank of Sri Lanka*

# *Message of the Superintendent of Public Debt*

Since its inception in 1950 under the Monetary Law Act No 58 of 1949, the Central Bank of Sri Lanka has been entrusted with the responsibility of managing the public debt on behalf of the government of Sri Lanka. By their very nature, operations in the debt market demand a high level of trust from its participants. This can be achieved and maintained only by ensuring transparency and keeping all stakeholders informed of the entire process.

This is the second annual publication on Public Debt Management in Sri Lanka. This publication is intended to promote transparency and demonstrate the progress achieved in public debt management over the past year.

The year 2007 was a significant and challenging year for the Public Debt Department. During the year many challenges had to be faced, including the rising yield rates in the government securities market due to relatively high inflation and inflationary expectations, heavy bunching of debt stock and limited resource availability in the domestic market. Even though these factors required a slight deviation from the initially planned debt management strategy, satisfactory performance was achieved within the annual borrowing plan.

While overcoming the challenges in the domestic market, Sri Lanka was able to position itself well in the international capital market and among international investors. A landmark was achieved during 2007, with the successful issue of Sri Lanka's debut international sovereign bond for US dollar 500 million. The Rupee denominated bond market for foreigners was further broadened with the increase in the investment limit from 5 per cent to 10 per cent.

This publication explains in detail the performance of the public debt, the debt stock and flows during 2007, the interest cost of debt, risk management and maintenance of sustainability, operations in the primary and secondary markets, performance of the primary dealers and also future targets with regard to public debt management.

This publication would deepen the understanding of the status of public debt and the process of public debt management in the country.

**C. J. P. Siriwardene**  
*Superintendent of Public Debt*  
*Central Bank of Sri Lanka*

## *Purpose of this Publication*

The Central Bank of Sri Lanka (CBSL) functions as an agent of the government in managing public debt. The CBSL is engaged in raising debt from various sources, both internally and externally, and in servicing the debt. This process involves a number of parties including individuals, institutions and governments. Securing the confidence of these stakeholders is critically important to maintain a healthy, long-term relationship with them. Further, given the fact that public debt is the single largest debt portfolio in the country, maintaining a high level of transparency in this process too is important. Both these aspects have a significant direct impact on the internal and external stability of the economy.

In this context, the CBSL seeks to inform all interested parties on the status of public debt and on the process of public debt management by way of an annual publication. The first publication on Public Debt Management in Sri Lanka was issued in 2007, giving a comprehensive report on the status and process of public debt management in the country.

The purpose of the current publication is to explain the performance of public debt management during 2007. This report contains the context of debt management, a market analysis, the interest cost of borrowing, risks in public debt portfolio and the debt management strategy in 2007 and in the medium-term.

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

This publication is issued in Sinhala, Tamil and English.

# *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 to develop and strengthen 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 in Sri Lanka, 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. Highlights in 2007

## *1. Overall Debt Level*

- Actual gross borrowings of Rs. 579 billion were well within the approved borrowing limit of Rs. 655 billion.
- Total borrowing requirement from domestic sources was Rs. 443 billion and Rs. 397 billion was actually raised.
- Total borrowing requirement from external sources was Rs. 202 billion and Rs. 181 billion was actually raised.
- Public debt portfolio as at end 2007 stood at Rs. 3,070 billion.
- As a percentage of GDP, total outstanding debt stock declined to 85.8 per cent at end 2007 from 88.7 per cent in 2006.
- In line with the above, domestic debt and foreign debt to GDP ratios also declined to 47.9 per cent and 37.9 per cent respectively, at end 2007, from 50.3 per cent and 38.4 per cent respectively at end 2006.

## *2. Interest Cost on Public Debt*

- Total interest cost on public debt in 2007 was Rs.182.7 billion.
- Interest cost of domestic and foreign debt amounted to Rs. 161.4 billion and Rs. 21.3 billion respectively.
- In terms of GDP, interest cost of the government budget remained at 5.1 per cent in 2007 as in 2006.

## *3. Interest Rates*

- Interest rates were on a continuously increasing path except on two occasions during the year.
- Primary market interest rates for Treasury bills increased in the range of 697-853 bps and Treasury bond rates for 2-3 year maturities increased in the range of 219-335 bps.

#### ***4. Broadening Investor Base***

- Treasury bond market opened for foreign investors up to 5 per cent of the total Treasury bond stock in 2006 was further increased to 10 per cent at end 2007.
- Foreign investment in Treasury bonds amounted to Rs. 49 billion as at end 2007.
- Debut international sovereign bond of US dollar 500 million was issued in October 2007.
- Registered investors in the Central Depository System (CDS) of government securities increased by over 50 per cent to 41,953 in 2007.

#### ***5. Infrastructure Developments***

- Thirteen retail outlets were opened island wide for the benefit of the retail investors.
- In order to improve the safety of legal ownership of investors in government securities, the CBSL Wide Area Network (WAN) based application was introduced to record small value transactions of government securities in the CDS maintained by the CBSL.

#### ***6. Market Development***

- A medium term debt management strategy was introduced.
- Number of Treasury bond series were reduced to 42 from 51 since end 2006 to reduce the fragmentation in the bond market.
- Initial steps were taken to introduce a debt consolidation programme.
- Steps were taken to introduce benchmark bond series to establish a bench mark yield curve.

#### ***7. Primary Dealer System***

- Restructuring of primary dealer system was initiated to improve stability in the intermediary base.
- A significant improvement was shown in non-state primary dealer effective participation at the primary market operations.
- Secondary market transactions showed an improvement recording a turnover ratio of 13.2 times.

## 2. Public Debt Management in 2007

### *Borrowing Target and Borrowing Strategy*

The total gross borrowing limit set under the Appropriation Act No. 47 of 2006, approved by Parliament for 2007 amounted to Rs. 655 billion. This amount included Rs. 20 billion as a special provision for contingency requirements. Accordingly, the estimated borrowings were Rs. 443 billion from domestic sources and Rs. 202 billion from foreign sources. The domestic borrowing programme included Rs. 10 billion of Rupee loans for the settlement of accumulated contingency liabilities, while leaving the balance contingency provision for unforeseen expenses during the year.

On a net basis, the total borrowing requirement was estimated at Rs. 292.4 billion. Of this total, Rs. 156.2 billion was expected to be raised from domestic sources and the balance Rs. 136.2 billion from external sources. As the budget 2007 envisaged generating a marginal surplus in current account operations, the total net borrowing programme was expected to be utilised to finance the public investment programme.

The annual borrowing strategy in 2007 was designed in line with the medium-term debt management strategy developed in 2007. Accordingly, the original domestic borrowing strategy envisaged raising funds from domestic market sources while limiting domestic foreign currency borrowings to match the maturing foreign currency denominated debt. Further, the plan was to issue more medium to long-term debt securities, to minimise the rollover risk and also to ease the issue of bunching. Issuance

Table 1  
GOVERNMENT BORROWING <sup>(a)</sup>

	Rs. billion	
	2007 Plan	2007 Actual <sup>(c)</sup>
<b>Total Net Borrowing <sup>(b)</sup></b>		
Domestic	156.2	145.2
Foreign	136.2	117.1
<b>Total</b>	<b>292.4</b>	<b>262.3</b>
<b>Gross Borrowing by Instrument</b>		
<b>Domestic</b>	<b>443.0</b>	<b>397.3</b>
Rupee loans	10.0	18.8
Treasury bonds	356.0	264.9
Treasury bills	5.0	37.1
SLDB/FCBU	59.5	58.8
CBSL advances	12.5	11.7
Other	-	6.0
<b>Foreign</b>	<b>202.0</b>	<b>181.2</b>
Concessional	156.0	73.1
Non-Concessional	46.0	108.1
<b>Total</b>	<b>645.0</b>	<b>578.5</b>

Source : Central Bank of Sri Lanka

(a) Amounts in book value

Ministry of Finance and Planning

(b) As per Budget 2007

(c) Provisional

of non-market debt instruments was expected only to finance contingency expenses. In the external borrowing programme, a major share was expected to be mobilised through concessional borrowing from donors to finance the public investment programme. The balance funding requirement was to be fulfilled through commercial borrowings by attracting foreign investors to Treasury bonds and by raising funds from the international capital market.

In executing this borrowing strategy, the domestic borrowing plan for 2007 expected to mobilise funds largely through medium to long-term marketable securities. Accordingly, Rs. 356 billion

was expected to be raised through Treasury bonds. Funds to be raised through Treasury bills, which are short-term marketable instruments was only Rs. 5 billion. The borrowing plan also included Rs. 10 billion for non-marketable Rupee loans in order to settle accumulated contingency liabilities. It was planned to borrow a total of Rs. 59.5 billion from foreign currency funds available in domestic market by issuing foreign currency denominated debt instruments, viz. Sri Lanka Development Bonds (SLDBs) and by borrowing from Foreign Currency Banking Units (FCBUs). The expected total gross external borrowing in 2007 was Rs. 202 billion, out of which Rs. 156 billion was estimated as projects and programme loans obtained on concessional terms from bi-lateral and multi-lateral sources.

During the year, the government was able to contain its total gross borrowings within the gross borrowing limit approved by Parliament. However, the rising inflation and inflationary expectations caused the interest rates to rise continuously during the year.

This, together with limited resource availability in domestic non-bank sources, created more pressure on the borrowings from the domestic market. Therefore, the borrowing programme had to be altered from the original plan. As the market was not conducive to issue long-term government securities as planned in the medium-term debt management strategy, government had to issue more short-term maturities to finance the shortfall. As a result, the government could domestically raise only Rs. 265 billion through Treasury bonds, Rs. 91 billion less than the original borrowing plan. In contrast, Rs. 37.1 billion was raised through new issues of Treasury bills, on book value terms, as against the planned programme of Rs. 5 billion. In the original plan, the Rupee loan programme was expected to settle contingency liabilities of the government. However, during the year Rs. 18.8 billion was raised through Rupee loans, which included only Rs. 4.4 billion of contingency settlement to Lanka Indian Oil Corporation (LIOC).

### **Box 1 - Award for the Best Sovereign Bond in Asia for the Year 2007**

The debut sovereign bond issue of Sri Lanka for US dollar 500 million was voted the best sovereign bond in Asia for 2007 by three prestigious financial magazines, namely, The Asset, Finance Asia and AsiaMoney. The Asset magazine viewed the success of Sri Lanka's sovereign bond issue as 'an impressive result for the first US dollar bond from an Asian sovereign since the credit crunch unraveled due to the US sub prime crisis'. The AsiaMoney magazine was of the view that at a time when it is rare for a debut sovereign borrower to come to the market and when the credit market was in the worst credit crunch in 10 years, what Sri Lanka achieved was a very difficult task. It went on to say that 'the fact remains that these are extremely testing times for borrowers with non-investment grade ratings, and to succeed with a deal for an emerging market debut borrower with a colourful story in troubled markets is an amazing turn of events'.

Sri Lanka went in for its debut sovereign bond issue at a time that international market conditions had been completely changed by the US sub prime issue. This, along with other internal factors such as the on-going civil conflict and the threats by the main opposition party to deliberately default on the sovereign bond if they come to power, made this a more difficult task for the government. Therefore, the sovereign bond issue of Sri Lanka was not effected in a conducive environment. However, with the right timing and proper guidance by the joint book runners, namely, Barclays Capital, HSBC and JP Morgan, Sri Lanka managed to achieve its target. The joint book runners, along with a team of senior officials from the Central Bank and the Ministry of Finance and Planning lead by the Governor of the Central Bank, managed to successfully expound the country's positive points to the investors, including the fact that it has never defaulted or delayed in servicing any debt.

Further, in order to ease the pressure on the rupee market, government had to rely more on foreign currency denominated domestic debt as well as foreign commercial borrowings. Out of the expected Rs. 202 billion borrowing from external sources, Rs. 181.2 billion was raised during the year. This total included Rs. 73.1 billion raised from concessional multi-lateral and bi-lateral sources. The balance non-concessional external borrowing programme included loans comprising Rs. 37.1 billion foreign investments in Treasury bonds and the debut international sovereign bond issue of Rs. 56 billion (US dollar 500 million).

### Debt Level

The total government debt as at end 2007 stood at Rs. 3,070 billion. This was an increase of Rs. 462 billion over the previous year. Of this increase, net government borrowing amounted to Rs. 262 billion while the balance increase was mainly due to impact of parity variation (Rs. 73 billion) and issues of debt instruments in discount basis (Rs. 105 billion).

The total debt as a percentage of Gross Domestic Product (GDP) was 85.8 per cent at end 2007, compared to the end 2006 value of 88.7 per cent. This reduction was mainly due to two positive factors in the debt dynamics, i.e., high nominal

**TABLE 2**  
**OUTSTANDING GOVERNMENT DEBT**

	2005	2006	2007 (a)
<b>Outstanding Debt (Rs. bn)-By Source</b>			
Domestic	1,266	1,479	1,715
Foreign	957	1,128	1,355
<b>Total</b>	<b>2,222</b>	<b>2,608</b>	<b>3,070</b>
<b>Outstanding Debt (Rs. bn)-By Currency</b>			
Domestic Currency	1,167	1,327	1,584
Foreign Currency	1,055	1,280	1,486
<b>Total</b>	<b>2,222</b>	<b>2,608</b>	<b>3,070</b>
<b>Outstanding Debt (% of GDP)-By Source</b>			
Domestic	51.9	50.3	47.9
Foreign	39.2	38.4	37.9
<b>Total</b>	<b>91.1</b>	<b>88.7</b>	<b>85.8</b>
<b>Outstanding Debt (% of GDP)-By Currency</b>			
Domestic Currency	47.8	45.1	44.3
Foreign Currency	43.3	43.6	41.5
<b>Total</b>	<b>91.1</b>	<b>88.7</b>	<b>85.8</b>

(a) Provisional

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

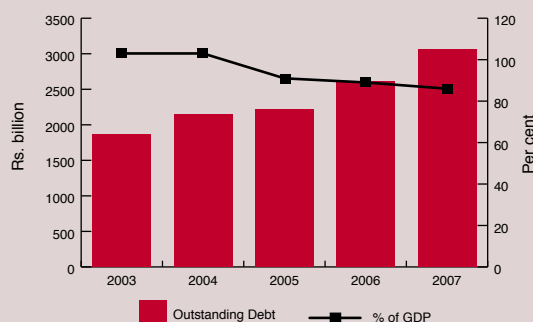
**TABLE 3**  
**INCREASE OF GOVERNMENT OUTSTANDING DEBT**

	Rs. billion		
Description	2005	2006	2007 (a)
Net Borrowing	177	216	262
Effect of Parity variance	-101	116	73
Discount Effect	0	41	105
Other	7	13	22
<b>Total Increase</b>	<b>83</b>	<b>385</b>	<b>462</b>

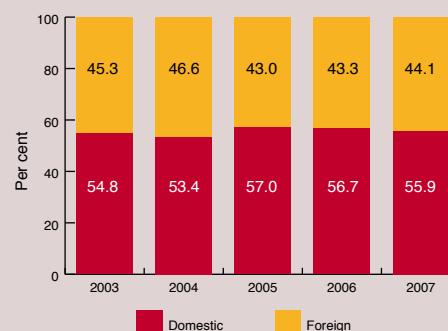
(a) Provisional

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

**Chart 1**  
**CENTRAL GOVERNMENT DEBT**



**Chart 2**  
**COMPOSITION OF DOMESTIC AND FOREIGN DEBT**



rate of growth of the economy over nominal rate of interest and stabilisation of the Sri Lankan rupee against major currencies towards end 2007.

The decreasing trend in the debt to GDP ratio since 2005 signals a positive and gradual movement in the right direction of the level of public debt. Accordingly, the targets set out in the medium-term debt management strategy, as well as in the Fiscal Management (Responsibility) Act, are likely to be achieved, if no unexpected events that disturb the macroeconomic indicators occur.

The proportion of external debt to total debt has increased marginally by 1 per cent, to 44.1 per cent in 2007, compared to end 2006. The foreign investment in Treasury bonds and the international bond issue largely contributed to this increase in 2007.

## The Structure of Debt Portfolio

### Composition of Domestic Debt

The outstanding domestic debt stood at Rs. 1,715 billion at end 2007, an increase of Rs. 236 billion over the previous year's debt stock. Of the total debt, the share of domestic debt had decreased by one percentage point to 55.9 per cent, over the previous year. This decrease can be seen as a result of placing more reliance on external borrowings during the year, due to the high pressure that prevailed in the domestic market. As a ratio of GDP, domestic debt declined to 47.9 per cent in 2007 from 50.3 per cent in 2006.

Approximately 82 per cent of the total domestic debt consisted of tradable securities such as Treasury bills, Treasury bonds and SLDBs. The share of

Treasury bonds in the debt stock declined by 1 per cent to 59 per cent compared to the previous year, while the Treasury bill stock had increased slightly from 17 per cent to 18 per cent over the previous year. The stock of SLDBs had risen by nearly 1 percentage point from 4 per cent to 5 per cent.

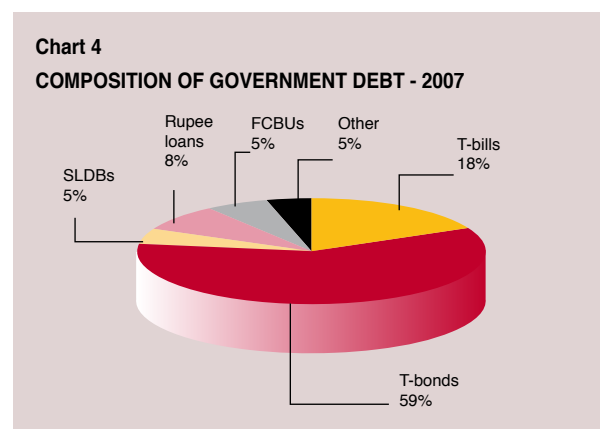
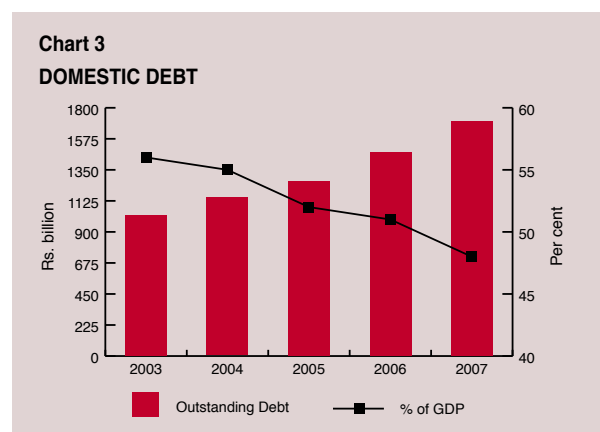
During the year, the total Rupee loan issues amounted to Rs. 23 billion. However, its share of total domestic debt had remained around 8 per cent.

As at end 2007, the foreign currency denominated debt such as SLDBs and borrowings through FCBUs stood at US dollar 1.66 billion. Its share in domestic debt remained at 10 per cent as in the previous year. Eventhough foreign currency debt is susceptible to exchange rate risk, the authorities changed the borrowing strategy to borrow more from foreign currency denominated sources due to rising domestic interest rates and the adverse conditions that prevailed in the domestic rupee market for rupee denominated debt.

### Domestic Debt by Investor Base

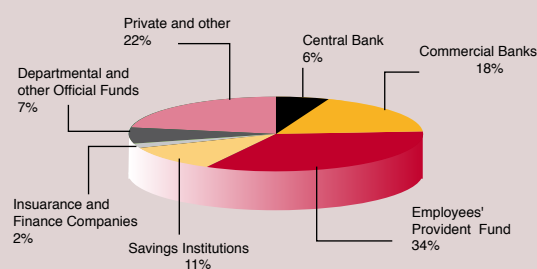
The investor base of the domestic debt is broadly categorised into two sectors, namely, the bank sector and the non-bank sector. The non-bank sector owned Rs. 1,300 billion while the bank sector owned the balance Rs. 415 billion of the domestic debt portfolio. The non-bank sector usually contributes to a major share of the domestic debt stock. Their investment in both tradable and non-tradable instruments has increased by Rs. 217 billion. The investments in Treasury bonds and Treasury bills had increased by Rs. 122 billion and Rs. 58 billion respectively, while the investments in non-tradable Rupee loans had increased only by Rs. 21 billion. Investment in other instruments by the non-bank sector had increased by Rs. 16 billion. Among the non-bank sector institutions, Rs. 575 billion or 44 per cent of investments had come from the Employees' Provident Fund (EPF). The other main contributor was the National Savings Bank (NSB) with a share of 15 per cent, which amounted to Rs. 192 billion, at end 2007.

