Public Debt Management in Sri Lanka

Performance in 2012
and
Strategies for 2013 and beyond

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Contents

Message of the Governor

Sri Lanka has maintained an annual average investment of about 27 per cent of GDP over the last decade compared with its annual average national savings ratio of about 22 per cent of GDP. Such investments, partly funded through foreign borrowings, directly helped the country to achieve a higher economic growth thereby tripling the per capita income to USD 2,923 in 2012 from USD 981 in 2003. If however, the Government had restricted the public investments to the country's national savings only, the people of the country would not have been able to secure the higher growth momentum as achieved. In a similar manner, in the near future too, Sri Lanka would need to attract foreign resources, including borrowings, to bridge the investments savings gap, until such time that the domestic savings are sufficient to finance the required level of national investments.

During the recent past, the global debt market continued to provide greater diversification, wealth preservation and attractive returns. As a result, the demand for debt instruments, particularly in emerging markets has increased sharply. Approximately 75 per cent of the global financial instruments today constitutes debt, whereas the relative share of equity is only about 25 per cent. Since strong investor sentiment has reduced the effective cost of debt to substantially low levels, Sri Lanka has also benefitted from such positive development, as reflected in Sri Lanka's progressively lowered cost of borrowing from international markets.

The prudential debt management strategies implemented by the Central Bank over the past few years has served to ensure that both the level and rate of growth in the country's public debt is sustainable, and the cost and risk objectives stipulated in the medium term debt management strategy are met. At the same time, the continuous commitment of the Government towards fiscal consolidation has helped the country's debt to GDP ratio to record about 79 per cent, down sharply from about 106 per cent in 2002.

Finally, I wish to commend the Superintendent of Public Debt and his team for effective and efficient implementation of debt management strategies during a challenging year and the timely preparation of this comprehensive Report.

Ajith Nivard Cabraal
Governor, Central Bank of Sri Lanka
31 May 2013

Message of the Superintendent of Public Debt

In 2012, the Central Bank tightened its monetary policy and allowed more flexibility in the determination of the exchange rate. Though these policies had their adverse impact on the cost of public debt, PDD was successful in containing the impact by implementing appropriate debt management strategies as clearly articulated in the medium term debt management strategy of CBSL. Further, despite the adverse global developments, PDD was successful in continuous engagement with international sovereign rating agencies thereby facilitating the strategic objectives of CBSL to maintain the credit ratings of the country intact. Further, PDD was successful in facilitating the fifth sovereign bond issue of the Government thereby securing an overwhelming response from the international investor community. Proactive strategies adopted by PDD helped foreign participation in long dated T-bonds well within the approved threshold.

Accordingly, despite challenging macroeconomic conditions, debt management strategies implemented by PDD was successful in further improving the debt profile in 2012. The yield rates on government securities, though increased significantly during the first half of the year, decelerated their increase substantially in the third quarter and in fact declined during the last quarter and the interest cost as a share of GDP declined. As the yield curve was extended up to 20 years, the average time to maturity of debt portfolio was increased and the share of short term debt in total domestic debt was brought down.

An essential part of public debt management is improving government debt securities market which has been a continuing process. In 2012, an electronic trading platform was established and a number of further improvements to the market have been identified and clearly articulated in the "Road Map 2013 – Monetary and Financial Sector Policies for 2013 and beyond".

I take this opportunity to thank my colleagues in the PDD for their dedication and commitment in managing the country's debt portfolio efficiently and effectively.

N W G R D Nanayakkara
Superintendent/Registrar of Public Debt
Central Bank of Sri Lanka

31 May 2013

Purpose of this Publication

The responsibility of the management of public debt in Sri Lanka has been entrusted to the Central Bank of Sri Lanka under the Monetary Law Act No.58 of 1949. This function needs a high level of professionalism, analytical ability, awareness and confidence of all stakeholders including lenders to the government and investors in government securities.

The public debt stock as at end 2012 stood at Rs. 6.0 trillion consisting of domestic debt of Rs. 3.2 trillion and foreign debt of Rs. 2.8 trillion. Foreign debt constitutes loans received from a number of multi-lateral institutions, bi-lateral loans and other commercial debt in a number of currencies. The size and the diversity of the public debt portfolio demand a high level of analysis and sharing of information with the stakeholders. To fulfill this need, the Central Bank of Sri Lanka started in 2006, disseminating information in the form of an annual publication with regard to the public debt portfolio and the debt management function, aiming to enhance the transparency of the debt management function. This is the seventh in the series commenced in 2006.

This publication includes information with regard to public debt management strategies adopted in 2012, movements in debt stock during the year, costs and risks of the debt portfolio, primary and secondary market operations on government securities and performance of primary dealers. A number of statistical tables giving data relevant to public debt and government securities market are also included.

This publication is issued in Sinhala and Tamil languages as well.

Objective of Public Debt Management

The objective of public 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 debt securities market, while enhancing its efficiency and maintaining its stability.

