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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Communications Department
30, Janadhipathi Mawatha, Colombo 01, Sri Lanka.
Tel : 2477424, 2477423, 2477311
Fax: 2346257, 2477739
E-mail: dcommunications@cbsl.lk, communications@cbsl.lk
Web: www.cbsl.gov.lk

Press Release

Issued By	Public Debt Department
Date	13. 06.2014

A Clarification on Certain Media Reports on the External Debt Statistics Published in the Central Bank Annual Report 2013 and Public Debt Department Press Release on "Sri Lanka continues to improve on UN-ESCAP Parameters…"

The recent press release by the Public Debt Department (PDD) highlighted the improvements in government's external debt position. These improvements are well documented in the Central Bank Annual Report 2013 under Section 6.4 (pp. 176-180) and in Appendix Tables 105 to 113 and in Special Statistical Appendix Table 7, where the external debt of the government expressed as a per cent of GDP shows a decline to 34.1 per cent in 2013 from 36.5 per cent in 2012.

However, a few commentaries that have appeared in recent press articles & reports have attempted to point out a higher level of government external debt, on the basis of the outstanding external debt position of the country as presented in the Annual Report 2013. In this regard, it must be mentioned that the outstanding external debt position as reported in the Annual Report of the Central Bank is the total of the outstanding position of the SDRs, intercompany lending and Direct Investment Enterprises (DIEs), in addition to the external debt of the Government. Such classification is based on the

International Monetary Fund (IMF) Balance of Payments Manual 6 (BPM6) presentation format, and is also followed by many advanced economies. The external financing contracted by deposit taking financial institutions, private sector and SOEs and direct investment enterprises in any country depends purely on their balance sheet strength, while the Government debt position reflects the direct indebtness of the Government. The Central Bank Annual Report 2013 clearly highlights this position under Section 5.12 (pp. 154) where government external debt is shown as only 56 per cent of the total external debt, while the balance is shown as being owned by deposit taking financial institutions, private sector and SOEs, Central Bank and direct investment enterprises.

The Manual of Effective Debt Management of the United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP) under the section "Definition and Types of Public Debt" reviews the definitions of external public debt by multilateral agencies. It also proposes coverage of data that can be included to further improve compilation of external debt position of a country. Coverage of data presented in the PDD press announcement is of the government's external debt position. Such compilation was first introduced in 2008 under the supervision and guidance of the then Deputy Governor of the Central Bank of Sri Lanka (CBSL) Mr. W A Wijewardena. PDD continues to follow the same method in compiling UN-ESCAP parameters, although, strangely Mr. Wijewardena now seems to suggest that such methodology is faulty. However, in the compilation of the Balance of Payments (BOP) data, the CBSL has recently initiated data compilation in accordance with BPM6, in order to expand the coverage of outstanding external debt, and this has been clearly stated in the Central Bank Annual Report 2013 p. 154. In that background, it may now be timely for Mr. Wijewardena and his associated analysts to expand their understanding of the purposes as well as the developments in the data compilation methods of UN-ESCAP and BPM6.

The assertions made in certain commentaries, where the Disbursed External Debt Outstanding, Total External Debt Service Payments and External Interest Payments have been expressed as a per cent of Exports of Goods and Non-Factor Services is also misleading. Such analyses seem to have deliberately kept out workers' remittances in the Exports of Goods and Non-Factor Services. These analyses have obviously overlooked the fact that the IMF and the International Development Association staff guidance note of 2010 on the "Application of the Joint Bank-Fund Debt Sustainability Framework…." states that remittances also possess the same characteristics as other variables that affect the capacity to repay. It should therefore be noted that although, remittances were excluded earlier, international organizations such as IMF have now accepted the inclusion, depending on country specific situations; where inflow of remittances are substantial and are a reliable source of foreign exchange which have not exhibited a large volatility or structural decline in recent times. On such basis, Sri Lanka comprehensively qualifies to include the workers' remittances when calculating the Non-Factor Services.

In conclusion, it must be noted that Sri Lanka undergoes periodic surveillance by international agencies, including rating agencies, in which careful attention is often paid by such agencies on the country's external debt level. A recent mission was the IMF Post-Programme Monitoring mission during September 17-25, 2013 which has not voiced any concerns, as claimed in the recent commentaries.