Of the bank sector, holdings of the CBSL amounted to Rs. 105 billion while the balance was held

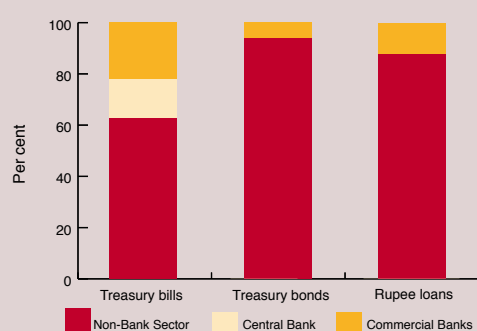




**Chart 5**  
**DOMESTIC DEBT BY INVESTOR - 2007**



**Chart 6**  
**OWNERSHIP OF MAIN DEBT INSTRUMENTS - 2007**



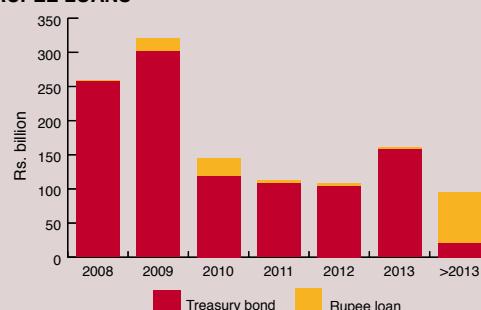
by commercial banks mainly for their statutory liquidity requirements.

A further analysis can be carried out based on the type of government securities held by the bank and non-bank sectors. Of the bank sector, the CBSL had reduced its holdings of Treasury bills by Rs. 24 billion to Rs. 45 billion as at end 2007. Provisional advances of the CBSL had increased by Rs. 12 billion to Rs. 61 billion. The total share of CBSL holdings out of the domestic debt had come down to 6 per cent at end 2007. In contrast, the investments of commercial banks had increased by Rs. 32 billion to Rs. 310 billion. This increase came mainly from the increased investments in SLDBs by Rs. 24 billion, in Treasury bills by Rs. 16 billion and in Treasury bonds by Rs. 11 billion. Commercial banks' investment in Rupee loans and other instruments had decreased by Rs. 6 billion and Rs. 13 billion, respectively.

### **Maturity Structure of the Domestic Debt Portfolio**

Approximately 48 per cent of Treasury bonds and Rupee loans will be maturing during 2008 and 2009.

**Chart 7**  
**MATURITY STRUCTURE OF TREASURY BONDS AND RUPEE LOANS**



Further, 40 per cent of the domestic debt portfolio has to be rolled over within a one year period. The strong preference towards short-term maturities that prevailed during the last few months in view of the high interest rates in the market contributed toward this maturity structure.

### **Duration of Domestic Debt**

The maturity structure of the domestic debt stock indicates that around 78 per cent of the debt stock consisted of medium to long-term debt.

**TABLE 4**  
**DURATION OF DOMESTIC DEBT (a)**

Instrument	Duration (Years)		
	2005	2006	2007
Treasury bills	0.31	0.29	0.31
Treasury bonds	1.90	1.87	1.90
Rupee loans	4.13	4.30	4.04
<b>Overall</b>	<b>1.87</b>	<b>1.79</b>	<b>1.77</b>

(a) Weighted average maturity of the cash flow

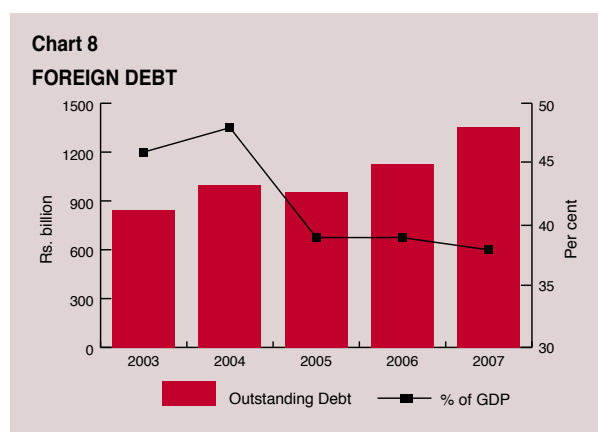
Source: Central Bank of Sri Lanka

The overall duration of the debt at end 2007, was 1.77 years, a slight decrease from 1.79 years in the previous year. Eventhough there had been a strong investor preference towards short - term maturities, the duration of Treasury bills and Treasury bonds had risen slightly.

### **Foreign Debt**

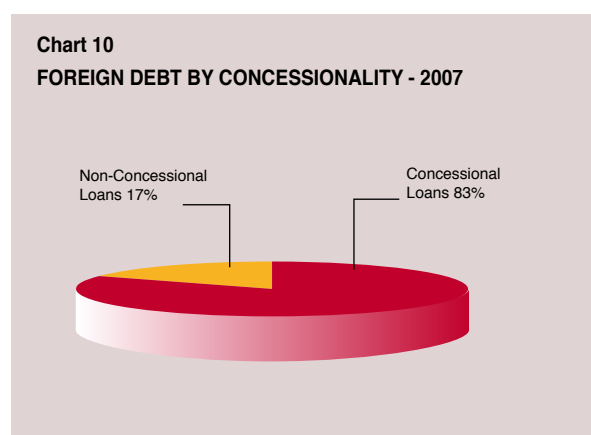
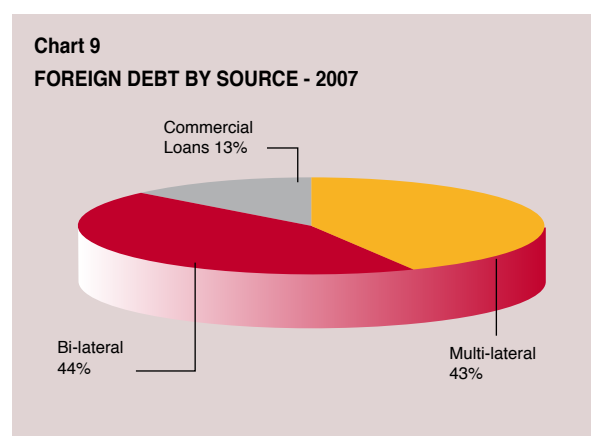
The foreign debt stock as at end 2007 amounted to Rs. 1,355 billion, an increase of Rs. 226 billion or 19.8 per cent compared to end 2006. This was mainly due to net borrowings of Rs.117 billion and impact of exchange rate variation on the accumulated external debt

amounted to Rs.72 billion. However, the foreign debt to GDP ratio decreased to 37.9 per cent in 2007. The external debt received for specific projects and programmes contributed to 80 per cent of the total foreign debt stock. The project and programme loans increased by 11 per cent by end 2007, compared to the previous year end. The non-project loans accounted for only 20 per cent of the total foreign debt, which consist of two



components, viz. commodity loans and other loans including commercial loans, defence loans and Treasury bonds issued to foreign investors. The commodity loans grew only by 3 per cent during the year. However, total foreign investments in Treasury bonds amounted to Rs. 49 billion at end 2007 with the opening of the Treasury bond market to foreign investors.

External debt is raised through bi-lateral, multi-lateral and commercial sources. End 2007 external debt stock consisted of debt raised through bi-lateral sources (44 per cent), multi-lateral sources (43 per cent) and commercial loans (13 per cent). The share of debt raised through bi-lateral and multi-lateral sources declined, while the share of commercial loans increased from 5 per cent to 13 per cent. The main contributory factors were the issue of rupee denominated Treasury bonds to foreign investors and the issue of US dollar 500 million sovereign bond in the international capital market. Major bi-lateral donors to Sri Lanka in 2007 were Japan, Germany and USA. Japan had contributed to 24 per cent of the total external debt. Major multi-lateral



**TABLE 5**  
**MATURITY, GRANT ELEMENT & INTEREST RATES OF EXTERNAL DEBT 2007<sup>(a)</sup>**

Donor Category	Grace Period (Yrs)	Repayment Period (Yrs)	Grant Element (%)	Avg. Interest Rates (% p.a.)
Bi-lateral	2 - 16	6 - 40	10 - 91	2.4
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
<b>Average</b>				<b>1.9</b>

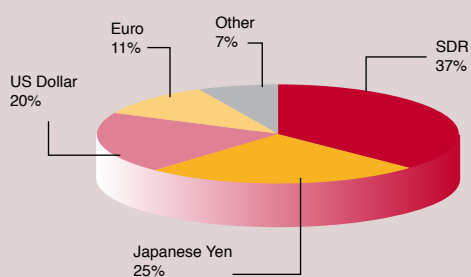
(a) Interest paid in 2007/ Disbursed outstanding debt as at end 2006

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

donors were Asian Development Bank (ADB) and International Development Association (IDA), who contributed to 22 per cent and 19 per cent of the total external debt, respectively.

As a result of Sri Lanka reaching the status of a middle income country, a decline in the concessional type borrowings can be observed. The sovereign bond issue, together with the foreign investments in Treasury bonds, increased the share of non-concessional type borrowings, thereby reducing the

**Chart 11**  
**CURRENCY COMPOSITION OF FOREIGN DEBT - 2007**



concessional debt to 83 per cent of total external debt as against 92 per cent at end 2006.

The average maturity of foreign currency debt increased to 12.7 years in comparison to 12 years as at end 2006. This was due to several major loans being obtained for a longer tenor between 14-30 years during 2007.

The foreign loan portfolio consisted of different currencies. The major currencies included Special Drawing Rights (SDR), Japanese yen, US dollar and Euro. The highest amount of foreign loans were obtained in SDR amounting to 38 per cent, followed by the Japanese yen (25 per cent), US dollar (20 per cent) and Euro (11 per cent). Other currencies in the foreign debt portfolio accounted only to 7 per cent.

The external debt raised was used for the development of different economic, social and administrative services in the country. Out of the total outstanding external debt, 68 per cent has been utilised for the development of economic services, 13 per cent for development of social services, 7 per cent for import of commodities and the balance 12 per cent for improvements of administrative and other unclassified activities in the economy. In the economic services, a considerable portion of funds was utilised in energy sector development. Out of total external debt 19 per cent was used for the development of this sector. Other major economic sectors to which foreign funds were allocated included ground transport (14 per cent), finance and insurance (9 per cent) and water supply (9 per cent). In the social services sector, the major share was utilised for education and training (26 per

**TABLE 6**  
**USE OF EXTERNAL DEBT BY MAJOR SECTORS<sup>(a)</sup>**

Economic Sector	Outstanding	Rs. million
<b>1. Economic Services</b>	<b>914,574</b>	
<b>1.1 Agricultural Development</b>	<b>162,803</b>	
Agriculture	43,337	
Fishing	9,539	
Forestry	7,197	
Plantation	63,506	
Irrigation & Related Act.	38,067	
Livestock Development	1,157	
<b>1.2 Industrial/Construction</b>	<b>314,670</b>	
Energy	174,372	
Water Supply	85,075	
Industrial Development	31,504	
Roads and Bridges	20,880	
Other Construction	2,839	
<b>1.3 Service Sector</b>	<b>314,784</b>	
Telecommunications	38,976	
Ports & Shipping	43,948	
Ground Transport	127,571	
Air Transport	14,726	
Finance, Insurance, etc.	86,544	
Trade	3,019	
<b>1.4 Other Economic Services</b>	<b>122,317</b>	
Land Development	551	
Management & Institutional Development	497	
Information Technology Development	3,481	
Private Sector Development	70,212	
Rural Development	44,768	
Science & Technology	2,808	
<b>2. Social Services</b>	<b>179,997</b>	
Education & Training	46,197	
Health & Social Welfare	18,852	
Cultural	35	
Environment	24,407	
Housing & Urban Development	26,668	
Labour & Vocational Training	3,986	
Media	138	
Rehabilitation	14,982	
Sewerage	3,928	
Tsunami Rehabilitation	40,804	
<b>3. Commodities &amp; Food</b>	<b>95,298</b>	
Commodities	63,699	
Food	31,599	
<b>4. Other Activities</b>	<b>165,003</b>	
Justice	2,096	
Budget Support	10,872	
Other	152,035	
<b>Total Outstanding Debt</b>	<b>1,354,871</b>	

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

(a) Based on outstanding external debt data recorded in CS-DRMS as at December 2007. Sovereign bond issue of US dollar 500 mn recorded under other activities.

**TABLE 7**  
**AGREEMENTS SIGNED DURING THE YEAR 2007**

Donor Category	Number of Loans	Amount (Rs mn)	Amount (USD mn)
Bi-lateral	13	51,428	471
Multi-lateral	8	53,915	491
Commercial	1	56,202	500
Export Credit	6	60,242	543
	<b>28</b>	<b>221,786</b>	<b>2,004</b>

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

**TABLE 8**  
**NUMBER OF ACTIVE LOANS AS AT END 2007**

Donor Category	Number of Loans
<b>Bi-lateral</b>	<b>334</b>
Japan	102
USA	74
Germany	41
Other	117
<b>Multi-lateral</b>	<b>250</b>
ADB	119
IDA	103
Other	28
<b>Export Credit</b>	<b>41</b>
<b>Commercial</b>	<b>13</b>
<b>Total Loans</b>	<b>638</b>

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

cent), followed by Tsunami rehabilitation (23 per cent) and housing and urban development projects (15 per cent).

During 2007, the Government of Sri Lanka entered into 28 new external loan agreements. The value of these loans amounted to Rs. 221,786 million or US dollar 2,004 million.

At end 2007, there were 638 active foreign loans as against 618 loans at end 2006.

## ***New Products and Policies Introduced in 2007***

### **Further relaxing the rupee denominated bond market for foreign investors**

Initially foreign investors were permitted to invest only up to a maximum of 5 per cent of the total Treasury bonds in issue. This limit was further relaxed, to 10 per cent of the total Treasury bond stock, with effect from December, 2007.

### **Issue of Sovereign International Bond**

Sri Lanka's debut sovereign bond issue of US dollar 500 million at the rate of 8.25 per cent was carried out in October, 2007.

### **Introduction of the CBSL Wide Area Network (WAN) based application**

The CBSL introduced a WAN based application to record small value transactions up to Rs. 5 million in the CDS.

### **Opening Retail Outlets**

Thirteen retail outlets were opened island wide to issue government securities, mainly for the convenience of retail investors. These were opened in collaboration with LankaClear (Pvt) Limited and NSB Fund Management Company Ltd.

### **Strengthening the Intermediary Base**

Initial steps were taken towards restructuring the Primary Dealer System with a view to strengthening the intermediary base of the government securities market.

### **Introducing Debt Consolidation**

In order to ease the current bunching problem, groundwork related to the introduction of a debt consolidation programme, was carried out during the year.

## Box 2 –Registration of Investors in the Central Depository System

LankaSecure, the Central Depository System (CDS) for government securities has recorded a distinct improvement during the last few years in terms of both number of transactions and number of registered investors. The participants in the CDS, i.e., Primary Dealers and Commercial Banks, as custodians for their customers in the CDS are required to record all transactions relating to the movement or/and change of ownership of government securities to ensure that the legal ownership of government securities is duly and instantly transferred to their customer accounts maintained in the CDS (LankaSecure). With the implementation of the CDS in 2004 and the recording of all investor details in the CDS revealed that geographical investor base for government securities is gradually expanding in the Western Province as well as in other provinces.

The total registered investor base in 2006 had shown a marginal improvement (10 per cent) over 2005. However, investor registrations in the CDS has shown a marked improvement in 2007. The total number of registered investor accounts maintained at the CDS increased by 56 per cent to 41,953 from 26,936 in 2006. These developments have taken place mainly due to aggressive awareness campaigns conducted in Colombo and other main cities, the opening of 13 new government securities retail outlets in the Central Bank and at LankaClear premises by NSB Fund Management Co Ltd, the introduction of

### Geographical Distribution of Investors in Scripless Government Securities

District	Total Number of Investors			Share of Total ( % )			Percentage increase over previous year	
	2005	2006	2007	2005	2006	2007	2006	2007
Ampara	44	15	20	0.2	0.1	0.0	-65.9	33.3
Anuradhapura	123	120	171	0.5	0.4	0.4	-2.4	42.5
Badulla	633	507	767	2.6	1.9	1.8	-19.9	51.3
Batticaloa	29	30	47	0.1	0.1	0.1	3.4	56.7
Colombo	15,962	18,119	28,534	65.4	67.3	68.0	13.5	57.5
Galle	615	576	803	2.5	2.1	1.9	-6.3	39.4
Gampaha	2,932	3,292	5,318	12.0	12.2	12.7	12.3	61.5
Hambantota	220	238	367	0.9	0.9	0.9	8.2	54.2
Jaffna	78	87	152	0.3	0.3	0.4	11.5	74.7
Kalutara	977	1,080	1,563	4.0	4.0	3.7	10.5	44.7
Kandy	864	887	1,314	3.5	3.3	3.1	2.7	48.1
Kegalle	240	230	338	1.0	0.9	0.8	-4.2	47.0
Kurunegala	455	433	687	1.9	1.6	1.6	-4.8	58.7
Mannar	12	-	2	0.0	0.0	0.0	-	-
Matale	117	123	174	0.5	0.5	0.4	5.1	41.5
Matara	549	601	751	2.2	2.2	1.8	9.5	25.0
Monaragala	22	24	30	0.1	0.1	0.1	9.1	25.0
Mullativu	2	2	3	0.0	0.0	0.0	0.0	50.0
Nuwara Eliya	29	27	53	0.1	0.1	0.1	-6.9	96.3
Polonnaruwa	15	25	34	0.1	0.1	0.1	66.7	36.0
Puttalam	143	144	256	0.6	0.5	0.6	0.7	77.8
Ratnapura	287	306	422	1.2	1.1	1.0	6.6	37.9
Trincomalee	37	43	62	0.2	0.2	0.1	16.2	44.2
Vavuniya	26	27	85	0.1	0.1	0.2	3.8	214.8
<b>Grand Total</b>	<b>24,411</b>	<b>26,936</b>	<b>41,953</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>10.3</b>	<b>55.8</b>

Source: CDS-Central Bank of Sri Lanka

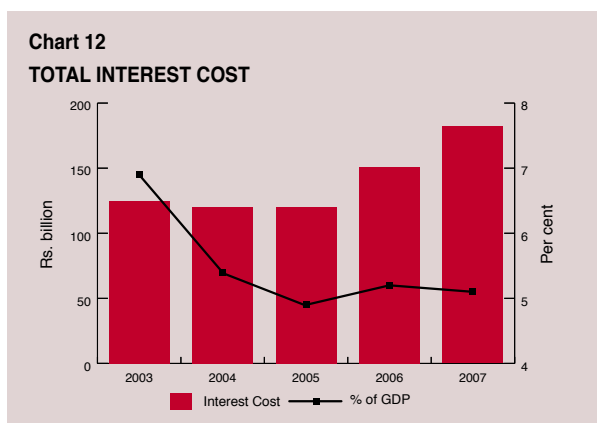
CBSL net based application to record small value transactions up to Rs. 5 million free of charge, and several other directions issued by the Public Debt Department.