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

- Minimize the direct and indirect cost of public debt on a long-term perspective;
- Prevent an excessive concentration on redemptions and thereby minimize any type of rollover risk/refinancing risk;
- Promote an efficiently functioning government securities market.

Our Mission

- Raising funds required to meet the cash flow needs of the government at the lowest possible cost.
- 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 public 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.

Abbreviations

ABMI	Asian Bond Market Initiatives
ADB	Asian Development Bank
ATM	Average Time to Maturity
ATR	Average Time to Refixing
BCP	Business Continuity Plan
CAR	Capital Adequacy Ratio
CBSL	Central Bank of Sri Lanka
CCPI	Colombo Consumer Price Index
CDS	Central Depositary System
CIPC	Cash In Process of Collection
CPC	Ceylon Petroleum Corporation
CWE	Corporative Wholesale Establishment
OED	Outstanding External Debt
DRS	Disaster Recovery Site
DVP	Delivery Versus Payment
EPF	Employees Provident Fund
ETF	Employees Trust Fund
E-Trading	Electronic Trading
Fitch	Fitch Ratings
GDP	Gross Domestic Product
GNP	Gross National Product
GOSL	Government of Sri Lanka
IDA	International Development Agency
IDR	Issuer Default Rating
IMF	International Monetary Fund
INT	Interest Payment (External)
ISB	International Sovereign Bond
LCBs	Licensed Commercial Banks
LIBOR	London Inter Bank Offered Rate
MLDS	Medium to Long-Term Debt Service
Moody's	Moody's Investors Service
MTDS	Medium Term Debt management Strategy
NPV	Net Present Value
NSB	National Savings Bank
O/D	Over Draft facility
OBU	Off-shore Banking Unit
OTC	Over The Counter
PDD	Public Debt Department
PDs	Primary Dealers
PMWAYR	Primary Market Weighted Average Yield Rates
Repo	Repurchase
ROA	Return on Assets
Road Map	'ROAD Map: Monetary and Financial Sector Policies'
ROE	Return On Equity
RTGS	Real Time Gross Settlement System
RWCAR	Risk Weighted Capital Adequacy Ratio
SDR	Special Drawing Right
SOE	State Owned Enterprise
S&P	Standard and Poor's
SLDB	Sri Lanka Development Bond
SLIBOR	Sri Lanka Inter Bank Offered Rate
SPD	Superintendent of Public Debt
SSSS	Scripless Securities Settlement System
T-bill	Treasury bill
T-bond	Treasury bond
TDS	Total External Debt Service Payments
WAYR	Weighted Average Yield Rate
WB	World Bank
XGS	Receipts in exports of goods and non-factor services including workers' remittances and compensation of employees.

KEY GOVERNMENT DEBT INDICATORS

		2007	2008	2009	2010	2011(a)	2012(b)
Borrowings							
Approved Gross Borrowing Limit (Rs.bn)		645.0	689.0	1,050.0	980.0	997.0	1,139.0
Actual gross borrowing (Rs.bn)		578.5	689.0	999.1	922.1	994.1	1,139.0
Domestic Sources		397.3	559.4	643.3	594.2	671.3	656.7
Foreign Sources		181.2	129.6	355.8	327.9	322.8	482.3
Actual Net Borrowing (Rs.bn)		262.3	322.3	483.6	451.0	457.4	489.0
Domestic Sources		145.2	314.3	242.6	201.3	233.4	286.5
Foreign Sources		117.1	8.0	241.0	249.7	224.0	202.5
Outstanding Debt							
Outstanding Government Debt (Rs.bn)		3,041.7	3,588.9	4,161.4	4,590.2	5,133.4	6,000.1
Domestic Debt		1,715.2	2,140.2	2,400.9	2,565.6	2,804.1	3,232.8
Foreign Debt		1,326.5	1,448.7	1,760.5	2,024.6	2,329.3	2,767.3
Outstanding Debt (% of GDP)		85.00	81.37	86.25	81.93	78.46	79.14
By Source							
Domestic Debt		47.93	48.52	49.86	45.83	42.86	42.64
Foreign Debt		37.07	32.85	36.39	36.10	35.59	36.50
By Currency							
Domestic		44.27	44.74	49.59	46.63	43.85	44.65
Foreign		40.73	36.63	36.65	35.30	34.59	34.49
ATM of Total Debt (Years)		na	na	5.29	5.25	5.41	5.74
ATM of Domestic Debt (Years)		2.52	2.17	2.25	2.10	2.35	3.23
Share of Domestic Debt in Total Outstanding Debt (%)		56.39	59.63	57.7	55.89	54.62	53.88
Interest Cost							
Total Interest Cost (Rs.bn)		182.7	212.5	309.6	352.6	356.7	408.5
Domestic Debt		158.7	182.2	273.9	297.1	288.1	317.7
Foreign Debt		24.0	30.3	35.7	55.5	68.6	90.8
Interest Cost/GDP ratio (%)		5.11	4.82	6.40	6.29	5.45	5.39
Interest Cost/Government Revenue ratio (%)		32.33	32.43	44.27	43.14	38.16	41.35
Yield Rates (Primary Market Annualized Weighted Average)							
T-bills	91 day	16.61	18.54	11.43	7.86	7.28	10.72
	182 day	16.81	18.45	12.18	8.42	7.21	12.29
	364 day	16.23	18.89	12.76	8.43	7.41	12.14
	Overall Average	16.57	18.59	12.25	8.32	7.31	11.81
T-bonds	2-year	15.21	18.95	16.32	9.46	7.77	11.30
	4-year	13.88	17.87	14.29	9.65	8.23	11.58
	5-year	15.28	17.00	11.20	9.31	8.55	13.32
	10-year	-	-	13.39	9.59	9.15	14.00
	Overall Average	15.15	18.59	14.69	9.45	8.64	12.46
Foreign Investment in Government Securities							
Foreign Investments in T-bonds/Total T-bonds Stock (%)		4.65	1.36	8.75	10.04	9.88	9.91
Foreign Investments in T-bills/Total T-bills Stock(%)		-	1.55	8.39	10.02	10.61	11.31

na: not available

(a) Revised
(b) Provisional

KEY ECONOMIC INDICATORS

	2000	2007	2008	2009	2010	2011[a]	2012[b]
DEMOGRAPHY							
Mid-year population ('000 persons)	19,102	20,039	20,217	20,450	20,653	20,869	20,328
Growth of population (per cent)	1.4	1.2	1.1	1.1	1.0	1.0	n.a.
Population density (persons per sq.km.)	305	319	322	326	329	333	324
Labour force ('000 persons)	6,827	7,489	8,082	8,074	8,108	8,555	8,465
Unemployment rate (per cent of labour force)	7.6	6.0	5.4	5.8	4.9	4.2	4.0
OUTPUT							
GDP at current market prices (Rs. billion)	1,258	3,579	4,411	4,835	5,604	6,544	7,582
GNP at current market prices (Rs. billion)	1,233	3,540	4,306	4,779	5,534	6,472	7,434
Per capita GDP at market prices (Rs.)	68,102	178,845	218,167	236,445	271,346	313,576	373,001
Per capita GDP at market prices (USD)	899	1,617	2,014	2,057	2,400	2,836	2,923
REAL OUTPUT (percentage change)							
GNP	5.8	7.1	4.6	4.8	7.9	8.4	5.5
GDP	6.0	6.8	6.0	3.5	8.0	8.2	6.4
PRICES AND WAGES (percentage change)							
CCPI (2002 = 100) - annual average[c]	6.2	15.8	22.6	3.4	5.9	-	-
CCPI (2002 = 100) - year-on-year - end period	10.8	18.8	14.4	4.8	6.9	-	-
CCPI (2006/07 = 100) - annual average	-	-	-	3.5	6.2	6.7	7.6
CCPI (2006/07 = 100) - year-on-year - end period	-	-	-	5.0	6.8	4.9	9.2
Wholesale Price Index (1974 = 100) - annual average	1.7	24.4	24.9	-4.2	11.2	10.6	3.5
GDP deflator	6.7	14.0	16.3	5.9	7.3	7.9	8.9
EXTERNAL TRADE							
Trade balance (USD million)	-1,798	-3,657	-5,981	-3,122	-4,825	-9,710	-9,409
Exports (USD million)	5,522	7,640	8,111	7,085	8,626	10,559	9,774
Imports (USD million)	7,320	11,296	14,091	10,207	13,451	20,269	19,183
EXTERNAL FINANCE							
Services and income account (net) (USD million)	-266	-56	-571	-97	90	452	102
Current account balance (USD million)	-1,066	-1,402	-3,886	-214	-1,075	-4,615	-3,915
Overall balance (USD million)	-522	531	-1,385	2,725	921	-1,061	151
Current account balance (per cent of GDP)	-6.4	-4.3	-9.5	-0.5	-2.2	-7.8	-6.6
Gross official reserves (months of same year imports)	1.7	3.7	2.0	6.3	6.4	4.0	4.4
Overall debt service ratio							
As a percentage of export of goods and services	14.7	13.1	18.0	22.4	16.7	12.7	21.2
Total external debt and liabilities (per cent of GDP)	61.0	51.0	43.7	49.7	50.1	49.7	56.7
EXCHANGE RATES							
Annual average Rs/USD	75.78	110.62	108.33	114.94	113.06	110.57	127..60
NEER (2010 = 100) (24 - currency basket)	-	98.96	100.07	99.85	100.00	99.84	90.44
REER (2010 = 100) (24 - currency basket)	-	78.07	95.19	97.36	100.00	101.87	95.91
Year end Rs/USD	80.06	108.72	113.14	114.38	110.95	113.9	127.16
GOVERNMENT FINANCE (per cent of GDP)							
Revenue	16.8	15.8	14.9	14.5	14.6	14.3	13.0
Expenditure and net lending	26.7	23.5	22.6	24.9	22.9	21.4	19.7
Primary deficit (-) / surplus (+)	-3.8	-1.8	-2.2	-3.5	-1.7	-1.4	-1.1
Overall deficit (-) / surplus (+)	-9.5	-6.9	-7.0	-9.9	-8.0	-6.9	-6.4
MONETARY AGGREGATES (year-on-year percentage change)							
Reserve money	4.7	10.2	1.5	13.1	18.8	21.9	10.2
Domestic credit from the banking system to							
Government (net)	56.8	4.7	55.8	9.9	-2.1	32.9	25.4
INTEREST RATES (per cent per annum at year end)							
Repurchase rate (overnight)	17.00	10.50	10.50	7.50	7.25	7.00	7.50
Reverse Repurchase rate (overnight)	20.00	12.00	12.00	9.75	9.00	8.50	9.50
Commercial banks' average weighted deposit rate	9.89	10.31	11.63	8.01	6.23	7.24	10.10
Commercial banks' 12 month fixed deposit rate (max.)	15.00	20.00	20.25	19.00	17.00	11.00	17.00
Commercial banks' average weighted lending rate	19.30	18.08	20.13	17.41	14.80	13.44	15.98