Although all districts except Mannar and Mullativu recorded considerable increase in investor participation, the investor base is still concentrated in the Western Province. The Western Province, which contributes more than 50 per cent to GDP, accounted for more than 80 per cent of government securities. In particular, the Colombo District recorded the highest investor base, due to easy access to market information and well developed institutional framework, coupled with relatively higher income levels. This can be further seen by considering the investment by relatively low income districts such as Moneragala, Ampara, Mullativu and Mannar, where the institutional framework for government securities is less developed, poverty is high, and provincial GDP and per capita income are very low. However, other than the Western Province, there is a potential to tap more resources from the North Western, North Central, South and Central Provinces, if institutional and other infrastructure are developed further.

### 3. Interest Cost in 2007

#### Total interest cost

Total interest cost on government debt amounted to Rs. 183 billion in 2007, an increase of 21 per cent over 2006. This is equivalent to 31 cents of every rupee of revenue being spent to pay interest on the public debt, down from a peak of 43 cents in 2003, but an increase of 0.2 cents compared to 2006. In terms of GDP, the interest cost of the government budget declined to 5.1 per cent in 2007 from 5.2 per cent in 2006. The ratio in 2002 was 7.4 per cent. Improvements in overall debt management and macroeconomic management helped to lower the interest cost in relation to GDP and revenue.



#### Interest Cost of Domestic Debt

The interest cost of domestic debt amounted to Rs. 161 billion, an increase of Rs. 28 billion or 21 per cent in 2007 over 2006. The high cost was mainly due to the sharp increase of interest rates, in line with rising inflation and inflationary expectations, the tight monetary policy conducted by the Central Bank and increased investor preference for short-term government securities. As a result, the weighted average interest cost of

all rupee securities increased significantly in 2007 in comparison to 2005 and 2006. The increase in the cost of borrowing for Treasury bills was higher than for Treasury bonds due to the shift of Treasury bill re-issuance towards the shorter maturity of 91 days during the year.

**TABLE 9**  
**COST OF DOMESTIC BORROWING (a)**

Instrument	Per cent		
	2005	2006	2007
Treasury bills	11.07	11.88	16.57
Treasury bonds	12.12	12.28	15.15
Rupee loans	10.64	10.60	15.72

Source: Central Bank of Sri Lanka

(a) Weighted average interest cost =  $\frac{\sum \text{Amount issued} \times \text{Yield}}{\sum \text{Amount issued}}$

A sharp increase in the average running cost which reflects the average interest cost during a given year based on the debt stock held at the beginning of the year, reflected the high interest rates that prevailed in the market in 2007. As the entire Treasury bill stock was re-issued at a higher yield during the year, this was reflected in the average running cost. However, issuance of Treasury bonds at discount rate and the lower coupon rate of the accumulated debt resulted in a lower running cost for Treasury bonds and Rupee loans in comparison to Treasury bills.

**TABLE 10**  
**AVERAGE RUNNING COST (a)**

Instrument	Per cent		
	2005	2006	2007
Treasury bills	8.31	10.49	14.44
Treasury bonds	10.42	11.00	10.63
Rupee loans	12.19	11.48	10.99

Source: Central Bank of Sri Lanka

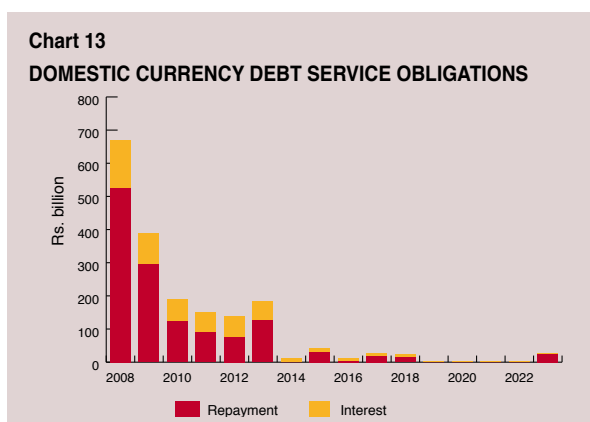
(a) Interest paid/Outstanding stock at the beginning of the year

## *Interest Cost of Foreign Debt*

Interest payments on external debt for 2007 amounted to Rs. 21.3 billion an increase of Rs. 4.4 billion in comparison to 2006. This increase was mainly a result of increased disbursements and the depreciation of the rupee against major foreign currencies. The average running cost of external debt was 1.88 per cent in 2007, in comparison to 1.76 per cent in 2006.

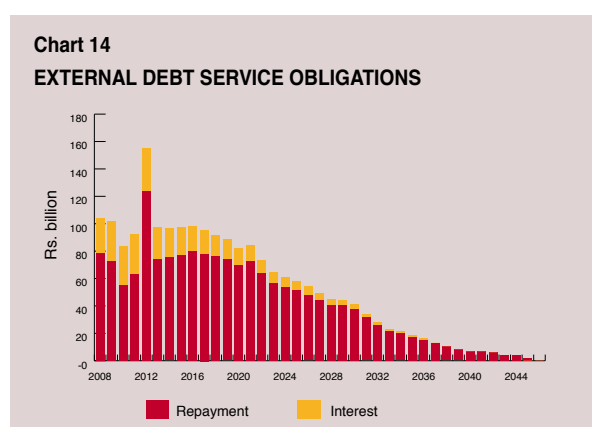
## *Debt Obligations*

In the domestic market, government debt service obligations of currently outstanding debt instruments extend to 2023, especially due to the



issuance of Treasury bonds in 2003 with an original maturity of 20 years, and Rupee loans in 1993 with an original maturity of 30 years.

As a large portion of external debt falls into the long-term category, the external debt service



obligations run up to 2051. The highest payment obligation is scheduled for 2012, as it includes the settlement of US dollar 500 million international sovereign bond issued in 2007.

## *Total Debt Service Cost*

The total debt service cost on both domestic and foreign borrowings amounted to Rs. 499 billion, an increase of Rs. 55 billion or 12 per cent in 2007 over 2006. This consisted of amortisation payments of Rs. 316 billion (63 per cent) and interest payments of Rs.183 billion (37 per cent). The total debt service cost as a proportion of government revenue was 88 per cent in 2007, showing an improvement of overall fiscal operations when compared to 93 per cent in 2006. This ratio is expected to be lower in the medium-term with the increase in the tenor of domestic debt and improvements in government revenue.



## 4. Market Operations in 2007

### Overview

Market operations in both primary and secondary markets during 2007 were affected by the high inflation and tight monetary policy measures adopted in the latter part of the year 2006. Even though the inflation decelerated during the first half of 2007, inflation expectations in the market continued to be high due to the unfavorable security environment and increase in imported commodity prices. As a result, a strong market preference was observed for shorter maturities throughout the year in both markets, and yield rates also showed an increasing trend throughout the year.

### Primary Market Operations

During the year, the Public Debt Department (PDD) continued its dual approach, i.e., auctions and direct placements, to mobilise funds from rupee sources by issuing debt instruments. In the Treasury bill programme, PDD had to re-issue maturing Treasury bills amounting to Rs. 768 billion and make new issues of Rs. 49 billion, totaling to Rs. 817 billion during the year. Out of this total, Rs. 388 billion was mobilised through 52 Treasury bill auctions, while the balance Rs. 429 billion was raised through direct placements. However, bids at two Treasury bill auctions had to be fully rejected in the middle of the year due to the unacceptably high rates quoted by the market. In comparison to 2006, the PDD placed higher reliance on direct placements due to the unfavorable market conditions that prevailed during the year.

In the Treasury bond programme, total funds mobilised in 2007 amounted to Rs. 401 billion. Out of 70 auctions conducted during the year, bids at

**TABLE 11**  
**PRIMARY ISSUE DETAILS (a)**

	Rs. billion		
	2005	2006	2007
<b>Treasury bills</b>	<b>486</b>	<b>628</b>	<b>817</b>
Auction	344	397	388
CBSL purchases	108	165	223
Placements	34	66	206
<b>Treasury bonds</b>	<b>230</b>	<b>310</b>	<b>401</b>
Auction	52	43	19
Placements	177	267	383

(a) Amounts in face value.

Source: Central Bank of Sri Lanka

47 were totally rejected due to unacceptably high rates quoted by the market. Therefore, only Rs. 19 billion was collected through auctions, while funds raised through direct placements amounted to Rs. 383 billion, including foreign investment of Rs. 49 billion. Lack of an active secondary market for long-term Treasury bonds, and limited base of large investors could be cited as major reasons for the high reliance on direct placements in the primary Treasury bond market.

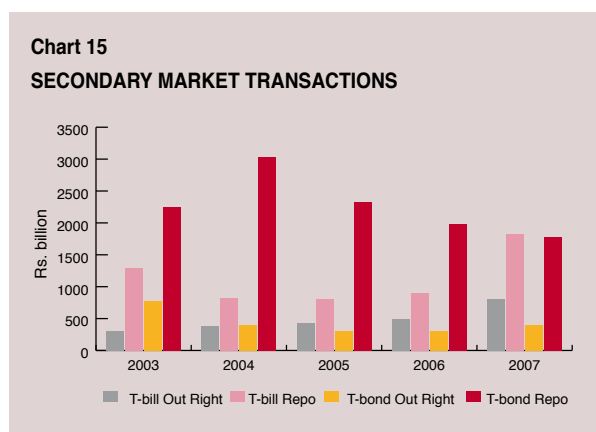
During the year SLDBs amounting to US dollar 50 million with a maturity of two years were offered through a competitive bidding process. The auction was oversubscribed by more than four times with bids amounting to US dollar 215.25 million. As the rate was attractive, the entire bids received were accepted at the rate of six months LIBOR plus a weighted average margin of 155 bps.

Yield rates in the primary rupee market increased continuously during the year except on two occasions. A slight decline was observed in mid April as a result of the impact of high demand for Treasury bonds from foreign investors and at the beginning of November 2007 due to the success of

the international sovereign bond issue in October 2007. Accordingly, Treasury bill rates for 91-364 days maturities increased by 697-853 bps. Treasury bond rates for 2-3 year maturities rose by 219 bps to 335 bps during the year 2007. The corresponding increases in 2006 were 268 bps and 251 bps, respectively.

### Secondary Market Operations

The overall secondary market operations showed significant improvement in 2007, a combined outcome of a remarkable increase in Treasury bill operations and a marginal decline in Treasury bond operations in the secondary market. Notable features were the significant increase in activities relating to Treasury bill outright purchases and repo transactions, and a sharp decline in Treasury bond repo transactions.



Secondary market trading volumes in Treasury bills increased by 89 per cent, while Treasury bond transactions declined by 5 per cent during the year, reflecting the market appetite for short-term securities. Although outright transactions in Treasury bonds increased by 31 per cent, repo

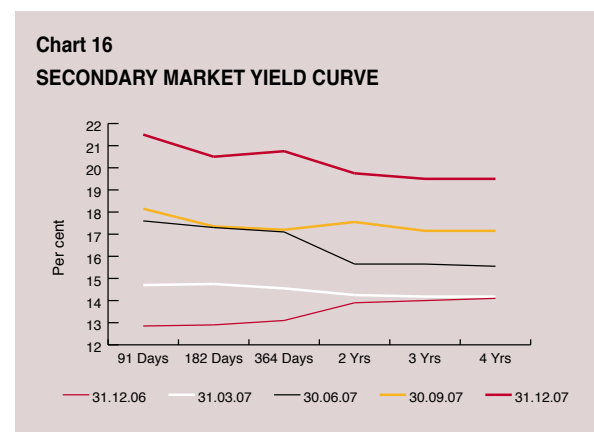
transactions decreased by 10 per cent, resulting in an overall reduction in operations compared to 2006.

### Turnover in the Secondary Market

The turnover ratio of government securities in the secondary market during 2007 was 13.2 times implying that a security had, on average, been traded 13.2 times in the secondary market during the year. In comparison, the turnover ratio in 2006 was 9.8 times.

### Secondary Market Yield Rates

In line with the upward movement in primary market yields, the secondary market yields on government securities too displayed an increasing trend in 2007, with a sharper increase during the latter part of the year. The market yield structure, which was around 13 per cent at the beginning of the year, increased gradually to around 19 per cent at the end of the year. This was the highest annual rise in the recent past. Treasury bill yields increased by 706 bps, 693 bps and 698 bps for 91 day, 182 day and 364 day maturities respectively, during the year, while those for Treasury bonds with a maturity period of 2-3 years increased in the range of 512-541 bps.



## 5. Public Debt Management in 2008

### ***Public Debt Management Policy***

As a part of the Central Bank's plan to develop the financial market, the public debt management policy of the Bank is expected to be further developed and strengthened in 2008 through the following;

- Introduction of a comprehensive mobilisation approach to reduce pressure on the domestic market;
- Conduct of awareness programmes to broaden the investor base;
- Strengthening of the risk management framework to maintain the risk at prudent levels;
- Introduction of new instruments to facilitate identified investor groups; and
- Strengthening of the intermediary system to develop the government securities market.

This would be done in order to enhance the efficiency of the debt market, while maintaining an appropriate balance between rupee borrowings and foreign currency commercial borrowings from local and external sources. Supplementing these strategies, the Central Bank would also further strengthen the intermediary participants in the government securities market, and continue with the debt consolidation process, while expanding the domestic and foreign investor bases in government securities market.

### ***Debt Management Strategy***

The medium-term debt management strategy will continue to be guided by the following objectives;

- Raising funds for the government at the least

possible cost, while ensuring the maintenance of prudent risk levels;

- Developing and strengthening the government securities market, while enhancing efficiency and maintaining stability to reduce cost of borrowing; and
- Developing a primary dealer system as an effective and efficient mechanism for raising public debt and creating a vibrant debt market.

Within the context of the medium-term public debt management strategy, the debt management strategy in 2008 will continue to seek to;

- Effectively implement debt management strategies in order to meet borrowing targets, while maintaining risks at prudent levels based on the strategic risk management benchmarks;
- Stimulate the development of the long-term yield curve and strengthen the government securities market;
- Improve accountability and transparency of public debt management;
- Ensure that government debt is serviced on time with 100 per cent accuracy, thereby preserving the default free nature of government securities;
- Strengthen the existing regulatory framework for debt management;
- Broaden and diversify the investor base by introducing new debt instruments, further expanding the local investor base at regional level, and attracting foreign investors to government securities market;

- Implement the primary dealer restructuring programme developed in 2007;
- Ensure that all investor transactions in the government securities market are recorded in the CDS; and
- Consolidate the public debt database.

Within the context of these diversified strategic objectives, increased emphasis will be placed on risk management in 2008 and beyond. The strategy in 2008 will seek to smoothen the maturity profile of the domestic debt portfolio. This is consistent with the objective of reducing refinancing risk and the bunching problem over the medium term.

PDD will continue to hold regular meetings with the Primary Dealers and conduct investor awareness programmes. This approach has proven to be mutually beneficial, fostering greater understanding by the domestic market players of the government's debt operations and debt management objectives. It has contributed to the achievement of the strategic objectives of reducing borrowing costs, diversifying the investor base and facilitating the development of the domestic capital market.

### ***Government Borrowing Requirement in 2008***

According to the Budget 2008, the total gross borrowing limit of the government for 2008, in terms of book value, amounts to Rs. 708 billion. Of the total gross borrowing programme, Rs. 231 billion is expected to be raised from foreign sources and the balance Rs. 458 billion from domestic sources.

According to the government revenue estimates for 2008, the leeway available for the government to raise funds through Central Bank Provisional Advances amounts to Rs. 15 billion. In addition, Rs. 19 billion has been allocated as risk provision to meet unforeseen expenses during the year. After deducting these two, the remaining Rs. 443 billion needs to be raised through the domestic borrowing programme.

The total net borrowing requirement of Budget 2008 amounted to Rs 297 billion. Of this total, Rs. 155 billion is expected to be raised from

**TABLE 12**  
**GOVERNMENT'S GROSS BORROWING REQUIREMENT** Rs. billion

Item	Rs. billion
Total revenue (Receipts)	800
Total expenditure (Payments)	1,508
O/w Risk provision	19
Borrowing limit approved for Budget 2008 by Parliament	708
Borrowing requirement net of risk provisions	689
O/w Foreign	231
Domestic	458
Total Debt Repayments	392
O/w Foreign	105
Domestic	287
O/w Dollar denominated payments	62

Source: Ministry of Finance and Planning

domestic sources and the balance to be raised from external concessionary and commercial sources. As resources available in the non-bank sector for the government borrowing programme are estimated at Rs.146 billion in 2008, the balance funding requirement of Rs. 9 billion is expected to be borrowed from the banking system. The external commercial borrowing programme is mainly targeted to mobilising funds by attracting foreign investors into the rupee denominated Treasury

**TABLE 13**  
**NET BORROWING REQUIREMENT** Rs. billion

Item	Rs. billion
Total Net Borrowing	294
Net Foreign Borrowing	139
Net Domestic Borrowing	155
O/w Non-Bank Financing	146
Bank Financing	9

Source: Ministry of Finance and Planning

bond market and the balance funding requirement through international capital markets.

### ***Borrowing Strategy***

The ability to raise the required funds for the government at a reasonable cost depends on the existence of a vibrant and dynamic market, for which the prerequisites include a realistic interest rate policy, competitive market and smooth exit mechanism through the secondary market. The strategic approach to meet the financing requirement of the government in 2008 has to be designed as a comprehensive domestic borrowing plan with borrowing mix from domestic rupee and

foreign currency sources, type of debt instruments, maturity structure and coupon rates for different maturities. In designing this, market imperfections need to be kept at low in order to encourage the long-term debt market developments in the economy.

Considering all these factors, the borrowing strategy for 2008 has been designed as described below. The main hypothesis under which the borrowing strategy was designed was the maintenance of the current economic policies. In addition, factors like the absence of significant external or domestic shocks, structural improvement of the economy and convergence of inflation to the desired target were expected in designing the borrowing strategy.

### ***Key Elements of the Issuance Strategy***

The borrowing strategy adopted by the government in the recent past will continue in 2008 with the objective that it mobilises funds at the lowest possible cost, while moving towards more market oriented debt instruments. Further, net borrowing through short-term debt instruments such as Treasury bills will be limited in order to lower the refinancing risk in the debt stock. Accordingly, in the light of the borrowing requirement of the government, issuance in 2008 will be mainly concentrated on Treasury bonds, primarily in the maturity segment of 3 year and above. As shown in the proposed mix of instruments, it is proposed to mobilise Rs. 362 billion (in book value terms) through Treasury bonds. In addition, Rs. 30 billion is expected to be raised through foreign investment in the primary Treasury bond market. In order to ensure that the government's borrowing requirement is met as cost effectively as possible and to contain interest cost through a competitive bidding system, subject to market conditions, the PDD will continue to conduct auctions for the issuance of Treasury bills and bonds in 2008.

In the foreign currency domestic borrowing programme, rollover of maturing SLDBs and FCBU's will continue in order to mitigate the pressure on the rupee market. In addition, it would be used to meet any shortfalls in external commercial borrowings. Domestic interest rate cuts by the US Federal Reserve Bank have led to

a sharp decrease in interest rates in international capital market. Historical experience shows that the downward cycle in interest rates often lasts several years and hence the cost of servicing existing floating rate commercial debt denominated in foreign currencies is expected to decrease significantly in the medium-term. With a careful analysis of these developments, government could consolidate the benefit from foreign currency commercial borrowings in the high rupee interest rate scenario.

Total amortisation (Rs. 1.5 billion) and interest (Rs. 15.8 billion) payments on Rupee loans in 2008 are estimated at Rs. 17.3 billion. Considering the low investor preference for Rupee loans, the issuance of Rupee loans could be suspended in 2008. The negative financing contribution resulting from this reduction is planned to be covered by issuing Treasury bonds.

Budget 2008 has increased the Treasury bill limit by Rs. 75 billion to Rs. 375 billion. It is proposed to issue Rs. 10 billion of new Treasury bills (book value) in 2008. The timing of issue would be based on the needs of the Treasury cash flow, while providing flexibility in the maturity structure of other debt instruments.