(a) Revised
(b) Provisional
(c) CCPI: Colombo Consumer Price Index

1. Highlights of 2012

1. Borrowing limit and Strategy for 2012

- The gross borrowing limit of the government of Sri Lanka (GOSL) for 2012, approved by the Parliament under the Appropriation Act No. 52 of 2011, was Rs. 1,139 billion, an increase of Rs. 142 billion against the 2011 limit.

- Out of the gross borrowing requirement, Rs. 371.2 billion was expected to be raised from foreign sources while the balance Rs. 767.8 billion from the domestic sources.

- On net basis, total borrowing requirement for 2012 was estimated at Rs. 468.9 billion, with Rs. 271.6 billion from domestic sources and the balance of Rs. 197.3 billion from the foreign sources.

2. Actual Borrowing and Debt Level

- Actual gross borrowings were maintained at Rs. 1,139 billion of the approved annual borrowing limit for 2012.

- Total borrowings from domestic sources were lower than the target by Rs. 111.1 billion and stood at Rs. 656.7 billion. Total borrowings from external sources exceeded the target by Rs. 111.1 billion and stood at Rs. 482.3 billion.

- Total outstanding debt stock stood at Rs. 6,000.1 billion as at end 2012 recording an increase of Rs. 866.7 billion compared to the stock as at end 2011.

- As a percentage of Gross Domestic Product (GDP), total outstanding debt stock increased from 78.46 per cent as at end 2011 to 79.14 per cent as at end 2012. This increase was reflected in the volumes of both domestic debt and foreign debt. However, domestic debt to GDP ratio decreased from 42.86 per cent in 2011 to 42.64 per cent at the end of 2012, whereas foreign debt to GDP ratio increased from 35.59 per cent to 36.50 per cent .

- The share of domestic debt in total debt stock was 53.88 per cent while that of foreign debt was 46.12 per cent as at end 2012.

3. Interest Cost on Public Debt

- Total interest cost on public debt increased by 14.52 per cent in 2012 to Rs. 408.5 billion consisting of Rs. 317.7 billion on domestic debt and Rs. 90.8 billion on foreign debt.

- As a percentage of GDP, interest cost of government borrowings declined marginally from 5.45 per cent in 2011 to 5.39 per cent in 2012.
- Average cost of domestic borrowing through Treasury bills (T-bills) and Treasury bonds (T- bonds) increased in 2012 to 11.81 per cent and 12.46 per cent, respectively, compared to 7.31 per cent and 8.64 per cent, respectively, in 2011.

4. *Interest Rates and Yield*

- Primary Market Weighted Average Yield Rates (PMWAYR) for 91-day, 182-day and 364-day T-bills increased to 11.44 per cent, 13.12 per cent and 13.36 per cent, respectively, as of 14.09.2012 from 8.68 per cent, 8.71 per cent and 9.31 per cent, respectively, as at 30.12.2011. However, T-bill PMWAYR reduced to 10.00 per cent, 11.32 per cent and 11.69 per cent, respectively, as at 28.12.2012.
- Secondary market yield rates for T–bonds increased by 203-288 bps for 2 – 15 years during the year.
- The benchmark yield curve was extended up to 20 years with the issue of 20-year government T- bond in February 2012 at a yield rate of 11.00 per cent.
- The fifth International Sovereign Bond (ISB) in USD was issued in July 2012 for USD 1,000 million with a 10-year maturity at the interest rate of 5.875 per annum.

5. *Broadening the Investor Base*

- Number of investors in government securities, as recorded in the Central Depository System (CDS) of LankaSecure, increased by 3.42 per cent to 78,896 during 2012.
- The value of bids for the fifth ISB for USD 1,000 million exceeded 10.5 times the offered amount.
- During 2012, the total net inflow from foreign investors into T-bills and T-bonds amounted to Rs. 128.2 billion
- As at 31 December 2012, the total foreign investment in the rupee denominated T - bills and T - bonds amounted to Rs. 80.2 billion and Rs. 317.6 billion, respectively, when compared with Rs. 70.1 billion and Rs. 199.5 billion at end 2011.

6. *Infrastructure Developments*

- Upgrading of LankaSettle and LankaSecure (new version 3.6) introduced many new features to make the day-to-day business operations more efficient and effective.
- Standardization of the Investor Information Registration in the CDS of LankaSecure was initiated in order to streamline customer data recording while enhancing the safety of investors in government securities.
- An Electronic Trading (E-Trading) Platform was introduced to promote secondary market trading of Government Securities.
- FInNet, an online data reporting facility for Primary Dealers (PDs) was introduced to enhance the

efficiency and effectiveness of off-site surveillance.

- With a view to develop the domestic debt market measures have been taken to put in place an E-Trading Platform and a Central Counterparty arrangement for settlement of debt securities.

7. Market Development Activities

- Conducted 8 public investor awareness programmes, including seminars, participation in an exhibition and TV programmes during the year to educate general public on investments in government debt securities.

8. Primary Dealer System

- The overall financial performance of PDs in terms of assets growth, capital funds, liquidity and profitability demonstrated an improvement in 2012 in comparison to the significant deceleration recorded in 2011.
- Total assets and total portfolio of government securities held by PDs significantly grew by 20.87 per cent and 20.57 per cent, respectively, during 2012 in comparison to the marginal growth of 4.32 per cent and 4.64 per cent, respectively, in 2011.
- PDs' reliance on repo borrowings as a source of funding increased due to illiquid nature of the market as a result of rising yield rates. Accordingly, the total repo outstanding of all PDs increased by 21.45 per cent to Rs. 103.6 billion as at end 2012 from Rs. 85.3 billion as at end 2011. The growth in repo borrowings of PDs in 2011 was only 13.28 per cent.
- Total capital funds of PDs increased by 11.11 per cent to Rs. 16 billion as at end 2012 from Rs. 14.4 billion as at end of 2011 due to infusion of new capital and accumulated retained earnings.
- Key prudential indicators such as Capital Adequacy Ratio (CAR) and Leverage Ratio of PDs remained at healthy levels in 2012.
- Profitability, as measured in terms of Return on Assets (ROA) and Return on Equity (ROE), of PDs has increased. ROA and ROE increased from 1.14 per cent and 7.75 per cent, respectively, in 2011 to 1.95 per cent, and 15.97 per cent respectively, in 2012 mainly due to mark-to-market gains and capital gains.
- Secondary market transactions, dominated by repo transactions in government securities, increased by 9.00 per cent to Rs. 7,830.5 billion during the year in comparison to Rs. 7,184 billion in 2011.
- Exposure to market risk decreased due to the reduction in the proportion of trading portfolio of PDs.
- The mismatch in short-term funding structure of PDs narrowed in 2012 to Rs. 11.2 billion, from Rs. 14.2 billion in 2011 and as a result, the overall liquidity risk exposure of the PD industry decreased.
- The total number of PDs remained at 12 and no new PDs were appointed during the year 2012.

2. Public Debt Management in 2012

Overview

The year 2012 was yet another challenging year for the public debt management as the macroeconomic condition of Sri Lanka was affected by unfavourable domestic and international developments which are not conducive for a healthy debt profile. Domestically, the policy rates were revised upward twice during the first half of 2012. The exchange rate policy in 2012 was mainly focused on allowing greater flexibility, by limiting the Central Bank's intervention in the domestic foreign exchange market, and as a result the rupee depreciated by about 18 per cent during the first half of 2012. The administrative price adjustment on fuel and drought condition had caused the inflation to remain at the upper single digit level during most months of the year. Internationally, on the other hand, the capital markets were overshadowed by the European sovereign debt crisis while many central banks in developed countries continued to provide liquidity to the market.

As a result of the above developments in the domestic market, domestic borrowing cost increased sharply during the first three quarters of 2012, shifting the investor preference toward shorter end of the yield curve. Further, the depreciation of the rupee had a direct impact on the rupee value of foreign debt service payments. Unfavourable international market conditions had a direct negative impact on the level of concessional foreign financing. However, with the soaring liquidity in the international markets, the cost of new borrowing from foreign sources reduced substantially during the year.

The Central Bank of Sri Lanka (CBSL), in line with the Medium Term Debt management Strategy (MTDS), adopted several measures to minimize the negative impact of the aforementioned developments on the borrowing cost and the risk profile of the public debt portfolio. As a result and also with improved inflows of foreign investments into Treasury bills (T-bills) and Treasury bonds (T-bonds), the pressure on domestic interest rate eased substantially towards the latter part of the year. With the downward revision to the policy rate in mid-December 2012 and the appreciation of the rupee during the second half of 2012, CBSL had been able to further strengthened the debt dynamics of the country while improving the risk profile of the public debt portfolio.