US dollar denominated amortisation payments on SLDBs during 2008 amount to US dollar 320 million. In addition, interest payments for existing SLDBs amount to Rs. 5.6 billion. As excess foreign currency funds are available in the domestic market, it is planned to re-issue maturing SLDBs of US dollar 320 million in order to ease the pressure on the domestic rupee borrowing programme.

**TABLE 14**  
**GOVERNMENT'S GROSS DOMESTIC BORROWING PROGRAMME -2008**

	Rs. billion
<b>Instrument</b>	<b>Book Value</b>
Treasury bonds	362
New Treasury bills	10
Rupee loans	-
SLDBs	38
FCBU's	34
CBSL Advances	15
<b>Total</b>	<b>458</b>

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

## ***Maturity Pattern***

The existing maturity structure of outstanding government securities at end 2007 shows that 41 per cent of existing domestic debt is estimated to be maturing within a one-year period, while 73 per cent is estimated to be maturing within a 3 year period.

Considering this maturity structure that leads to higher rollover risk impact on the cost of government borrowing in the future, it is planned to issue government securities with longer maturities to gradually lengthen the average maturity of the portfolio. Therefore, it is expected to issue a larger share of Treasury bonds with longer maturity in 2008 to smoothen the maturity profile in the future. In addition, introduction of new series would be limited to benchmark series with selected maturity structure, while balance issues would be matched with the re-opening of existing on-the-run bond series. This measure aims at contributing to the development of the domestic capital market by reducing fragmentation and improving liquidity in the debt market.

## ***Re-opening Policy of Treasury Bond Series***

With a view to developing a benchmark series and improving the liquidity in the secondary market, PDD has adopted a re-opening policy to address high fragmentation in the bond market by reducing the number of Treasury bond series in the recent past. As a result, the number of Treasury bond series has come down to 41 by end 2007 from more than 92 at end 2003. According to the maturity profile, 13 series will mature in 2008. In order to

improve the liquidity in the secondary market, a further reduction of the number of bond series is required over the medium-term.

This strategy would help to lower the number of bond series to a reasonable number in the medium term, targeting a reduction to 30 by end 2010, thereby improving the liquidity and developing a benchmark series and benchmark yield curve in the bond market.

## ***Measures to Increase the Maturity Structure***

Although the reduction in the number of bond series helps to enhance liquidity in the bond market, it will have serious consequences due to increasing series (daily) bunching problems and resulting in higher rollover risk. About 77 per cent of the total Treasury bonds maturing in 2008 will mature on 7 days in the year. A similar daily bunching problem continues even beyond 2008.

Considering the necessity of reducing number of bond series in the domestic market, PDD anticipates to introduce a more comprehensive and combined approach to address the bunching issue in 2008, and beyond. In most of developed debt markets, “Buyback Operations”, i.e., repurchase of debt prior to its maturity, have become a popular technique in this regard. This technique is expected to be introduced with the stabilization of the debt market. The other option available to address the bunching problem is the introduction of pre-funding arrangements. Under this arrangement, required funds are collected largely before the bunching date, in order to avoid heavy borrowings on the bunching date.

**TABLE 15**  
**MATURITY PROFILE OF GOVERNMENT DOMESTIC DEBT (a)**

Maturity Year	Instrument					Total	% to Total Stock
	T-bill	T-bond (b)	R-loan	SLDB	FCBU		
2008	307	253	2	35	75	671	41
2009	-	287	20	52	15	373	23
2010	-	113	25	-	5	142	9
2011	-	108	5	-	-	113	7
2012	-	84	4	-	-	88	5
2013	-	154	3	-	-	157	10
Beyond 2013	-	19	74	-	-	93	6
<b>Total</b>	<b>307</b>	<b>1,019</b>	<b>132</b>	<b>86</b>	<b>94</b>	<b>1,638</b>	<b>100</b>

(a) Based on the existing debt stock as at end 2007, CBSL advances and other non-instrument debt (such as O/D, CIPC, Import bills) are excluded.

(b) Exclude Treasury bond issued to foreign investors

Source: Central Bank of Sri Lanka

## 6. Risk Management in Public Debt

### *Management of Risk*

The overall objective of public debt management is to ensure that the financing needs of the government are met at the lowest possible cost, subject to a prudent degree of risk. Therefore, measurement and management of risks in government debt are key aspects in relation to meeting this overall objective.

The risk associated with the public debt portfolio is defined as the possibility of an unexpected variation in the level of debt service payments. Risk management is the process by which the possibility of such variations are minimised within the constraints of the debt portfolio. Risk management comprises of various types of risks and not all of them carry the same degree of vulnerability. Currently, the public debt portfolio of Sri Lanka faces refinancing (rollover) and market (interest rate and exchange rate) risks more often than the other types of risks, as described below. Therefore, the Medium Term Public Debt Management Strategy developed in 2007 has given a high priority on risk management mainly on domestic debt by setting medium term targets for selected risk indicators.

### *Types of Risks*

#### **Refinancing Risk**

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. In addition, reopening of existing Treasury bond series resulted in large amounts of Treasury bonds being issued at different

times, to mature on the same date. As at end 2007, 40 per cent of existing domestic debt is estimated to be matured within a one year period, while 71 per cent is estimated to be matured within a three year period. This carries the risk that this maturing debt might have to be rolled over at higher unknown future interest rates, or the likelihood of being unable to obtain new financing when debt matures.

This risk, referred to as the **rollover risk** or **refinancing risk**, is measured by two indicators, namely the average time to maturity (ATM) and maturity structure of the portfolio measured as a share of short-term debt to the total debt. Compared with the previous year's levels, the ATM showed a marginal improvement, while the other indicator remained unchanged at the end of 2007.

**TABLE 16**  
**RISK ASSESSMENT INDICATORS AND MEDIUM TERM TARGETS FOR SRI LANKA**

Indicator	2006	2007	2010
<b>Refinancing Risk Indicators</b>			
Average time to maturity of domestic debt (ATM)	2.4 yrs	2.5 yrs	3.5 yrs
Short term domestic debt/ total domestic debt	20%	21%	10%
<b>Interest Risk Indicators</b>			
Duration of domestic debt	1.8 yrs	1.8 yrs	2.5 yrs
Floating debt / Total debt	6%	11%	20%
Average time to re- fixing of domestic debt (ATR)	2.3 yrs	2.3 yrs	3.0 yrs
<b>Foreign exchange Risk Indicators</b>			
Foreign investments in Treasury bonds /Total bond stock	-	4.6%	15%
Share of foreign currency commercial debt / Official reserves	66%	68%	< 50%
Share of external debt / Total debt	43%	44%	35%

Source: Central Bank of Sri Lanka

A number of policies have been adopted to reduce the rollover risk by spreading the redemptions smoothly across a relatively long horizon. These measures include buy-back operations, debt consolidation and re-opening of existing bond series to reduce the portfolio concentration in the short-term and to distribute refinancing requirements. With the successful implementation of these policies, the refinancing risk of the debt portfolio is expected to be reduced over the medium-term.

### **Interest Rate Risk**

Changes in interest rates affect the cost of debt service payments when the rates are reset at the beginning of each interest period for variable interest rate debt or when fixed rate debt is re-issued at maturity. This type of risk is called **interest rate risk** and is currently assessed on the basis of three indicators, viz, duration, average time to re-fixing (ATR) and ratio of floating interest rate debt to fixed interest rate debt.

During 2007, the duration of the domestic debt portfolio remained almost unchanged at the level of 1.8 years, compared with the medium-term target of 2.5 years in 2010. Issue of Treasury bonds with relatively shorter maturities and higher borrowing through Treasury bills due to high and rising interest rates resulted to remain the duration of the debt stock unchanged in 2007. The shorter-than-desired duration indicates relatively higher interest rate risk on the debt portfolio, showing the necessity of extending the maturity of the portfolio of new debt to be issued in 2008 and in the medium-term.

The duration of the portfolio is supplemented with ATR of the domestic debt portfolio, which measures the average time in which debt coupons are refixed<sup>1</sup>. The ATR of the domestic debt portfolio marginally increased to 2.4 years in 2007 from 2.3 years in 2006. Compared with the medium-term ATR target of 4 years, the medium-term borrowing strategy needs to be focused to raise more funds through long-term fixed income instruments such as Treasury bonds.

With the decline in the share of concessional debt to total debt to a level below 90 per cent in

2007, and increased dependency on commercial borrowings like syndicated loans and sovereign bonds issued in the international capital market, it has become important to calculate the interest rate risk indicators to cover the total public debt portfolio<sup>2</sup>. The share of floating interest rate debt to fixed interest rate debt in the total portfolio has increased to 16 per cent as at end 2007, from 6 per cent at end 2006. This increase can be attributed to the increased borrowings from SLDBs and FCBU's on floating interest rates. The medium-term target for this ratio is set at 20 per cent, in view of the likely decline in fixed interest rate concessional debt in the medium-term and increased dependency on commercial borrowings.

### **Exchange Rate Risk**

Debt denominated in foreign currencies adds volatility to debt service payments in terms of the rupee, due to possible changes in the cross currency exchange rates. The risk on this account is known as the exchange rate risk, which is assessed for the Sri Lanka government debt portfolio through the ratio of debt stock denominated in foreign currencies to the total debt stock, the share of foreign investments in Treasury bonds to the total Treasury bond stock and the share of foreign currency denominated commercial debt to the official reserves. These ratios are constantly monitored and compared with the medium-term targets. The share of foreign investments in Treasury bonds to the total Treasury bond stock at the end 2007 reached 4 per cent, compared with the maximum limit of 10 per cent. In the medium-term, this limit is expected to increase to the target of 15 per cent to broaden the investor base. The share of foreign currency denominated commercial debt in 2007 was below 50 per cent of the official reserves and this ratio is in line with the medium-term target. In contrast to the expected reduction towards the medium-term target of 35 per cent, the ratio of external debt to the total debt increased to 45 per cent in 2007

1 For zero-coupon bonds or bonds with fixed coupon, the ATR is the residual life of the bonds. For floating rate bonds, the ATR is the time left until fixing of the next coupon.

2 Expansion of calculation of duration and ATR for the total portfolio and setting up appropriate target bands for these indicators are being considered.



from 43 per cent in 2006. Foreign commercial borrowings such as foreign investments in Treasury bonds and the issue of sovereign bonds in the international capital market in 2007 caused this increase.

### **Liquidity Risk**

The lack of a deep secondary market for government securities in Sri Lanka, could result in investors facing the risks in converting bonds into cash quickly or without loss of a value. A number of measures have been taken to minimise this risk, known as liquidity risk. These include measures to widen the investor base, reduce the number of off-the-run issues and introduction of a benchmark series to the market in 2007.

### **Operational Risk**

Apart from above risks, debt operations would face operational risk such as those arising from

transaction errors, failure of internal controls, legal risks, security breaches and disasters affecting normal business activities. The operational risk associated with the public debt portfolio has been minimised by adopting measures such as well defined and clearly documented procedures, segregation of various functions of public debt management and adequate internal controls. A Business Continuity Plan (BCP) has been prepared to be implemented in the event of major business disruption or disaster. This includes a disaster recovery site from which key public debt management activities could be continued. Further, maintaining a comprehensive BCP is compulsory for Primary Dealers in order to minimise such risk. The legal risk is minimised by using standardised contracts, e.g., in the case of the sovereign bond issue or swap transactions.

## 7. Sustainability of External Debt

### *Debt Sustainability*

Debt sustainability is generally defined as the ability of a country to service its financial obligations without compromising its long-term goals and objectives. International practices mainly focus on the sustainability of external debt, with regard to which government has very limited alternative options. Sustainability of external debt could be assessed with the help of standard indicators. Monitoring and analysing such indicators allow the government to assess debt sustainability and implement any appropriate corrective policy measures.

### *External Debt Sustainability Indicators*

A thorough assessment of the sustainability of external debt needs a whole range of different indicators. Each indicator has advantages and disadvantages and there is no single indicator to assess the overall sustainability of external debt of any economy. Instead, once expertise is achieved, it may be easy to identify more important indicators from less important ones. Commonly used external debt sustainability indicators can be classified into five groups, namely, liquidity monitoring, debt burden, debt structure, net present value (NPV) and dynamic indicators. A brief description of these indicators is found in Box 3.

### *Analysis of External Debt Sustainability Indicators*

The share of external debt to GDP in Sri Lanka has been on a gradual declining trend from a peak level of 62 per cent in 1989 to 38 per cent at end 2007. Further, the share of external debt to total debt has

also been on a declining path from 57 per cent in 1989 to 46 per cent in 2007. However, the country's total external debt to GDP ratio still remains above the internationally accepted comfortable level. Hence, it would be useful to assess the sustainability of the external debt portfolio.

The majority of the selected external debt indicators calculated for the period 2005-2007 suggest a level of resilience in the external debt position.

The liquidity indicators on external debt sustainability measure a country's capacity to settle its liabilities as they fall due. Compared with their critical values, these external liquidity indicators show a favorable external liquidity position in Sri Lanka, where debt service and interest service payments accounted for only 6 per cent and 2 per cent of exports of goods and services respectively in 2007. There is no short-term external debt outstanding in the government debt stock.

The decline of the external debt burden indicator, DOD/GNP ratio shows that Sri Lanka has achieved improvement in sustaining its external debt over the time. The indicator shows that Sri Lanka has remained as a moderately indebted country during the period 2005-2007. This ratio has declined to 38.3 per cent in 2007 from 38.9 per cent in 2006. Comparing the DOD/XGS ratio with its critical values shows that Sri Lanka remained as a less indebted country in 2005-2007. This ratio has increased marginally to 102.4 per cent in 2007 from 101.6 per cent in 2006.

The maturity structure of external debt in Sri Lanka is favorable with no short - term debt outstanding. Further, the rollover ratio shows that the servicing

## Box 3 - External Debt Sustainability Indicators

### *Liquidity Monitoring Indicators*

- i **Debt Service Ratio:** A ratio of external debt service payments (principal and interest) of medium and long-term debt to exports of goods and non factor services, (XGS) including workers' remittances and compensations of employees. This ratio indicates the proportion of XGS that is absorbed for external medium to long-term debt service payments.
- ii **Interest Service Ratio:** A ratio of interest payments to XGS.
- iii **Short-term Debt Ratio:** A ratio of external debt outstanding with an original maturity of one year or less at the end of the preceding year to XGS. This ratio indicates the proportion of XGS that would be absorbed if all the short-term external debt outstanding at the end of the preceding year is paid without rollover.
- iv **Total Debt Service Ratio:** A ratio of external debt service payments of total debt to XGS. This ratio indicates the proportion of XGS that is absorbed for total external service payments.

### *Debt Burden Indicators*

- i The ratio of total external debt outstanding and disbursed (DOD) to Gross National Income (GNI). This ratio compares the total outstanding debt to the size of the economy.
- ii The ratio of total external DOD to XGS. This ratio measures the ability of the country to repay its external DOD from earnings on XGS in a single year.

### *Debt Structure Indicators*

- i **Rollover Ratio:** The ratio of principal repayments to disbursement. This ratio could be estimated separately for short-term and long-term debt.
- ii **Short-term Debt to Total DOD:** This ratio measures the vulnerability of a country's debt situation resulting from its debt structure.

### *NPV Indicators*

- i **NPV of Debt Service to GNI:** This indicator compares the current cost of future debt service obligations to the overall level of economic activity. Only the current year's NPV is compared to the average GNI of the current and the preceding two years.
- ii **NPV of Debt Service to XGS:** This indicator compares the current cost of future debt service obligations to the capacity of the country to generate foreign exchange receipts. Only the current year's NPV is compared to the average XGS of the current and preceding two years.

### *Dynamic Indicators*

- i A ratio of average rate of interest of debt portfolio to rate of growth of exports. This indicator determines whether debt services are growing faster than exports.
- ii A ratio of average rate of interest of debt portfolio to rate of growth of GNI. This indicator determines whether debt service is growing faster than the economy.

## Critical Values of Indicators

To assess debt sustainability, the debt indicators are compared with indicative debt burden thresholds for corresponding debt indicators. A set of commonly used 'vulnerability thresholds', published by the United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP), is given below. This set of critical values is based on the World Bank's long-term monitoring of developing countries' ability to service their external obligations. However, if indebtedness criteria are close to the stated limits the outcome should be interpreted with caution.

### CRITICAL VALUES OF EXTERNAL DEBT INDICATORS

Indicator	High Indebted	Moderately Indebted	Less Indebted
DOD/GNI	>50%	>30% and < 50%	<30%
DOD/XGS	>275%	>165% and <275%	<165%
TDS/XGS	>30%	>18% and <30%	<18%
INT/XGS	>20%	>12% and <20%	<12%
NPV/GNI	>80%	>48% and <80%	<48%
NPV/XGS	>220%	>132% and <220%	<132%

Source: Manual on Effective Debt Management, UN-ESCAP, 2006.

TABLE 17  
EXTERNAL DEBT SUSTAINABILITY INDICATORS<sup>(a)</sup>

Description	Per cent		
	2005 <sup>(b)</sup>	2006	2007
<b>Liquidity Monitoring Indicators</b>			
Debt Service Ratio (TDS/XGS)	2.9	5.7	6.3
Interest service Ratio (INT/XGS)	0.7	1.5	1.7
Short term Debt Ratio	-	-	-
Total Debt Service Ratio (TDS/XGS)	2.9	5.7	6.3
<b>Debt Burden Indicators</b>			
DOD/GNP	39.5	38.9	38.3
DOD/XGS	96.7	101.6	102.4
<b>Debt Structure Indicators</b>			
Rollover Ratio (Principal Pmts/ Disbursements)	28.4	49.8	37.5
Short term Debt / Total DOD	-	-	-
<b>NPV Indicators</b>			
NPV of Debt Service/GNP	37.9	40.1	39.6
NPV of Debt Service/XGS	104.3	112.7	122.3
<b>Dynamic Indicators</b>			
Avg. rate of Interest/rate of growth of export	8.5	22.9	17.9
Avg. rate of Interest/rate of growth of GNP	11.7	24.0	27.9

Source: Central Bank of Sri Lanka

(a) Based on central government debt.

(b) Debt Service Payments were low due to tsunami related debt moratorium.

of external debt portfolio of Sri Lanka is less vulnerable due to larger expected disbursements relative to medium and long-term principal repayments in the debt structure.

Debt indicators based on nominal stock of debt may mask, to a certain extent, the actual position of debt and hence possible debt problems in Sri Lanka as Sri Lanka's external debt has a large portion of concessional foreign debt. However, the calculation of external debt in NPV terms by discounting the future stream of debt service payments with appropriate discount rates captures the concessionality of outstanding debt obligations. The NPV indicators in comparison to critical values show that the country is classified as a less indebted country.

The dynamic indicators show how the debt burden evolves over the time, given the current stock of debt and average interest rates. Further, these ratios show how the debt burden ratios would change in the absence of repayments or new disbursements, indicating the vulnerability of the debt burden. The dynamic indicators identify that the debt service

## Box 4 - Debt Indicators of Selected Countries <sup>(a)</sup>

Indicator	Sri Lanka	India	Pakistan	Bangladesh	Nepal	Malaysia	Thailand	Philippines	Indonesia	Vietnam
EDT / XGS (%)	116.0	n.a.	81.9	128.1	128.8	30.6	39.2	103.8	n.a.	52.2
EDT / GNI (%)	49.3	15.4	68.1	30.0	44.3	41.1	30.3	57.3	49.7	37.7
TDS / XGS (%)	4.5	n.a.	17.5	5.3	4.6	5.6	14.6	16.7	n.a.	2.6
INT / XGS (%)	1.5	n.a.	5.6	1.6	1.3	1.3	1.2	5.9	n.a.	1.2

(a) Latest available data in 2005.

Source: Global Development Finance, The World Bank, 2007.

Note: This analysis includes country's total debt stock (EDT) to the external sector, including public, publicly guaranteed long-term debt, private non-guaranteed long-term debt, use of IMF credit and short-term debt.

payments are growing more slowly than the growth of exports and the growth of the economy. Compared with the level that prevailed in 2006, the ratio of average interest rate on outstanding debt to the growth rate of exports has decreased to about 18 per cent in 2007, showing an improvement of the sustainability in government debt. This could be attributed to the significant export growth recorded in 2007.