Targets and Strategies for Government Borrowings

The gross borrowing limit of the government for 2012, including a provision of Rs. 35 billion for contingencies, as approved by the parliament under the appropriation Act No. 52 of 2011, amounted to Rs. 1,139 billion, an increase of Rs. 142 billion (14.24 per cent) over the corresponding amount of Rs 997 billion for 2011. As per the annual borrowing programme, Rs. 767.8 billion was expected to be raised from domestic sources and the balance of Rs. 371.2 billion from the foreign sources. Meanwhile, total net financing requirement for 2012 was estimated at Rs 468.9 billion of which, Rs 271.6 billion was expected to be raised from domestic sources while the balance Rs. 197.3 billion to be raised from foreign sources.

TABLE 1

GOVERNMENT BORROWINGS IN 2012 [a]

	Original Plan [b]		Actual [c]	
	Rs. billion	%	Rs. billion	%
Net Borrowing				
Domestic	271.6	57.92	286.5	58.59
Foreign	197.3	42.08	202.5	41.41
Total	468.9	100.00	489.0	100.00
Gross Borrowing by Instrument				
Domestic	**767.8**	**67.41**	**656.7**	**57.66**
T- bonds[d]	666.9	58.55	513.1	45.05
T-bills	50.0	4.39	16.8	1.47
SLDBs	36.2	3.18	60.4	5.31
CBSL advances	14.7	1.29	16.5	1.45
Domestic banks and other sources	0.0	0.00	49.9	4.38
Foreign	**371.2**	**32.59**	**482.3**	**42.34**
Project/ Programme Loans	270.3	23.73	231.8	20.35
Commercial Loans	100.9	8.86	250.5	21.99
International Bond	57.5	5.05	130.7	11.47
Treasury Bonds	43.4	3.81	113.8	9.99
Treasury Bills	0.0	0.00	6.0	0.53
Total	1,139.0	100.00	1,139.0	100.00

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

(a) Book Value
(b) Net borrowings as per Budget 2012
(c) Provisional
(d) Excludes Rs. 53.9 billion and Rs. 13.5 billion T-bonds issued to Ceylon Petroleum Corporation (CPC) and Sri Lankan Airlines

In line with the public debt related norms as enumerated in the MTDS for 2012-2016, the borrowing plan and related strategies for 2012 were aimed at further strengthening the debt dynamics over the medium term. Accordingly, the key objectives of the borrowing strategy for 2012 included mobilization of funds at the lowest possible costs, enhancing the Average Time-to-Maturity (ATM) of the debt portfolio, reducing the share of foreign currency debt in the total debt, broadening and diversification of investor base, extending the benchmark rupee yield-curve and establishment of a new benchmark yield curve for USD borrowing.

As given in Table 1, 2012 borrowing programme envisaged to raise 61.73 per cent of the gross borrowing requirement in the form of T-bonds (58.55 per cent) and Sri Lanka Development Bonds (SLDB) (3.18 per cent) issued in the domestic market. Accordingly, the reliance on domestic short-term borrowings, mainly through T-bills and advances from CBSL, intended to be limited to 5.68 per cent of the gross borrowing requirement of 2012.

The total financing from foreign sources envisaged in the 2012 gross borrowing programme was limited to 32.59 per cent (Rs. 371.2 billion) of the gross borrowing requirement. This included Rs. 270.3 billion (23.73 per cent) in the form of project related loans and a further Rs. 100.9 billion (8.86 per cent) of commercial borrowing by way of International Sovereign Bonds (ISB) and foreign investments in T-bonds.

The composition of actual borrowings had been revised during the year in line with domestic and international market developments, considering the cost and the possible negative implications on the risk profile. Accordingly, total gross borrowings from domestic sources were reduced to 57.66 per cent of the gross borrowing requirement (Rs. 656.7 billion) against the planned 67.41 per cent (Rs. 767.8 billion). Of the domestic borrowings, Rs. 513.1 billion (45.05 per cent) was against the planned Rs. 43.4 billion for 2012. This strategy was adopted to ease the pressure on domestic interest rates while enhancing the ATM of the domestic debt portfolio.

The Primary Market Weighted Average Yield

TABLE 2

T-BILLS PRIMARY AUCTION YIELD RATES AND T-BILLS COMPOSITE RATE - 2012

Year	Month	Monthly Weighted Average Yield Rates on T-bills (Per cent per annum)			
		91 Days	182 Days	364 Days	Composite Rate
2011	December	8.37	8.54	9.08	8.59
	Total	**7.28**	**8.02**	**7.41**	**7.31**
2012	January	8.67	8.71	9.31	8.85
	February	9.21	9.25	9.66	9.34
	March	10.53	10.49	10.69	10.56
	April	11.72	11.64	11.58	11.68
	May	12.00	12.33	12.49	12.19
	June	10.99	12.33	12.71	12.07
	July	11.31	12.85	13.12	12.65
	August	11.38	12.94	13.24	12.66
	September	11.39	12.97	13.17	12.75
	October	10.71	11.90	12.39	12.19
	November	10.73	12.05	12.76	12.16
	December	10.22	11.70	12.22	11.91
	Total	**10.72**	**12.29**	**12.14**	**11.81**

Source: Central Bank of Sri Lanka

raised through T-bonds, as against the planned amount of Rs. 666.9 billion (58.55 per cent). However, the total of SLDB issuances in 2012 amounted to Rs. 60.4 billion and represented 5.31 per cent of the actual gross borrowing against the planned 3.18 per cent. As in previous years, superannuation funds were the largest domestic investors in long dated T-bonds, representing 46.30 per cent of the total issuance.

Actual gross borrowings from foreign sources in 2012, on the other hand, increased to 42.34 per cent (Rs. 482.3 billion) of the gross borrowing limit against the planned 32.59 per cent (Rs. 371.2 billion). This was mainly due to an increase of the issue size of the fifth ISB to USD 1,000 million against the planned USD 500 million and total gross foreign investments of Rs. 119.8 billion in T-bills (Rs. 6 billion) and T-bonds (Rs. 113.8 billion)

Rate (PMWAYR) of T-bills showed an increasing trend during the first half of 2012. The monthly Weighted Average Yield Rates (WAYR) of 91 days, 182 days and 364 days T-bills increased by 262 bps, 379 bps and 363 bps, respectively as of June 2012 compared to December 2011. The increasing trend in primary market yield rates decelerated during the third quarter of 2012 by limiting the increase in monthly WAYR of 91 days, 182 days and 364 days T-bills to 40 bps, 64 bps and 46 bps respectively from June to September. However, during the fourth quarter of 2012, T-bill yield rates began to move downward, especially after the easing of the policy rate in December 2012. Accordingly, the monthly WAYR of 91 days, 182 days and 364 days T-bills decreased by 117 bps, 127 bps and 95 bps respectively, from September to December 2012. A similar trend was observed in T-bond yield rates as well.

In line with the movements of T-bill yield rates, the annualized composite yield rate of T-bills also recorded an increase of 450 bps to 11.81 per cent in 2012 from 7.31 per cent in 2011. Similarly, annualized composite yield rate of T-bonds also increased by 382 bps to 12.46 per cent in 2012 compared to 8.64 per cent in 2011.

Despite the unfavourable global economic conditions followed by negative rating actions on many countries by international rating agencies, Sri Lanka continued to maintain its sovereign rating unchanged in 2012. Considering the strong policy measures taken by the government and CBSL to ensure economic and price stability and the financial system stability, improving macroeconomic indicators, the external liquidity and unblemished track records in servicing debt, three credit rating agencies, namely, Standard & Poor's (S&P), Fitch Ratings (Fitch) and Moody's Investors Service (Moody's) affirmed their credit ratings on Sri Lanka. Accordingly, S&P affirmed its rating on Sri Lanka at B+ with a 'Stable' outlook, Fitch affirmed its BB- rating with 'Stable' outlook and Moody's affirmed its B1 rating with 'Positive' outlook.

TABLE 3

INCREASE IN OUTSTANDING GOVERNMENT DEBT

Rs. billion

Description	2010	2011	2012 (a)
Net Borrowing	451.0	457.4	489.0
Effect of Parity variance	-4.7	85.6	127.2
Discount Effect	-13.0	7.5	165.1
Other	-4.5	-7.3	85.4
Total Increase	**428.8**	**543.1**	**866.7**

(a) Provisional

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

In view of the low interest rates in the international markets, the Government of Sri Lanka (GOSL) issued its fifth ISB for USD 1,000 million, with a ten-year maturity, in July 2012. Reflecting an overwhelming investor confidence, the offer was oversubscribed by more than 10 times to a total bid value amounting to USD 10.5 billion. The issue was priced at a fixed coupon rate of 5.875 per cent, equivalent to a spread of 437 bps over the 10 year US Treasuries. Part of the proceeds from the issuance of sovereign bond was utilized to settle the first Sri Lankan sovereign bond of USD 500 million which matured in October 2012.

Foreign investors showed a renewed interest to invest in T-bills and T-bonds, subsequent to the issuance of the fifth ISB in July 2012. Accordingly, the total investments by foreigners in T-bills and T-bonds increased to Rs. 397.8 billion or 12.41 per cent of the total outstanding value[1] of T-bills and T-bonds as at end 2012. The threshold for foreign investments in T-bills and T-bonds was revised upward to 12.50 per cent from 10 per cent in December 2011.