The average interest rate to rate of growth of GNI ratio has increased to 28 per cent in 2007 from 24 per cent in 2006 due to the combined effect of the marginal increase of the average rate of interest and decline of the GNI growth in 2007, in comparison to 2006.

### **Overall Debt Sustainability**

In order to assess the overall debt sustainability, two aggregate indicators are calculated. The first indicator, overall debt to GDP ratio has continued to decline to 85.8 per cent in 2007, reflecting improvements in Sri Lanka's debt sustainability. The second indicator to assess overall sustainability, the ratio of external debt service payments to international reserves, shows a favorable external liquidity position in Sri Lanka as official reserves adequately cover all external debt service payments. This ratio has marginally increased to 24 per cent in 2007 from 23 per cent in 2006.

According to these indicators, Sri Lanka could be classified as a less indebted country. The improvement of debt burden ratio indicator (DOD/

**TABLE 18**

### **OVERALL DEBT SUSTAINABILITY**

Per cent

Indicator	2005	2006	2007
<b>Overall Debt Sustainability</b>			
Debt/GDP	91	89	86
Share of foreign debt service payments /Official reserves	11	23	15

Source: Central Bank of Sri Lanka

GNP), which rank Sri Lanka under the moderately indebted category, would help to further strengthen the external debt sustainability prospects of the country in the future.

Debt sustainability prospects do not change linearly and a country may experience sudden deterioration in external sustainability during times of any financial distress and poor macroeconomic conditions. Hence, debt sustainability assessments can change rapidly, with factors such as increasing interest rates and sharp depreciations of the currency having particularly large effects on the indicators. In other words, the fact that Sri Lanka is classified as less indebted country does not necessarily mean that it will not face debt sustainability problems in the future. Therefore, a comprehensive and forward looking long-term debt management strategy is necessary to minimise such risks.

The analysis of external vulnerability requires a wide coverage of data including government loan guarantees, contingent liabilities etc. However, those liabilities of the government were not considered in this analysis as most of them are relatively small.

## 8. Performance of Primary Dealers

### *Financial Performance*

#### **Capital Base**

The Primary Dealer (PD) industry had a capital base of Rs. 5,976 million by end 2007, an increase of Rs. 891 million over end 2006. The Capital Adequacy Ratio (CAR) of the industry was high, but showed a reduction compared to 2006. The CAR was at 35.2 per cent by end 2007 as against 44.3 per cent as at end 2006. As the regulatory required CAR stands at 8 per cent, the high CAR indicates a risk averse strategy.

#### **Portfolio**

The portfolio of the PD industry consists of three categories, namely, trading portfolio, investment portfolio and the reverse repurchase portfolio. PDs are required to adjust their trading portfolio to the market value on a monthly basis whereas the investment portfolio does not require such an adjustment. The PD industry had a trading portfolio of Rs. 30,150 million at end 2007 compared to Rs. 24,414 million at end 2006 which was an increase of 23.5 per cent. The investment portfolio too increased by 57.6 per cent from Rs.4,057 million to Rs. 6,395 million. In contrast, the reverse repo portfolio decreased by 24.9 per cent, to Rs. 16,213 million.

#### **Profitability**

The PD industry recorded Rs.1,000 million pre-tax profits during 2007, almost double the profits of Rs. 548 million in 2006. Despite the continuously rising interest rates, the PDs succeeded in earning high profits with effective portfolio management

and by actively engaging in secondary market activities. Four PDs, viz, two state bank owned PDs, one private bank owned PD and a non - bank PD company, recorded individual profits in excess of Rs.100 million. The Return on Equity (ROE) based on pre-tax profits was 18.4 per cent for 2007, whereas the industry had earned only a 11.2 per cent return in 2006. The ROE of the industry in 2007 was above the annual average yield rate in the Treasury bill market.

The PD industry recorded a total income of Rs. 7,537 million during 2007 as against Rs. 5,267 million in 2006, an increase of 43 per cent. The main source of income for the PD industry was the interest income, which during 2007 accounted for 97 per cent of total income.

### *Review of External Operating Environment*

#### **Stress Testing**

Stress testing is carried out to analyse the sensitivity of the PD portfolio to changes in the interest rate and its impact on the capital base. The modified duration of the PD industry stood at 0.6 as at end 2007, when compared to the corresponding figure of 0.5 at end 2006. This shows the preference of PDs to hold securities with shorter maturities in a rising interest rate scenario. This could be considered as an indicator to the borrower of increasing refinance risk. The outcome of the stress test shows a 2.9 per cent capital erosion equivalent to Rs.171 million resulting from a 100 bps increase in the market interest rates. At end 2006, the risk of capital erosion from a 100 bps increase in interest

**TABLE 19**  
**PRIMARY DEALER PERFORMANCE**

Rs. million

Financial Indicator	2005	2006	2007
Profit Before Tax	363	548	1,000
No. of Loss Making PDs	2	3	1
Capital Base	4,452	5,086	5,976
Return on Equity (per cent)	8.3	11.2	18.4
Capital Adequacy (per cent)	9.7	44.3	35.2
Capital Leveraging Times	8.2	8.3	7.3
Repo/Assets Ratio (per cent)	77.2	81.7	77.5
Total Income	4,728	5,267	7,537
Total Portfolio	42,887	47,204	52,759
Repo	35,588	40,794	42,047
Gap Analysis (2-7 Days)	-4,871	-5,821	-3,445
Capital Erosion % (100 bps Increase in Int. Rate) – Stress Test	-3.5	-2.3	-2.9
<b>Secondary Market Transactions</b>	<b>3,886,965</b>	<b>3,670,572</b>	<b>4,801,608</b>
Treasury bills Total	1,247,082	1,392,128	2,637,197
Treasury bonds Total	2,639,883	2,278,445	2,164,411

Source: Central Bank of Sri Lanka

rate was only 2.3 per cent or Rs.121 million. This marginal increase was a reflection of the higher modified duration in 2007.

### Gap Analysis

Gap analysis measures short-term maturity mismatches and funding requirements of individual PD as well as the industry as a whole. The analysis also provides information on the effect of the maturity mismatch on market interest rates. The liquidity conditions of individual PDs are also analysed to examine the impact of the mismatch.

The PD industry reported a sharp reduction in the cumulative negative mismatch up to one month to Rs. 8,022 million at end 2007 from Rs.15,616 million at end 2006. Accordingly, the cumulative gap up to one month as a percentage of the total at end 2007 declined to 15 per cent from 31 per cent at end 2006. The cumulative negative maturity mismatch up to 7 days too had followed a similar pattern and had decreased from Rs. 5,821 million at end 2006 to Rs. 3,445 million at end 2007. The overall reduction of the negative gap reflects the adjustments of the PD portfolio in a rising interest rate scenario to lower their cost.

### Regulatory Measures

PDs were permitted to participate in secondary market transactions with the CBSL through its Open Market Operations (OMO). This facility was

curtailed in 2006 as a part of the tight monetary policy stance adopted by the CBSL to combat rising inflation. However, in August 2007, this window was re-opened to reduce the fluctuations in the interest rate structure. Accordingly, the CBSL makes available reverse repurchase facilities for participants at the CBSL policy rates, if there is a liquidity shortage in the system.

From the commencement of the Scripless Securities Settlement System (SSSS) and the Central Depository System (CDS) in 2004, the aim was to record the legal ownership of all government securities transactions in the CDS. This facility was provided to all system participants through the Society for Worldwide Inter Financial Telecommunication (SWIFT). However, given the costs, there was a reluctance to record short-term transactions in the CDS. In order to ensure the recording of legal ownership of all transactions, the CBSL introduced a Central Bank's Wide Area Network (WAN) based application for the participants in LankaSecure at zero cost, and requested them to transfer all customer outright and repo transactions with a maturity up to one month and with a value equal to or less than Rs. 5 million to the CDS through this network. This system was introduced with effect from 01 October 2007.

Considering the high vulnerability to interest rate risk, the necessity of diversifying the PD industry

was highlighted by the PDs and recognised by the CBSL. During the year, preliminary efforts were undertaken to re-structure the PD system. This would change the concept of dedicated primary dealership and would enable PDs to engage in some other activities such as trading in unit trusts and shares and also engaging in fee based activities. After necessary legal amendments are brought in, this is expected to be implemented in 2008.

### ***Primary and Secondary Market Participation of Primary Dealers***

PDs are entitled to bid at the primary auctions conducted by the PDD. During 2007, the three state owned PDs dominated the primary auctions by recording a participation level of 51 per cent at Treasury bill auctions and 68 per cent at Treasury

bond auctions. In 2006, the primary auction participation level of state owned PDs was higher at 64 per cent and 77 per cent for Treasury bills and Treasury bonds auctions respectively. Therefore, over the year, the effective auction participation of non-state sector PDs had increased from 36 per cent to 49 per cent with respect to Treasury bills and from 23 per cent to 32 per cent with respect to Treasury bonds.

Secondary market transactions of PDs have increased by 31 per cent in 2007 compared to 2006. A significant increase of 90 per cent in Treasury bill transactions had contributed to the increase in secondary market transactions. In contrast PDs participation in the Treasury bond transactions in the secondary market had decreased by 5 per cent mainly due to investor preference for short-term maturities.

### **Box 4 - Scripless Securities Settlement System (SSSS) and Central Depository System (CDS)**

The Central Bank of Sri Lanka (CBSL) introduced Scripless Securities Settlement System (SSSS) in early 2004 and became the first country in the South Asian Region to implement a Real Time Gross Settlement (RTGS) system and a SSSS integrated to the RTGS system enabling real time settlements of securities trading by electronic means. The purpose of the SSSS is to avoid involvement of paper based certificates by introducing an electronic system in which scripless securities are traded and settled. The SSSS is a computer network in which government securities in scripless form are traded and information recorded on an electronic system. Under the SSSS, settlement and recording of government securities are carried out electronically on a centralised computer system. In order to record trade information of scripless securities, a system known as a “**Central Depository System**” (CDS) called as “**LankaSecure**” has been established in the Public Debt Department (PDD). A CDS is a place where the records of government scripless securities are kept in a computerised system. This depository maintains all information on trades and ownership of scripless government securities with details recorded to the level of individual investors. The transfer of ownership of scripless securities is recorded electronically in the CDS according to the instructions received from the participants, i.e., Primary Dealers (PDs) and Licensed Commercial Banks (LCBs) etc. Currently, Treasury bills, issued under the Local Treasury Bill Ordinance (LTBO) and Treasury bonds issued under the Registered Stock and Securities Ordinance (RSSO) are eligible to trade in the SSSS and particulars relating to trades of scripless securities are being maintained in the CDS. LCBs and PDs who are known as ‘dealer direct participants’ are allowed to maintain and operate accounts in the CDS on their behalf and on behalf of their customers. Employees’ Provident Fund (EPF) which is known as a ‘direct participant’ is permitted to maintain accounts only on their behalf. PDs and LCBs are important intermediaries in the system.



Being custodians for their customers in LankaSecure, they have the following responsibilities,

- To record promptly and accurately the name, address and National Identity Card (NIC) Number/ Company Registration Number or other identifying number approved by the Central Bank of their customers in LankaSecure when the customer obtains legal ownership of a security;
- To record promptly and accurately in LankaSecure ownership or any change of ownership or owner details of a security within their securities holdings;
- To account and make payment to their customers for any coupon or maturity proceeds due to them and;
- To effect transaction on their customers' behalf without breaking any system rules.

Under the SSSS all payments due on scripless securities will be made to the beneficial owners through PDs and LCBs via RTGS. Payments due to beneficial owners are estimated prior to the payment date automatically by CDS (LankaSecure). These due payments will be credited to the account of LCBs and PDs by whom the transfer payments have to be made to respective beneficial owners. In order to make these payments, it is a requirement to register the correct name and address of the beneficial owners in the system. When the payments are due LankaSecure will issue a statement to beneficial owners notifying the payments. It is an obligation to participatory institutions to credit these amounts to beneficial owners correctly and immediately.

LankaSecure will issue following three statements to an account holder.

- (a) A monthly transaction statement confirming the transactions during the particular month.
- (b) A holding statement confirming the balance as at 30 June and 31 December.
- (c) A statement confirming the payments (interest and maturity) made on behalf of the owners.

Statements issued by LankaSecure will provide official confirmation of the securities holdings or transactions that took place. These statements are mailed to the addresses of the beneficial owners as registered in the LankaSecure by the dealer direct participants. However, these statements are not instruments which can be used for trading.

LTBO and RSSO were amended in 1995 to facilitate establishment of the SSSS and the CDS. These amendments provided for issue of Treasury bills and Treasury bonds in scripless form. Legal amendments to Monetary Law Act in 2002 provided for validity of electronic transactions, maintenance of electronic records and recording of title in a depository for scripless securities. In addition to these legislative amendments, system rules, procedures and regulations issued to market participants so far for operations of the SSSS and the CDS are also a part of legal arrangements.

## 9. Annex

### *1. Debt Market Development*

#### **Important Events in the Debt Securities Market**

- 1923 - Introduction of Treasury bills for the first time
- 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
- 2001 - Issuance of SLDBs
- 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 index linked bonds
- 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
- 2007 - Opening of retail outlets to sell government securities
  - Introducing a Wide Area Network to record small value transactions in the Central Depository System
  - Re allowed PDs to access CBSL repo window
  - Increased share of foreign investments in Treasury bonds up to 10 per cent
  - Issuance of sovereign bond to international capital market

## 2. Institutional Framework for Public Debt Management

### Government Institutions Responsible for Public Debt Management

Several government institutions are responsible for public debt management and debt services. The overall annual borrowing limit is determined by Parliament and it is included in the annual Appropriation Act. According to the given borrowing limit, the Ministry of Finance has the authority to raise debt. The government has delegated this authority to the CBSL. The Public Debt Department of the CBSL is responsible for raising and managing the central government debt on behalf of the government.

In order to determine the borrowing programme for the forthcoming month and to ensure that the Treasury's cash flow requirements are met and borrowing limits are maintained, the Domestic Debt Management Committee (DDMC) meets once a month. The committee consists of officials from the CBSL and the Treasury. To ensure effective government debt management and cash flow operations, the PDD works in close co-operation with the Treasury Operations Department of the Government Treasury.

#### CENTRAL GOVERNMENT DEBT MANAGEMENT – RESPONSIBLE INSTITUTIONS

<b>Parliament</b>	Responsible for setting annual borrowing limit as part of annual Appropriation Act
<b>Central Bank</b>	<b>Government Treasury</b>
<p><b>Public Debt Department (PDD)</b></p> <ul style="list-style-type: none"> <li>• Mobilisation of funds from domestic sources and external non-concessionary commercial sources for government budget</li> <li>• Servicing of public debt</li> <li>• Issue government securities through auctions and on tap basis</li> <li>• Maintenance of domestic debt database</li> <li>• Maintenance of CDS</li> <li>• Regulate and supervise the Primary Dealer System (PDS)</li> <li>• Developing the Government Security market</li> <li>• Dissemination of information</li> </ul> <p><b>Economic Research Department (ERD)</b></p> <ul style="list-style-type: none"> <li>• Analysis of debt statistics and conduct of debt sustainability analysis</li> </ul>	<p><b>External Resources Department (ExRD)</b></p> <ul style="list-style-type: none"> <li>• Mobilisation and management of external concessionary funds</li> <li>• Coordination with donors</li> <li>• Maintenance of external debt database</li> </ul> <p><b>Treasury Operations Department (TOD)</b></p> <ul style="list-style-type: none"> <li>• Treasury cash flow management</li> <li>• Provision of funds for debt service</li> </ul> <p><b>Fiscal Policy Department (FPD)</b></p> <p>Advise on:</p> <ul style="list-style-type: none"> <li>• Fixing of total borrowing limits</li> <li>• Loan composition</li> <li>• External commercial borrowings</li> </ul> <p><b>State Accounts Department (SAD)</b></p> <ul style="list-style-type: none"> <li>• Accounting for fiscal operations.</li> </ul>

## ***Governance***

The legislative framework governing government debt operations 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 gross 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 debt targets*
- (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 in the country.

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 the 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 Stock 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) have been issued by the PDD. Foreign concessional debt is raised by the Treasury’s External Resources Department, under the Foreign Loans Act.

## ***3. Primary Dealer System***

### ***3.1 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.

### 3.2 Primary Dealer System (PDS) in Sri Lanka

The Monetary Board of the Central Bank of Sri Lanka appoints PDs, in terms of regulations issued under the LTBO and the 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.

### 3.3 Key objectives of the PDS in Sri Lanka

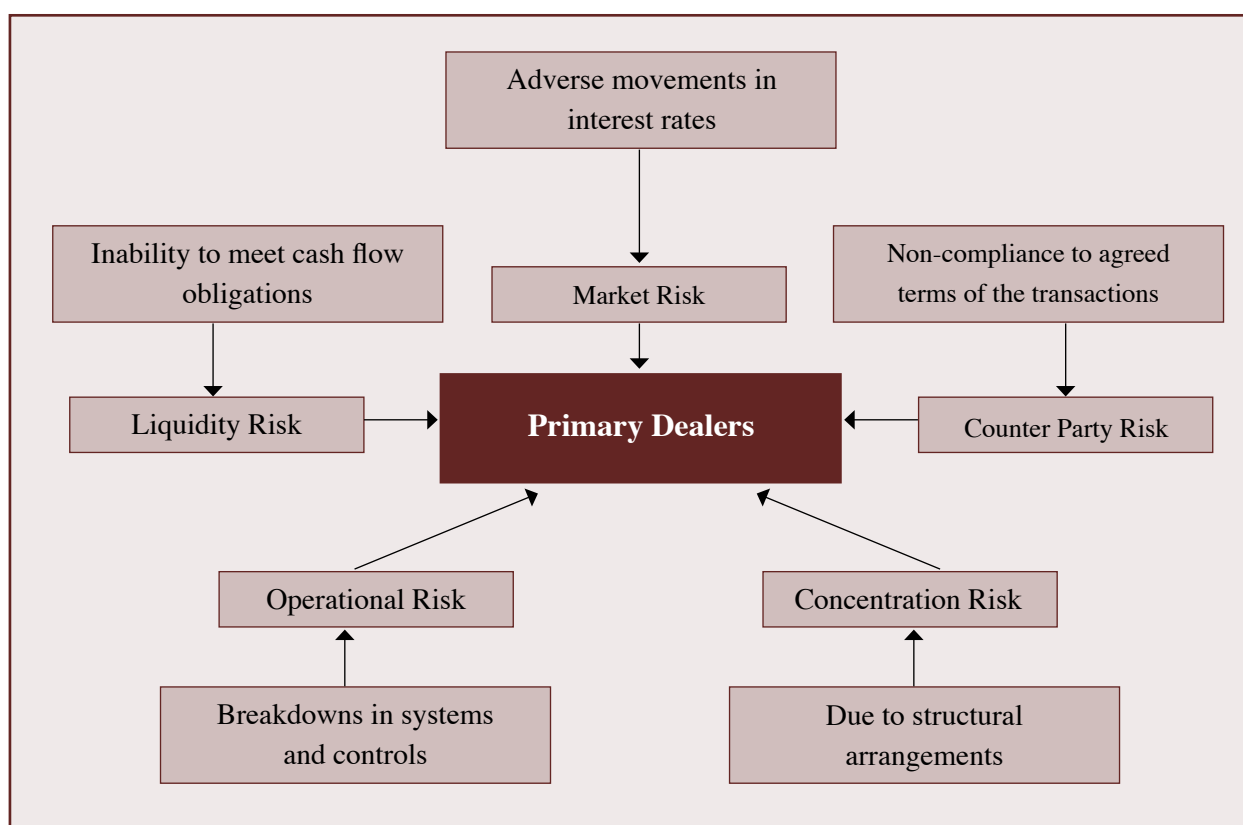
Key objectives of the PDS are as follows:

- (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

### 3.4 Risks Encountered by PDs

The figure below explains the main risks encountered by PDs

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 in to 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.

#### ***4. Directives Issued to Primary Dealers***

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.

##### ***4.1 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.

##### ***4.2 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 CBSL. 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.

##### ***4.3 Direction 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.

##### ***4.4 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.

##### ***4.5 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.

##### ***4.6 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.

#### ***4.7 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.

#### ***4.8 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.

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

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

#### ***4.10 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 Treasury bill and Treasury bond auction.

#### ***4.11 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.

#### ***4.12 Direction of 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.

#### ***4.13 Direction on Adjusted Trading – Effective Date 07/06/2004***

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

#### ***4.14 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. A 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. 300 million 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.

#### ***4.15 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.

### ***5. Circulars Issued During 2007***

Six Circulars have been issued by PDD in 2007.

#### ***5.1 Amendment to LankaSettle System Rules. Circular No: SSSS/01/2007-Effective date 02/02/2007 Issued to LankaSettle System Participants.***

The Rule 5.4 of Volume 3 of LankaSettle System Rules issued in August 2003 was amended to record Overnight Customer Repo Repositioning transactions of a value which is Rs.2 million or below, through Central Bank of Sri Lanka Wide Area Network (CBSLNet).

***5.2 Central Bank of Sri Lanka Wide Area Network (CBSLNet) based Application to record Overnight Customer Repo Repositioning transactions involving Government Securities. Circular No: SSSS/02/2007 - Effective date 02/02/2007 - Issued to LankaSettle System Participants.***

Applicable Operating Instructions to record Overnight Customer Repo Repositioning transactions valued Rs.2 million or below through CBSLNet were informed to LankaSettle participants.

***5.3 Appointing Licensed Specialized Banks (LSBs) as Direct Participants (DP) and Dealer Direct Participants (DDP) in the LankaSettle System. Circular No: SSSS/03/007 - Effective date 07/09/2007 - Issued to CEOs of Licensed Specialized Banks.***

CEOs of LSBs were informed regarding the criteria and the terms and conditions applicable to appoint LSBs as DPs and DDPs in the LankaSettle System

***5.4 Amendment to LankaSettle System Rules. Circular No: SSSS/04/2007 - Effective date 01/10/2007 - Issued to LankaSettle System Participants .***

The Rule 2.2 of volume 3 of LankaSettle System Rules issued in August 2003 was amended by incorporating charges for non recording transactions in LankaSecure.

***5.5 Central Bank of Sri Lanka Wide Area Network (CBSLNet) based application to record Customer Repositioning Transactions involving Government Securities. Circular No: SSSS/05/2007 - Effective date 01/10/2007 - Issued to LankaSettle System.***

All the participants of LankaSettle System were allowed to record both Customer Repo Repositioning transactions (overnight and term repos up to one month) and Customer Outright Repositioning transactions, in which, the face value is Rs.5 million or below, through the Wide Area Network of the Central Bank of Sri Lanka (CBSLNet). Relevant Operating Instructions were issued to the participants revoking the earlier circular No. SSSS/02/2007, dated 02/02/2007.

***5.6 Amendment to LankaSettle System Rules. Circular No: SSSS/06/2007 - Effective date 01/10/2007 - Issued to LankaSettle System Participants***

The Rule 5.4 of Volume 3 of LankaSettle System Rules issued in August 2003 was amended to record Customer Repo Repositioning transaction (overnight and term repos up to one month) or a Customer Outright Repositioning transaction of value which is Rs. 5 million or below, through Central Bank of Sri Lanka Wide Area Network (CBSLNet).



## 10. Glossary

**Assets/Revenue Backed Bonds** – Bonds that are based on pools of Assets, or collateralized 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 cash flows.

**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 are 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 outside.

**Scripless 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 364 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 is known as the yield curve.

**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.

# 11. Statistical Appendix

Table 1: Central Government Debt

Table 2: Outstanding Central Government Debt as at end year

Table 3: Composition of Outstanding Central Government Debt as at end year

Table 4: Ownership of Outstanding Central Government Debt as at end year

Table 5: Details of Outstanding Treasury Bonds as at end 2007

Table 6: Details of Outstanding Sri Lanka Development Bonds as at end 2007

Table 7: Details of Outstanding Rupee Loans as at end 2007

Table 8: Changes in Relative Composition of Government Securities

Table 9: Maturity Profile of Domestic Debt as at end 2007

Table 10: Future Domestic Currency Debt Obligations as at end 2007

Table 11: Ownership of Treasury bills

Table 12: Ownership of Treasury bonds

Table 13: Ownership of Rupee Loans

Table 14: Composition of Outstanding Foreign Debt as at end 2007

Table 15: Ownership of Outstanding Foreign Debt

Table 16: Foreign Loans - 2007

Table 17: Foreign Loans Disbursements by Source

Table 18: Government Debt Repayments and Interest Payments

Table 19: Issues and Maturities of Domestic Debt in 2006 and 2007

Table 20: Auction and Primary Issue Details in 2006 and 2007

Table 21: Government Borrowing Limits and Usage in 2006 and 2007

Table 22: Financing of Government Net Cash Deficit

Table 23: Annualised Weighted Average Yield Rates of Treasury bills, Treasury bonds and Rupee loans

Table 24: Treasury Bond Auctions in 2007

Table 25: Treasury Bill Auctions in 2007

Table 26: Volumes Traded in the Secondary Market as Reported by Primary Dealers

## Statistical Appendix

### Definition and Explanatory Notes

The following general notes supplement the footnotes given below the individual tables:

1. In an attempt to bring the material up-to-date provisional figures are included in some tables.
2. Figures in some tables have been rounded off to the nearest final digit. Hence there may be slight discrepancy between the total as shown and the sum of its components.
3. Differences as compared with previously published figures are due to subsequent revisions.
4. Values indicated within parenthesis are negative values.
5. The following symbols have been used throughout:-

n.a. = not available

- = nil

... = negligible

## 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	22.5	5.3	27.9
1959	320	1,102	-	138	1,560	307	1,867	24.3	4.8	29.1
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	41.1	6.6	47.7
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	45.7	9.1	54.9
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	52.0	19.3	71.2
1973	2,250	5,812	-	522	8,584	3,705	12,289	46.6	20.1	66.8
1974	2,250	6,591	-	604	9,445	2,859	12,304	39.7	12.0	51.8
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	42.0	16.4	58.5
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	38.4	34.2	72.5
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	45.6	35.5	81.1
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	38.6	41.7	80.3
1986	26,173	39,130	-	4,196	69,499	86,208	155,707	38.7	48.0	86.8
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	46.4	46.8	93.2
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	105.6
2003	219,295	248,414	483,107	69,153	1,019,969	843,882	1,863,851	56.1	46.4	102.3
2004	243,886	164,758	643,349	91,396	1,143,389	996,138	2,139,527	54.8	47.7	102.3
2005	234,174	140,563	751,569	139,416	1,265,721	956,621	2,222,343	51.9	39.2	90.6
2006	257,732	116,713	885,972	218,813	1,479,230	1,128,493	2,607,723	50.3	38.4	88.7
2007(e)	307,012	131,509	1,018,852	257,825	1,715,198	1,354,871	3,070,069	47.9	37.9	85.8

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 million issues 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, based on the national accounts estimates by the Department of Census and Statistics.

(e) Provisional

## CENTRAL GOVERNMENT DEBT

TABLE 2

OUTSTANDING CENTRAL GOVERNMENT DEBT AS AT END YEAR <sup>(a)</sup>

Rs. million

Item	2003	2004	2005	2006	2007 <sup>(b)</sup>
<b>Total Domestic Debt</b>	<b>1,019,969</b>	<b>1,143,389</b>	<b>1,265,722</b>	<b>1,479,230</b>	<b>1,715,198</b>
By Maturity					
Short - Term	249,621	269,784	262,154	313,218	363,199
Treasury bills	219,295	243,886	234,174	257,732	307,012
Provisional advances from the Central Bank	31,204	34,791	39,746	49,015	60,679
Import bills held by commercial banks	180	734	222	366	376
Other liabilities to the banking sector net of bank deposits	-8,511	-14,490	-15,856	2,887	-8,747
Other (Administrative Borrowing)	7,453	4,863	3,868	3,218	3,879
Medium and Long -term	770,348	873,605	1,003,568	1,166,012	1,351,999
Rupee securities <sup>(c)</sup>	248,414	164,758	140,562	116,713	131,509
Treasury bonds <sup>(d) (e)</sup>	483,107	643,349	751,569	885,972	1,018,852
Treasury certificates of deposit	11	11	11	11	0
Sri Lanka Development Bonds	8,816	26,083	25,519	62,469	86,459
Other <sup>(f)</sup>	30,000	39,404	85,906	100,847	115,179
By Debt Instrument	1,019,970	1,143,389	1,265,722	1,479,230	1,715,198
Rupee securities	248,414	164,758	140,562	116,713	131,509
Treasury bills	219,295	243,886	234,174	257,732	307,012
Treasury bonds <sup>(e)</sup>	483,107	643,349	751,569	885,972	1,018,852
Sri Lanka Development Bonds	8,816	26,083	25,519	62,469	86,459
Provisional advances	31,204	34,791	39,746	49,015	60,679
Other	29,133	30,522	74,151	107,329	110,686
By Institution	<b>1,019,969</b>	<b>1,143,389</b>	<b>1,265,722</b>	<b>1,479,230</b>	<b>1,715,198</b>
Banks	228,411	272,981	298,412	395,470	414,688
Central Bank					
By debt instrument	44,587	113,017	78,364	117,624	104,817
Treasury bills	13,365	78,162	38,951	69,370	44,964
Treasury bonds <sup>(c)</sup>	0	-	-	-	-
Provisional advances	31,204	34,791	39,746	49,015	60,679
Other	18	64	-333	-761	-826
Commercial Banks					
By debt instrument	183,824	159,965	220,048	277,846	309,871
Rupee loans	43,481	41,481	41,481	22,088	15,870
Treasury bills	44,637	40,681	39,151	52,805	68,818
Treasury bonds <sup>(e)</sup>	65,246	33,350	55,118	46,595	57,786
Sri Lanka Development Bonds	8,816	26,083	25,519	62,469	86,459
Other	21,644	18,369	58,778	93,889	80,938
Sinking fund	100	100	100	100	100
Rupee loans	100	100	100	100	100
Non bank sector					
By debt instrument	791,459	870,408	967,211	1,083,660	1,300,409
Rupee loans	204,833	123,277	98,982	94,525	115,539
Treasury bills	161,293	125,043	156,072	135,557	193,230
Treasury bonds <sup>(e)</sup>	417,861	609,999	696,451	839,377	961,066
Other	7,472	12,089	15,706	14,201	30,574
By institution	791,459	870,408	967,211	1,083,660	1,300,409
National Savings Bank	138,939	151,158	169,590	166,456	192,413
Employees' Provident Fund	323,182	362,736	406,557	469,618	575,460
Other	329,338	356,519	391,064	447,586	532,536
<b>Total Foreign Debt</b>	<b>843,882</b>	<b>996,138</b>	<b>956,621</b>	<b>1,128,493</b>	<b>1,354,871</b>
By Type	843,882	996,138	956,620	1,128,493	1,354,871
Project Loans	769,559	914,232	865,494	979,904	1,089,111
Non-Project Loans	74,323	81,906	91,126	148,589	265,760
Commodity	68,891	73,835	69,116	92,548	95,298
Other <sup>(g)</sup>	5,431	8,070	22,010	56,041	170,463
By Institution	843,882	996,137	956,821	1,128,493	1,354,871
Concessional Loans	822,839	970,299	919,230	1,048,152	1,128,296
Multilateral	404,937	475,246	486,854	564,256	565,320
Bilateral	417,902	495,053	432,376	483,896	562,976
Non-Concessional Loans	21,043	25,838	37,190	80,341	226,576
Multilateral	219	1,801	343	4,185	15,399
Bilateral	836	575	805	27,708	29,909
Commercial Loans <sup>(g)</sup>	19,988	23,462	36,442	48,448	181,268
<b>Total Outstanding Government Debt</b>	<b>1,863,851</b>	<b>2,139,526</b>	<b>2,222,343</b>	<b>2,607,723</b>	<b>3,070,069</b>

(a) Treasury bills and Treasury bonds, outstanding are adjusted for secondary market transactions.

(b) Provisional

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

(d) Excludes government T bonds of Rs. 4,397 million issued to CWE in November 2003.

(e) Excludes T bonds issued to non residents in 2007.

(f) Includes the outstanding balance to OBUs.

(g) Include non resident investments in Treasury bonds and Sovereign bond issued in international market.

Source : Central Bank of Sri Lanka

Ministry of Finance and Planning

## CENTRAL GOVERNMENT DEBT

TABLE 3

COMPOSITION OF OUTSTANDING CENTRAL GOVERNMENT DEBT AS AT END YEAR <sup>(a)</sup>

Rs. million

Source	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>(b)</sup>
1. Foreign Debt	461,273	507,866	542,040	636,741	721,957	843,882	996,138	956,621	1,128,493	1,354,871
1.1 Project Loans <sup>(c)</sup>	400,284	444,423	477,845	542,942	640,354	769,559	914,232	865,494	979,904	1,089,111
1.2 Non -Project Loans	60,989	63,443	64,195	93,799	81,603	74,323	81,905	91,126	148,589	265,760
Commodity <sup>(d)</sup>	59,626	62,182	63,009	67,000	68,050	68,891	73,835	69,116	92,548	95,298
Other <sup>(e)</sup>	1,363	1,261	1,186	26,799	13,553	5,431	8,070	22,010	56,041	170,463
2. Domestic Debt	463,425	543,465	676,660	815,965	948,386	1,019,969	1,143,389	1,265,722	1,479,230	1,715,198
2.1 Rupee Loans	250,570	262,056	263,888	292,813	287,701	248,414	164,758	140,562	116,713	131,509
2.2 Treasury Bills	119,996	124,996	134,996	170,995	210,995	219,295	243,886	234,174	257,732	307,012
2.3 Treasury Bonds	48,915	104,867	204,124	229,174	347,128	483,107	643,349	751,569	885,972	1,018,852
2.4 Sri Lank Development Bonds	-	-	-	14,749	24,177	8,816	26,083	25,519	62,469	86,459
2.5 Central Bank Advances <sup>(f)</sup>	20,192	22,969	27,169	30,127	31,033	31,204	34,791	39,746	49,015	60,679
2.6 Other <sup>(g)</sup>	23,752	28,577	46,483	78,107	47,352	29,133	30,522	74,152	107,329	110,687
<b>Total</b>	<b>924,699</b>	<b>1,051,331</b>	<b>1,218,700</b>	<b>1,452,706</b>	<b>1,670,343</b>	<b>1,863,851</b>	<b>2,139,526</b>	<b>2,222,343</b>	<b>2,607,723</b>	<b>3,070,069</b>

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, borrowing of public corporations and the private sector with a government guarantee, short term IMF drawings amounting and other short term debt.
- (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 -Swede
- (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, outstanding defence differed payments, foreign investment in Treasury bonds and sovereign bond issues.
- (f) Excludes contributions to international financial organizations.
- (g) Includes administrative borrowings arising from foreign loans channeled through government or semi - government agencies and outstanding National Development Bonds. Outstanding balance of borrowing from offshore Banking Units (OBUs) are also included

OWNERSHIP OF OUTSTANDING CENTRAL GOVERNMENT DEBT AS AT END YEAR <sup>(a)</sup>

Rs.million

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>(b)</sup>
1. Domestic Debt	463,425	543,464	676,660	815,965	948,386	1,019,969	1,143,389	1,265,722	1,479,230	1,715,198
1.1 Banking sector	113,054	139,671	199,030	256,808	248,243	228,411	272,982	298,412	395,470	414,688
Central Bank	27,179	48,867	97,778	92,871	76,342	44,587	113,017	78,364	117,624	104,817
Commercial Banks <sup>(c)</sup>	85,875	90,804	101,252	163,937	171,901	183,824	159,965	220,048	277,846	309,871
1.2 Non Bank Sector	350,372	403,793	477,630	559,157	700,143	791,558	870,407	967,310	1,083,760	1,300,510
Market Borrowings	345,012	399,306	469,703	550,783	692,520	784,104	858,321	951,547	1,069,577	1,290,319
Savings Institutions <sup>(d)</sup>	67,260	79,555	87,263	94,976	116,632	138,939	151,158	169,590	166,456	192,414
Sinking Funds <sup>(e)</sup>	100	100	100	100	100	100	100	100	100	100
Insurance Funds	13,052	16,935	18,969	21,449	26,853	24,828	27,398	20,704	21,170	31,413
Provident and Pension Funds <sup>(f)</sup>	163,534	187,955	218,615	245,028	292,081	333,289	369,205	423,283	480,193	595,807
Official Funds <sup>(g)</sup>	15,522	19,243	24,640	27,052	32,612	40,739	46,341	65,825	95,981	107,480
Private Business and Individuals <sup>(h)</sup>	85,544	95,518	120,116	162,178	224,242	246,209	264,119	272,045	305,677	363,105
Non Market Borrowings	5,360	4,487	7,927	8,374	7,623	7,453	12,088	15,764	14,183	10,191
2. Foreign Debt	461,273	507,866	542,040	636,741	721,956	843,882	996,138	956,621	1,128,493	1,354,871
<b>Total</b>	<b>924,699</b>	<b>1,051,330</b>	<b>1,218,700</b>	<b>1,452,706</b>	<b>1,670,342</b>	<b>1,863,851</b>	<b>2,139,526</b>	<b>2,222,343</b>	<b>2,607,723</b>	<b>3,070,069</b>

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

(a) Data on Treasury bills outstanding and Treasury bonds are 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 2007 (a)

Maturity Date	Issue Date	Series	ISIN	Face Value (Rs. mn.)
<b>Fixed Rate Bonds</b>				
01/01/2008	01/01/2003	11.75%2008A	LKB00508A017	32,687
15/01/2008	15/01/2003	9.75%2008A	LKB00508A157	22,250
01/04/2008	01/04/2003	9.75%2008B	LKB00508D011	23,962
26/06/2008	26/06/2002	11.50% 2008A	LKB00608F261	10,826
19/07/2008	19/07/2002	11.50% 2008B	LKB00608G194	1,836
01/08/2008	01/08/2002	11.50%2008C	LKB00608H010	27,346
02/09/2008	02/09/2002	11.50%2008D	LKB00608I026	9,410
13/09/2008	13/09/2002	11.50%2008E	LKB00608I133	2,450
15/09/2008	15/09/2003	7.70%2008A	LKB00508I150	18,032
01/10/2008	01/10/2002	11.50%2008F	LKB00608J016	31,599
07/10/2008	07/10/2002	11.50%2008G	LKB00608J073	16,580
01/11/2008	01/11/2002	11.50%2008H	LKB00608K014	37,633
01/01/2009	01/01/2003	11.50%2009A	LKB00609A013	30,858
15/01/2009	15/01/2003	9.50%2009A	LKB00609A153	29,027
01/02/2009	01/02/2006	7.50%2009A	LKB00309B018	40,265
15/03/2009	15/03/2006	7.50%2009B	LKB00309C156	31,020
02/05/2009	02/05/2003	9.50%2009B	LKB00609E023	36,431
01/06/2009	01/06/2006	7.50%2009C	LKB00309F019	45,010
01/08/2009	01/08/2003	7.60%2009A	LKB00609H018	48,413
01/11/2009	01/11/2003	7.60%2009B	LKB00609K012	37,075
01/02/2010	01/02/2006	7.20%2010A	LKB00410B014	45,683
01/04/2010	01/04/2004	7.60%2010A	LKB00610D015	37,451
01/11/2010	01/11/2006	7.20%2010B	LKB00410K015	32,711
01/02/2011	01/02/2006	7.00%2011A	LKB00511B019	41,922
01/08/2011	01/08/2006	7.00%2011B	LKB00511H016	37,629
15/10/2011	15/10/2006	7.00%2011C	LKB00511J152	28,945
01/03/2012	01/03/2007	6.85%2012C	LKB00512C015	16,100
15/04/2012	15/04/2006	6.85%2012A	LKB00612D151	42,386
15/10/2012	15/10/2006	6.85%2012B	LKB00612J158	45,903
15/01/2013	15/01/2003	8.50%2013A	LKB01013A157	16,000
01/04/2013	01/04/2007	10.50%2013A	LKB00613D019	27,727
15/07/2013	15/07/2003	8.50%2013B	LKB01013G154	24,140
01/08/2013	01/08/2003	7.50%2013A	LKB01013H012	49,825
01/11/2013	01/11/2003	7.50%2013B	LKB01013K016	40,790
01/02/2018	01/02/2003	8.50%2018A	LKB01518B013	16,177
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
<b>Index Linked Bonds</b>				
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
<b>Total</b>		<b>41</b>		<b>1,068,499</b>

Source: Central Bank of Sri Lanka

(a) Includes Treasury bonds issues to foreign investors and excludes Rs. 4,397 million issued to CWE in 2003.

## DOMESTIC DEBT

TABLE 6

DETAILS OF OUTSTANDING SRI LANKA DEVELOPMENT BONDS AS AT END 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		6		795.25

Source: Central Bank of Sri Lanka

TABLE 7

DETAILS OF OUTSTANDING RUPEE LOANS AS AT END 2007

Maturity Date	Issue Date	Series	Interest Rate	Face Value (Rs. mn.)
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
01/10/2011	01/10/2007	18.40%2010-2011	18.40	1
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
01/10/2013	01/10/2007	18.60%2010-2013	18.60	6
01/10/2014	01/10/2007	18.70%2010-2014	18.70	2
01/04/2015	01/04/2005	9.50%2009-2015	9.50	26,000
03/05/2015	03/05/2005	9.50%2009-2015 "A"	9.50	1,366
01/07/2015	01/07/2005	11.00%2009-2015	11.00	4,063
01/10/2017	01/10/2007	19.00%2010-2017	19.00	18,824
01/02/2023	01/02/1993	12.00%2023	12.00	24,088
Total		36		131,509

Source: Central Bank of Sri Lanka

## DOMESTIC DEBT

TABLE 8

## CHANGES IN RELATIVE COMPOSITION OF GOVERNMENT SECURITIES (a)

	2003	2004	2005	2006	2007
<b>1. Maturity (%)</b>					
Short term	23	23	21	20	20
Medium and long term	77	77	79	80	80
<b>2. Marketability (%)</b>					
Marketable	74	84	88	91	91
Non-marketable	26	16	12	9	9
<b>3. Investor base (%)</b>					
Central Bank	1	7	3	6	3
Commercial banks	16	11	12	10	9
Captive sources	54	54	57	59	59
Others	29	28	27	26	28
<b>4. Maximum maturity in the yield curve</b>					
Primary market (yrs)	20	4	8	6	10
Secondary market (yrs)	6	15	6	6	6

(a) Total Treasury Bill, Treasury Bonds, Rupee Loans only.

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

TABLE 9

## MATURITY PROFILE OF DOMESTIC DEBT AS AT END 2007 (a)

Rs. million

Maturity Year	Instrument					Total
	T-Bill	T-Bond (b)	R-Loan	SLDB (c)	FCBU (c)	
2008	307,012	253,246	1,500	34,790	74,611	671,160
2009	-	287,104	19,621	51,669	14,752	373,146
2010	-	113,310	24,583	-	4,566	142,459
2011	-	108,116	5,012	-	-	113,128
2012	-	84,332	3,575	-	-	87,907
2013	-	154,042	2,874	-	-	156,916
2014	-	-	2	-	-	2
2015	-	-	31,430	-	-	31,430
2016	-	-	-	-	-	-
2017	-	-	18,824	-	-	18,824
2018	-	17,702	-	-	-	17,702
2023	-	1,000	24,088	-	-	25,088
<b>Total</b>	<b>307,012</b>	<b>1,018,852</b>	<b>131,509</b>	<b>86,460</b>	<b>93,930</b>	<b>1,637,762</b>

Source : Central Bank of Sri Lanka

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

(b) Including Inflation Linked Bonds. Excludes Treasury bonds of Rs. 4,397 million issues to CWE in 2003 and Treasury bonds issued to foreigners.

(c) Exchange Rate used for conversion is 1US dollar=Rs.108.72 (End 2007 rate)

## DOMESTIC DEBT

TABLE 10

FUTURE DOMESTIC CURRENCY DEBT OBLIGATIONS AS AT END 2007 <sup>(a)</sup>

Rs. million

Year	Capital	Interest	Grand Total
2008	524,798	144,408	669,206
2009	293,715	95,771	389,486
2010	122,844	68,149	190,993
2011	88,679	63,302	151,981
2012	75,518	62,649	138,167
2013	125,024	58,951	183,975
2014	2	11,219	11,221
2015	31,430	9,919	41,349
2016	-	8,172	8,172
2017	18,824	8,172	26,996
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	1,319,622	553,854	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 2007. Capital payments are in book values and interest payments include coupon payments and discounts on Treasury bills, Treasury bonds and Rupee loans.

TABLE 11

OWNERSHIP OF TREASURY BILLS <sup>(a)</sup>

Rs. million

Ownership	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>(b)</sup>
1. Bank Sector	24,358	40,155	50,606	75,934	73,818	58,002	118,843	78,102	122,175	113,782
1.1 Central Bank	9,508	27,322	42,238	64,842	44,923	13,365	78,162	38,951	69,370	44,964
1.2 Commercial Banks	14,850	12,833	8,368	11,092	28,895	44,637	40,681	39,151	52,805	68,818
2. Non Bank Sector	95,638	84,841	84,390	95,061	137,177	161,293	125,043	156,072	135,558	193,231
2.1 Employees' Provident Fund	2,978	3,285	5,430	3,112	2,953	5,198	5,000	5,659	4,793	5,208
2.2 Other Provident Funds	209	414	418	-	816	906	805	-	42	166
2.3 Savings Institutions	6,600	8,537	15,417	13,889	22,645	36,534	31,513	39,938	33,456	32,046
2.4 Insurance and Finance Companies	11,470	13,509	9,641	7,576	9,179	7,742	562	18,034	5,963	8,623
2.5 Departmental and Other Official Funds	10,054	8,343	1,480	547	3,040	6,898	9,957	19,574	28,173	29,481
2.6 Private and Other	64,327	50,753	52,004	69,937	98,544	104,016	77,206	72,867	63,131	117,707
Total Assets	119,996	124,996	134,996	170,995	210,995	219,295	243,886	234,174	257,732	307,012

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 <sup>(a)</sup>

Rs million

Ownership	1998	1999	2000	2001	2002	2003 <sup>(b)</sup>	2004 <sup>(b)</sup>	2005 <sup>(b)</sup>	2006 <sup>(b)</sup>	2007 <sup>(b)(c)</sup>
1. Bank Sector	5,808	8,405	38,648	22,214	35,523	65,246	33,350	55,118	46,595	57,786
1.1 Central Bank	-	452	30,936	1,616	-	-	-	-	-	-
1.2 Commercial Banks	5,808	7,953	7,712	20,598	35,523	65,246	33,350	55,118	46,595	57,786
2. Non -Bank sector	43,107	96,462	165,476	206,960	311,605	417,861	609,999	696,452	839,377	961,066
2.1 Employee's Provident Fund	11,912	27,635	50,003	64,758	109,093	187,665	283,428	344,830	408,757	501,331
2.2 Other Provident Funds	83	147	449	-	591	287	240	-	4,940	7,862
2.3 Savings Institutions	10,372	20,656	25,472	28,964	42,292	54,499	92,227	104,235	112,062	134,994
2.4 Insurance and Finance Companies	6,849	7,987	10,940	16,258	21,159	20,740	26,551	8,214	13,632	21,215
2.5 Departmental and Other Official Funds	571	907	13,176	16,061	17,010	17,375	23,641	34,922	58,061	69,588
2.6 Private and Other	13,320	39,130	65,436	80,919	121,460	137,294	183,912	204,251	241,925	226,076
<b>Total Assets</b>	<b>48,915</b>	<b>104,867</b>	<b>204,124</b>	<b>229,174</b>	<b>347,128</b>	<b>483,107</b>	<b>643,349</b>	<b>751,569</b>	<b>885,972</b>	<b>1,018,852</b>

Source : Central Bank of Sri Lanka

Ministry of Finance and Planning

(a) Adjusted for secondary market transactions.

(b) Excludes government bonds of Rs. 4,397 million issued to Co-operative Wholesale Establishment (CWE) in November 2003.

(c) Provisional. Exclude Treasury bonds of Rs. 49 billion issued to foreigners in 2007.

TABLE 13

## OWNERSHIP OF RUPEE LOANS

Rs. million

Ownership	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>(a)</sup>
1. Bank Sector	44,321	44,068	44,068	44,068	43,981	43,481	41,481	41,481	22,088	15,870
1.1 Central Bank	-	-	-	-	-	-	-	-	-	-
1.2 Commercial Banks <sup>(b)</sup>	44,321	44,068	44,068	44,068	43,981	43,481	41,481	41,481	22,088	15,870
2. Non Bank Sector	206,249	217,988	219,820	248,745	243,720	204,933	123,277	99,081	94,625	115,639
2.1 Savings Institutions <sup>(c)</sup>	50,288	50,362	46,374	53,123	51,695	47,906	27,418	25,418	20,938	19,938
2.2 Sinking Funds	100	100	100	100	100	100	100	100	100	100
2.3 Departmental and Other Official funds <sup>(d)</sup>	4,897	9,237	9,238	10,444	11,732	17,550	12,742	9,754	9,755	8,410
2.4 Employees' Provident Fund	142,821	150,661	156,309	177,157	171,609	130,319	74,308	56,068	56,068	68,921
2.5 Other provident Funds	5,531	5,813	6,006	6,351	7,019	7,144	5,425	6,105	6,132	12,320
2.6 Insurance Corporations	1,793	993	993	285	285	285	285	-	-	-
2.7 Insurance Companies	-	-	-	408	408	-	-	-	-	-
2.8 Other State Corporations	755	756	746	831	831	1,575	-	1,575	1,575	1,575
2.9 Other <sup>(e)</sup>	64	66	54	46	41	54	2,999	61	58	4,374
<b>Total Assets</b>	<b>250,570</b>	<b>262,056</b>	<b>263,888</b>	<b>292,813</b>	<b>287,701</b>	<b>248,414</b>	<b>164,758</b>	<b>140,562</b>	<b>116,713</b>	<b>131,509</b>

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 2007 <sup>(a)</sup>

Rs. million

Creditor Category/ Use of Funds	Bilateral	Multilateral	Commercial	Export Credit	Total Debt	% of Total
Cash	564	104	21,744	0	22,413	1.7
Commodity	47,402	0	0	0	47,402	3.5
Food	31,599	0	0	0	31,599	2.3
Goods & Services	16,296	0	0	0	16,296	1.2
Programme	13,585	89,543	4,077	0	107,205	7.9
Project	443,280	491,072	5,634	41,920	981,906	72.5
Other	17,126	0	130,924	0	148,050	10.9
<b>Total Debt</b>	<b>569,854</b>	<b>580,719</b>	<b>162,379</b>	<b>41,920</b>	<b>1,354,872</b>	<b>100.0</b>
<b>%</b>	<b>42.1</b>	<b>42.9</b>	<b>12.0</b>	<b>3.1</b>	<b>100.0</b>	

(a) Provisional

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

TABLE 15

## OWNERSHIP OF OUTSTANDING FOREIGN DEBT

Rs. million

Source	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>(a)</sup>
<b>1. Multi-lateral</b>	<b>211,730</b>	<b>228,736</b>	<b>250,096</b>	<b>289,686</b>	<b>341,326</b>	<b>405,156</b>	<b>477,079</b>	<b>459,837</b>	<b>534,356</b>	<b>579,792</b>
ADB	94,583	104,150	115,353	136,064	164,017	195,895	235,741	230,510	269,211	291,307
EEC	406	422	-	-	-	-	-	-	-	-
EIB	-	-	-	-	-	599	3,545	4,838	9,345	15,326
IBRD	600	397	89	521	379	204	221	220	228	231
IDA	111,771	119,045	129,403	146,853	169,336	199,782	226,926	213,916	242,940	258,757
IFAD	3,765	4,078	4,678	5,532	6,381	7,116	7,886	7,109	7,997	8,642
OPEC	298	187	91	136	464	538	1,329	1,582	2,098	2,341
Nordic Development Fund	307	457	482	580	749	1,023	1,431	1,662	2,537	3,188
<b>2. Bi-lateral</b>	<b>234,585</b>	<b>267,383</b>	<b>277,317</b>	<b>305,511</b>	<b>349,007</b>	<b>398,925</b>	<b>465,513</b>	<b>433,382</b>	<b>508,840</b>	<b>593,630</b>
Canada	5,482	6,004	6,219	6,582	6,626	7,746	8,521	8,635	8,753	9,852
France <sup>(b)</sup>	6,542	5,922	5,907	6,439	7,596	8,735	10,177	8,726	9,714	10,255
Germany	30,132	27,656	28,338	32,953	39,545	46,657	56,301	49,374	86,719	94,346
India	1,135	1,074	1,146	1,855	2,786	6,702	10,311	10,118	12,382	14,843
Japan	132,374	164,801	172,932	185,081	217,151	255,277	301,434	277,882	305,897	327,711
Kuwait	2,087	2,056	2,180	2,497	2,884	2,939	3,388	3,573	3,794	3,845
Netherlands	3,295	2,759	2,505	2,453	2,610	2,645	2,574	2,196	2,080	1,455
People's Republic of China	1,670	2,108	2,088	3,219	3,373	3,115	3,342	3,604	5,121	22,668
Saudi Arabian Fund	377	217	38	63	-	-	-	43	327	766
Switzerland	735	676	-	-	-	-	-	-	-	-
USA	45,789	47,268	51,053	58,064	57,937	55,229	57,078	55,341	57,310	52,814
Other	4,967	6,842	4,911	6,305	8,499	9,881	12,387	13,892	16,744	55,076
<b>3. Financial Markets</b>	<b>14,958</b>	<b>11,747</b>	<b>14,627</b>	<b>41,544</b>	<b>31,624</b>	<b>39,801</b>	<b>53,579</b>	<b>63,401</b>	<b>85,297</b>	<b>181,450</b>
Riggs National Bank	917	923	965	3,754	3,831	3,746	3,980	3,769	3,843	3,746
Indo-Suez Bank (France & Stockholm)	231	193	178	179	144	129	108	82	-	-
Bankers Trust Co. France	853	858	896	977	948	877	876	786	-	-
Solomon Bros. Inc. - New York	1,156	898	979	837	158	-	-	-	-	-
Citi Bank/NEXI	864	852	869	923	868	774	739	627	560	462
Other <sup>(c)</sup>	-	-	-	-	-	9,635	10,433	18,082	21,527	21,743
Other <sup>(c)</sup>	10,937	8,023	10,740	34,874	25,676	24,640	37,411	40,055	59,367	155,499
<b>Total</b>	<b>461,273</b>	<b>507,866</b>	<b>542,040</b>	<b>636,741</b>	<b>721,956</b>	<b>843,882</b>	<b>996,138</b>	<b>956,620</b>	<b>1,128,493</b>	<b>1,354,872</b>

(a) Provisional

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

(b) Includes loans from financial institutions

(c) Includes outstanding defence loans since 2001, Treasury bonds issued to non residence since 2007 &amp; sovereign bond issue of US dollar 500 million in 2007.

## FOREIGN DEBT

TABLE 16

## FOREIGN LOANS - 2007

Rs. million

Type and Source	Gross Receipts	Repayments	Net Change in the Liability <sup>(a)</sup>	Liability as at end December
1. Project Loans	85,389	39,108	109,207	1,089,111
ADB	14,889	6,541	22,679	292,047
Australia	-	900	-556	5,268
Austria	1,152	-	1,964	7,610
Canada	-	291	820	6,602
China	17,774	876	16,924	27,264
Denmark	3,640	99	4,311	8,612
EIB	4,745	59	5,981	15,826
Finland	640	85	1,022	4,207
France	225	842	543	9,590
Germany	1,080	3,558	4,527	58,754
Hong Kong	-	169	66	3,451
India	-	-	19	2,055
IDA	8,201	5,433	16,105	258,748
Japan	21,791	14,505	28,045	308,630
Korea	2,888	704	2,166	17,935
Kuwait	265	472	56	3,855
Netherlands	2,130	412	1,949	3,653
Opec Fund for International Development	339	196	161	2,357
Saudi Arabian Fund	494	92	402	749
Spain	1,469	-	1,574	2,063
Sweden	2,014	323	1,862	3,791
UK	-	395	58	3,857
USA	-	1,343	-1,073	24,191
Other	1,653	1,817	-398	17,995
2. Non-Project Loans	108,358	26,005	117,171	265,760
2.1 Commodity Loans	2,510	5,417	2,750	95,298
Canada	-	157	347	2,980
France	-	47	-3	340
India	1,411	168	1,331	12,788
Pakistan	1,099	28	1,089	4,938
Germany	-	259	3,707	33,843
Netherlands	-	384	-291	598
USA <sup>(b)</sup>	-	2,110	-1,733	31,944
Japan	-	2,266	-1,697	7,867
2.2 Other Loans	105,848	19,518	114,422	170,463
ADB	-	2	4	104
China	-	42	16	907
USA	-	1,091	-1,043	2,125
HSBC	-	-	48,974	54,360
Germany	-	604	-342	1,764
Japan	-	5,597	-4,526	11,214
Other <sup>(c)</sup>	105,848	12,253	119,971	101,753
Memo: Liability due to variations in exchange rates	-	-	71,646	-
<b>Grand Total</b>	<b>193,747</b>	<b>64,114</b>	<b>226,378</b>	<b>1,354,871</b>

(a) This includes the impact of exchange rate variation

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

(c) Include Treasury bonds issued to foreigners and defence loan.

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

## FOREIGN DEBT

TABLE 17

## FOREIGN LOAN DISBURSEMENTS BY SOURCE

Rs. million

Category	Disbursements									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>(a)</sup>
<b>1. Donor</b>	<b>30,996</b>	<b>25,035</b>	<b>27,370</b>	<b>47,316</b>	<b>47,170</b>	<b>87,638</b>	<b>78,299</b>	<b>75,180</b>	<b>92,296</b>	<b>144,101</b>
Bi-lateral	15,522	12,969	17,208	26,455	18,382	29,888	35,110	25,552	38,614	50,102
Multi-lateral	14,472	10,880	9,490	12,500	23,787	41,119	29,219	35,014	33,942	29,126
Commercial	265	-	-	6,382	-	10,082	5,268	10,208	10,756	56,202
Export Credits	737	1,186	672	1,979	5,001	6,549	8,702	4,406	8,984	8,671
<b>2. Use of Funds</b>	<b>30,996</b>	<b>25,035</b>	<b>27,370</b>	<b>47,316</b>	<b>47,170</b>	<b>87,638</b>	<b>78,299</b>	<b>75,180</b>	<b>92,296</b>	<b>144,101</b>
Cash	-	-	-	-	-	-	-	10,209	9,138	-
Commodity	479	28	6	871	317	-	11	-	-	-
Food	635	-	385	701	-	-	-	-	-	-
Goods & Services	-	-	-	-	905	2,321	3,196	280	3,227	2,515
Programme	-	-	-	2,252	6,389	33,012	3,091	1,987	5,362	270
Project	29,861	25,006	26,979	36,557	39,559	52,220	66,331	62,472	73,052	84,830
Technical Assistance	21	1	-	-	-	85	401	232	127	288
Other	-	-	-	6,935	-	-	5,268	-	1,390	56,198

(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	203,347	21,360	224,707	113,164	6,995	120,159
2006	247,536	45,989	293,525	133,787	16,990	150,777
2007 <sup>(a)</sup>	253,720	64,114	317,834	161,370	21,311	182,681

(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 2007<sup>(a)</sup>**

Rs. million

Maturity	2006			2007		
	Issues	Repayments	Net Issues	Issues	Repayments	Net Issues
Treasury bills						
91 day	299,505	308,296	(8,791)	358,882	354,834	4,048
182 day	72,462	69,132	3,330	75,716	52,165	23,551
364 day	74,454	100,099	(25,645)	97,810	74,454	23,356
Other	181,445	126,781	54,664	284,780	286,455	(1,675)
<b>Total</b>	<b>627,866</b>	<b>604,308</b>	<b>23,558</b>	<b>817,188</b>	<b>767,908</b>	<b>49,280</b>
Treasury bonds						
1 year	-	11,250	(11,250)	41,884	15,957	25,927
2 year	24,023	107,224	(83,201)	75,614	64,531	11,083
3 year	119,972	23,550	96,422	37,436	55,900	(18,464)
4 year	69,505	19,221	50,284	39,623	37,100	2,523
5 year	79,803	-	79,803	88,909	45,170	43,739
6 year	8,980	14,500	(5,520)	85,937	-	85,937
7 year	-	-	-	17,105	-	17,105
8 year	7,865	-	7,865	-	-	-
11 year	-	-	-	14,677	-	14,677
<b>Total</b>	<b>310,148</b>	<b>175,745</b>	<b>134,403</b>	<b>401,185</b>	<b>218,658</b>	<b>182,527</b>
Rupee loans						
2 year	-	-	-	4,461	-	4,461
3/4 year	-	-	-	1	-	1
3/6 year	-	-	-	6	-	6
4/6 year	23	-	23	2	-	2
3/7 year	-	-	-	2	-	2
7/8 year	-	-	-	-	8,500	(8,500)
1/10 year	-	19,393	(19,393)	-	-	-
3/10 year	-	-	-	18,824	-	18,824
10 year	-	4,480	(4,480)	-	-	-
<b>Total</b>	<b>23</b>	<b>23,873</b>	<b>(23,850)</b>	<b>23,296</b>	<b>8,500</b>	<b>14,796</b>
Sri Lanka Dev. Bonds						
2 year	51,343	25,924	25,419	23,592	-	23,592
3 year	8,782	-	8,782	-	-	-
<b>Total</b>	<b>60,125</b>	<b>25,924</b>	<b>34,201</b>	<b>23,592</b>	<b>-</b>	<b>23,592</b>
Loans from FCBUs						
<= 1 Year	19,674	24,887	(5,213)	11,637	27,714	(16,077)
1.5 Years	1,623	3,180	(1,557)	443	-	443
2 Years	-	-	-	23,292	3,401	19,891
<b>Total</b>	<b>21,297</b>	<b>28,067</b>	<b>(6,770)</b>	<b>35,373</b>	<b>31,115</b>	<b>4,257</b>
<b>Grand Total</b>	<b>1,019,459</b>	<b>857,917</b>	<b>152,760</b>	<b>1,300,634</b>	<b>1,026,181</b>	<b>274,452</b>

(a) Face Value

Source : Central Bank of Sri Lanka

**TABLE 20**
**AUCTION AND PRIMARY ISSUE DETAILS IN 2006 AND 2007<sup>(a)</sup>**

Rs. million

	2006			2007		
	Treasury Bills	Treasury Bonds	Rupee Loans	Treasury Bills	Treasury Bonds	Rupee Loans
Auctions						
Number of Auctions	52	70	-	52	70	-
Amount Offered	543,981	87,500	-	623,089	99,750	-
Amount Received	914,110	161,771	-	1,035,682	149,263	-
Amount Accepted	396,802	42,848	23	388,458	18,513	23,296
CBSL Purchases	165,724	-	-	222,861	-	-
Placements	65,340	267,300	-	205,869	382,672	-
<b>Total Issues</b>	<b>627,866</b>	<b>310,148</b>	<b>23</b>	<b>817,188</b>	<b>401,185</b>	<b>23,296</b>

(a) Face Value

Source : Central Bank of Sri Lanka

## GOVERNMENT BORROWING LIMITS AND USAGE IN 2006 AND 2007

Rs. million

	2006		2007	
	Approved Limit	Usage	Approved Limit	Usage
<b>1. Gross Borrowing Limit</b>				
1.1. Domestic	377,722	379,955	443,000	372,078
1.2. Foreign	170,278	92,967	202,000	223,375
Total	548,000	477,652	645,000	595,453
<b>2. Sources of Financing</b>				
2.1. Domestic Financing	377,722	379,955	443,000	372,078
2.1.1. Rupee loans	25,000	23	10,000	23,296
2.1.2. Treasury bonds <sup>(a)</sup>	276,940	268,904	356,000	263,092
2.1.3. Treasury bills (net)	10,000	20,337	5,000	37,092
2.1.4. CBSL Advances	8,398	9,267	12,500	12,927
2.1.5. SLDBs	26,166	60,125	10,500	23,592
2.1.6. FCBUs	31,218	21,297	49,000	12,081
2.1.7. Others	-	-	-	-
2.2. Foreign Financing	170,278	97,697	202,000	223,375
2.2.1. Project/Programme Loans	170,278	78,254	156,000	91,801
2.2.2. Others (Including Syndicate Loan) <sup>(b)</sup>	-	19,443	46,000	118,439
<b>Total Financing</b>	<b>548,000</b>	<b>477,652</b>	<b>645,000</b>	<b>595,453</b>

(a) Excludes Treasury bonds issued to non-residents

(b) Includes Treasury bonds issued to non-residents

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

**GOVERNMENT BORROWINGS**
**TABLE 22**
**FINANCING OF THE GOVERNMENT NET CASH DEFICIT**

Rs. million

Item	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 (a)
1. Net Cash Surplus (+) / Deficit (-)	(91,206)	(85,230)	(127,735)	(148,490)	(143,542)	(141,077)	(171,182)	(210,063)	(245,581)	(239,304)
1.1 Revenue	189,216	205,021	221,322	252,822	277,430	300,761	332,435	396,003	496,869	620,598
1.2 Expenditure(b)	(280,422)	(290,251)	(349,057)	(401,312)	(420,973)	(441,838)	(503,617)	(606,066)	(742,450)	(859,902)
2. FINANCING OF THE DEFICIT	91,206	85,231	127,735	148,490	143,543	141,079	171,180	210,064	245,581	324,403
2.1 Domestic Financing	71361	74,875	118,502	123,594	126,351	79,910	117,243	123,603	163,805	127,141
Rupee Loans	52,296	22,986	42,210	50,910	38,419	48,113	564	43,679	23	18,833
Less: Direct Repayments	41,558	11,500	40,378	21,986	43,532	87,400	84,219	67,875	23,873	8,500
Net	10,738	11,486	1,832	28,924	(5,112)	(39,287)	(83,656)	(24,196)	(23,850)	10,333
Treasury bills	3,578	3,830	6,147	30,032	39,835	14,917	25,026	(9,402)	20,300	36,701
Treasury bonds	37,741	53,380	90,555	21,014	109,039	137,093	156,669	108,113	97,429	89,933
Sri Lanka Development Bonds (SLDBs)	-	-	-	14,605	8,799	(15,179)	16,361	-	34,254	23,592
Central Bank Advances	1,885	2,777	4,200	2,958	906	171	3,587	4,955	9,269	11,664
Other Borrowings from Banks(c)	13,308	4,623	13,760	39,639	(42,196)	(15,617)	(2,109)	47,492	33,221	-42,641
Use of Cash Balances	5,101	(376)	(1,179)	(14,296)	15,896	(2,268)	(3,316)	(7,659)	(6,818)	-5,386
Domestic Other Borrowings	(989)	(845)	3,186	719	(816)	(170)	4,680	4,300	-	2,945
Domestic Grants	-	-	-	-	-	250	-	-	-	-
2.2 Foreign Finance	19,845	10,356	9,233	24,896	17,192	61,169	53,937	86,461	81,776	197,262
2.2.1 Loans	12,645	3,595	4,088	19,396	10,113	53,213	45,256	53,821	51,708	166,759
Project Loans	30,354	25,033	26,984	33,375	45,877	85,317	69,600	64,691	78,254	85,389
Less: Repayments	8,430	12,357	11,774	14,398	17,737	20,422	24,472	17,274	33,715	39,108
Net	21,924	12,676	15,210	18,977	28,140	64,895	45,128	47,417	44,539	46,281
Non-project Loans	(9,279)	(9,081)	(11,122)	419	(18,027)	(11,682)	128	6404	7,169	83,352
Commodity Loans	642	2	386	190	1,293	2,321	3,196	280	3,227	2,510
Less: Repayments	3,132	3,598	5,526	4,789	5,328	4,783	5,493	390	5,163	5,417
Net	(2,490)	(3,596)	(5,140)	(4,599)	(4,035)	(2,462)	(2,297)	(110)	(1,936)	(2,907)
Other loans	-	-	-	13,752	-	-	5,501	10,209	16,216	105,848
Less: Repayments	6,789	5,485	5,982	8,734	13,992	9,220	3,076	3,695	7,111	19,589
Net	(6,789)	(5,485)	(5,982)	5,018	(13,992)	(9,220)	2,425	6,514	9,105	86,259
Other loans	-	-	-	-	-	-	-	-	-	37,126
2.2.2 Grants	7,200	6,761	5,145	5,500	7,079	7,956	8,681	32,640	30,068	30,503

 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.

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

Per cent per annum

Instrument	2001	2002	2003	2004	2005	2006	2007
<b>Treasury Bills (Days)<sup>(b)</sup></b>							
91	16.09	12.69	9.13	8.46	10.07	10.65	16.61
182	17.32	12.90	9.04	8.44	9.40	10.68	16.81
364	18.34	13.84	9.02	8.55	9.88	10.89	16.23
Overall average	17.37	13.23	9.07	8.49	9.96	10.69	16.57
<b>Treasury Bonds (Years)</b>							
2	19.82	14.88	10.75	9.78	10.62	12.47	-
3	15.60	14.29	9.69	9.83	11.19	10.96	15.21
4	-	14.54	9.97	9.61	11.08	11.01	15.36
5	-	14.69	10.97	10.31	10.83	11.05	13.88
6	-	14.83	9.56	9.30	-	10.90	15.28
10	-	-	8.72	11.11	11.63	-	15.44
13	-	-	-	-	-	-	-
15	-	-	9.01	-	-	-	-
Overall average	18.07	14.57	9.59	9.82	10.91	11.05	15.15
<b>Rupee Loans (Years)<sup>(c)</sup></b>							
2	15.00	-	-	-	-	-	9.90
4	-	-	-	-	-	-	16.56
5	14.03	13.00	11.93	-	8.90	-	-
6	-	-	8.40	8.00	9.23	9.54	16.74
7	-	-	-	-	9.30	-	16.83
8	-	-	-	-	9.40	-	-
10	13.00	-	-	-	-	-	17.10
Overall average	14.31	13.00	11.66	8.00	9.58	9.54	15.72

Source : Central Bank of Sri Lanka

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

(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**

**TREASURY BOND AUCTIONS IN 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 <sup>(a)</sup>
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	01/04/2010	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	-
07.60%2009A	02/07/2007	01/08/2009	2	1,500	1,650	-	7.60	-
10.85%2010A	02/07/2007	01/07/2010	3	1,500	1,700	-	10.85	-
07.50%2013A	02/07/2007	01/08/2013	6	2,000	2,300	-	7.50	-
10.85%2010A	06/07/2007	01/07/2010	3	1,000	1,250	-	10.85	-
07.60%2009A	01/08/2007	01/08/2009	2	2,000	2,255	-	7.60	-
07.60%2010A	01/08/2007	01/04/2010	3	2,000	2,205	-	7.60	-
06.85%2012A	01/08/2007	15/04/2012	5	1,000	1,155	-	6.85	-
07.60%2009A	10/08/2007	01/08/2009	2	1,000	1,300	-	7.60	-
07.60%2009A	15/08/2007	01/08/2009	2	2,000	3,400	550	7.60	15.54
07.60%2010A	15/08/2007	01/04/2010	3	2,000	3,425	550	7.60	16.45
06.85%2012A	15/08/2007	15/04/2012	5	2,000	3,325	-	6.85	-
07.60%2009A	24/08/2007	01/08/2009	2	1,000	1,216	-	7.60	-
07.60%2009A	03/09/2007	01/08/2009	2	1,000	1,125	-	7.60	-
07.60%2010A	03/09/2007	01/04/2010	3	1,000	1,105	-	7.60	-
07.60%2009A	07/09/2007	01/08/2009	2	1,000	1,450	-	7.60	-
07.60%2009A	17/09/2007	01/08/2009	2	1,000	1,100	-	7.60	-
07.60%2009A	01/10/2007	01/08/2009	2	2,000	2,250	-	7.60	-
07.60%2010A	01/10/2007	01/04/2010	3	2,000	2,250	-	7.60	-
06.85%2012A	01/10/2007	15/04/2012	5	2,000	2,750	-	6.85	-
07.60%2009A	08/10/2007	01/08/2009	2	2,000	3,350	400	7.60	17.32
06.85%2012C	08/10/2007	01/03/2012	4	2,000	2,510	-	6.85	-
07.50%2009C	26/10/2007	01/06/2009	2	1,000	1,000	1,000	7.50	16.33
07.50%2009C	01/11/2007	01/06/2009	2	2,000	5,283	2,000	7.50	15.75
07.20%2010B	01/11/2007	01/11/2010	3	2,000	3,035	1,735	7.20	15.99
06.85%2012B	01/11/2007	15/10/2012	5	2,000	3,660	2,000	6.85	16.01
07.50%2009C	01/11/2007	01/06/2009	2	3,000	4,028	528	7.50	15.74
07.20%2010B	01/11/2007	01/11/2010	3	2,000	2,360	-	7.20	-
06.85%2012B	01/11/2007	15/10/2012	5	2,000	2,800	500	6.85	16.00
07.50%2013A	01/11/2007	01/08/2013	6	1,000	1,590	500	7.50	16.05
07.50%2009C	09/11/2007	01/06/2009	2	750	1,615	750	7.50	15.50
06.85%2012B	09/11/2007	15/10/2012	5	750	2,775	750	6.85	15.55
07.50%2009C	16/11/2007	01/06/2009	2	750	1,025	-	7.50	-
06.85%2012B	16/11/2007	15/10/2012	5	750	1,925	-	6.85	-
07.50%2009C	23/11/2007	01/06/2009	2	750	860	-	7.50	-
06.85%2012B	23/11/2007	15/10/2012	5	750	1,755	-	6.85	-
07.50%2009C	03/12/2007	01/06/2009	1	750	1,275	-	7.50	-

Source: Central Bank of Sri Lanka

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

**COST OF BORROWING**

**TABLE 25**

**TREASURY BILL AUCTIONS IN 2007**

Issue Date	Amount Offered (Rs. mn.)			Amount Received (Rs. mn.)			Amount Accepted (Rs. mn.)			Weighted Average Yield Rates <sup>(a)</sup>		
	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	-	-	-	-	-	-
06/07/2007	4,500	3,560	5,000	8,766	4,021	5,765	-	-	-	-	-	-
13/07/2007	4,000	2,262	5,100	8,805	2,735	6,420	1,186	-	-	17.40	-	-
20/07/2007	4,200	2,434	5,500	11,370	2,923	6,106	7,307	244	816	17.39	17.12	16.89
27/07/2007	2,000	1,269	4,800	7,780	1,939	5,476	5,664	110	445	17.38	17.12	16.89
03/08/2007	4,200	1,775	5,600	11,682	2,205	6,384	8,677	420	396	17.39	17.12	16.89
10/08/2007	4,400	1,651	5,800	11,043	2,125	6,820	7,733	204	1,170	17.41	17.12	16.89
17/08/2007	4,800	1,648	6,800	13,643	2,045	7,630	11,150	410	510	17.45	17.12	16.89
24/08/2007	4,200	1,208	6,200	6,847	1,669	7,094	5,392	225	177	17.55	17.12	16.89
31/08/2007	3,500	1,810	5,500	9,778	2,730	6,146	7,495	870	196	17.65	17.12	16.89
07/09/2007	5,000	1,162	6,000	11,651	1,700	6,688	8,216	260	893	17.80	17.28	17.04
14/09/2007	5,300	1,358	6,000	9,838	136	803	9,838	136	803	17.93	17.31	17.09
21/09/2007	5,500	1,571	5,700	11,110	1,909	6,360	8,410	200	260	18.05	17.32	17.15
28/09/2007	5,500	1,209	6,000	7,775	1,633	6,712	3,948	145	347	18.20	17.47	17.31
05/10/2007	5,000	1,006	6,000	9,057	1,422	7,248	5,922	150	108	18.41	17.50	17.36
12/10/2007	5,000	1,718	6,000	14,523	2,480	6,763	4,385	670	563	18.46	17.54	17.39
19/10/2007	4,500	1,141	5,500	18,766	1,620	6,353	4,500	125	170	18.25	17.54	17.39
26/10/2007	1,000	2,288	5,000	17,282	4,084	8,384	1,000	2,288	5,000	17.23	17.36	17.16
02/11/2007	1,200	3,458	7,000	10,733	8,350	9,490	1,200	3,085	4,230	15.80	16.97	17.16
09/11/2007	1,200	3,029	7,000	7,881	10,560	9,204	3,211	5,205	2,421	15.74	16.96	17.16
16/11/2007	1,200	3,938	7,000	5,092	8,028	8,740	2,993	5,561	1,965	15.74	17.03	17.24
23/11/2007	1,400	4,907	7,000	3,596	5,899	7,844	3,386	4,999	4,922	16.07	17.79	18.07
30/11/2007	1,500	5,440	7,000	4,296	6,169	8,655	1,244	1,528	1,395	17.07	18.79	19.07
07/12/2007	1,500	4,889	7,500	5,492	5,667	9,149	4,597	2,863	3,381	18.03	19.73	19.96
14/12/2007	1,500	5,000	6,889	7,812	6,313	8,653	6,278	-	-	18.99	-	-
21/12/2007	2,000	4,500	6,758	7,878	6,504	8,311	7,778	2,252	298	20.14	19.99	19.96
28/12/2007	2,500	4,433	7,000	11,311	7,332	10,546	6,421	512	-	21.30	19.99	-

Source: Central Bank of Sri Lanka

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

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

Rs. million

	2001	2002	2003	2004	2005	2006	2007
1. Outright Transactions	276,227	535,810	1,076,831	774,133	742,461	787,672	1,200,537
1.1. T-bills							
Purchased	38,007	27,092	37,408	71,048	66,591	72,636	257,216
Sold	164,296	214,917	265,757	311,537	367,635	414,549	551,905
Total	202,303	242,009	303,166	382,585	434,226	487,185	809,121
1.2. T-bonds							
Purchased	24,857	107,987	346,801	171,282	135,859	130,176	193,836
Sold	49,067	185,814	426,865	220,266	172,376	170,311	197,580
Total	73,924	293,801	773,665	391,548	308,235	300,487	391,416
2. Repurchase Transactions	1,320,249	1,830,729	3,542,947	3,859,202	3,144,504	2,882,902	3,601,070
2.1. T-bills							
Repo	298,840	396,523	1,058,459	264,909	488,518	575,982	842,003
Reverse repo	162,715	201,931	240,911	557,742	324,338	328,961	986,072
Total	461,555	598,454	1,299,371	822,651	812,856	904,943	1,828,075
2.2. T-bonds							
Repo	481,869	1,006,379	1,938,581	2,176,654	1,257,020	1,194,443	886,251
Reverse repo	376,825	225,896	304,995	859,897	1,074,628	783,516	886,744
Total	858,694	1,232,275	2,243,576	3,036,551	2,331,648	1,977,959	1,772,995
3. Total Transactions	1,596,476	2,366,539	4,619,778	4,633,335	3,886,965	3,670,574	4,801,607

Source: Central Bank of Sri Lanka