The funds raised through concessional and non-concessional project / programme loans in

TABLE 4

KEY DEBT INDICATORS – END 2012

Description	2010	2011	2012(a)
Debt/GDP ratio (%)	81.93	78.46	79.14
Government Budget Deficit/GDP (%)	7.96	6.88	6.45
Interest Cost/GDP ratio (%)	6.29	5.45	5.39
Interest Cost/Government Revenue ratio (%)	42.20	38.10	41.35
ATM of Domestic Debt (Years)	2.10	2.35	3.23
ATM of Total Debt (Years)	5.25	5.32	5.74
Share of Foreign currency debt to Total Debt (%)	43.10	44.10	43.58

(a) Provisional

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

1 Including Rs. 78.4 billion worth T-bonds issued to CPC

TABLE 5
OUTSTANDING GOVERNMENT DEBT (AS AT END OF YEAR)

	2010	2011 [a]	2012 [b]
Outstanding Debt (Rs. bn) - By Source			
Domestic	2,565.7	2,804.1	3,232.8
Foreign	2,024.6	2,329.3	2,767.3
Total	4,590.2	5,133.4	6,000.1
Outstanding Debt (Rs. bn) - By Currency			
Domestic Currency	2,612.8	2,869.9	3,385.3
Foreign Currency	1,977.5	2,263.5	2,614.8
Total	4,590.2	5,133.4	6,000.1
Outstanding Debt (% of GDP) - By Source			
Domestic	45.80	42.86	42.64
Foreign	36.14	35.59	36.50
Total	81.93	78.46	79.14
Outstanding Debt (% of GDP) - By Currency			
Domestic Currency	46.64	43.85	44.65
Foreign Currency	35.30	34.59	34.49
Total	81.93	78.46	79.14

(a) Revised
(b) Provisional

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

TABLE 6
NET INCREASE OF DEBT IN RUPEE TERMS DUE TO MOVEMENT IN EXCHANGE RATES

Rs. billion

Currency	2010	2011	2012 [a]
Special Drawing Rights	-10.2	13.4	70.6
Japanese Yen	44.4	39.8	4.8
US Dollar	-25.9	34.7	21.1
Euro	-14.0	1.8	20.5
Other	1.0	-4.2	10.2
Total	-4.7	85.6	127.2
Memo: End Year Exchange Rates (Sri Lanka Rupees per Unit of Foreign Currency)			
Special Drawing Rights	170.84	174.87	195.31
Japanese Yen	1.36	1.47	1.48
US Dollar	110.95	113.90	127.16
Euro	147.56	147.42	168.13

(a) Provisional

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

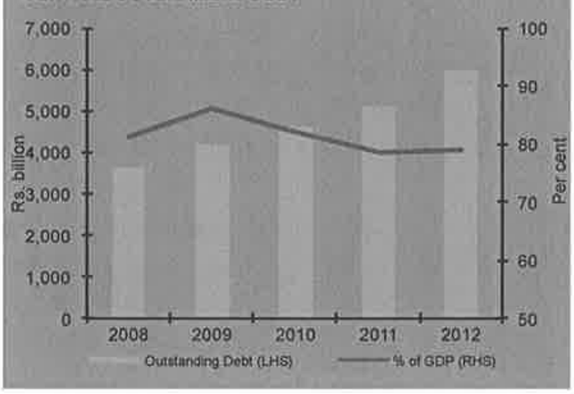
2012 amounted to Rs. 231.8 billion against the estimated amount of Rs. 270.3 billion, continuing the contraction in availability of such financing.

Debt Level

The total government debt at the end of 2012 stood at Rs. 6,000.1 billion recording an increase of Rs. 866.7 billion during the year 2012. Of this increase, Rs. 428.7 billion was due to the increase in domestic debt, while the balance Rs. 438 billion was due to the increase in Rupee value of foreign debt which includes the effect of unfavourable increase of Rs. 127.2 billion in rupee value of foreign debt due to the depreciation of the rupee against foreign currencies in 2012.

Debt to GDP ratio, a key debt sustainability indicator, recorded a slight increase of 0.68 percentage points from 78.46 per cent in 2011 to

CHART 1
CENTRAL GOVERNMENT DEBT



79.14 per cent in 2012. The debt to GDP ratio, excluding the increase of Rs. 127.2 billion in rupee value of foreign debt due to the unfavourable change in exchange rates, increased to 77.46 per cent for the year 2012 compared to 77.15 per cent at the end of 2011. The impact of the rupee depreciation had

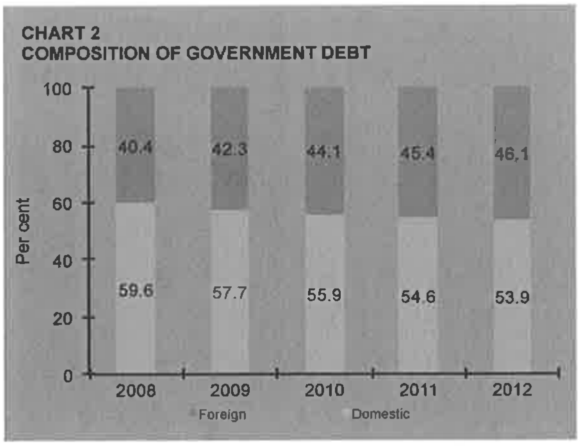


CHART 2
COMPOSITION OF GOVERNMENT DEBT

negative implications on other key debt indicators, including government's budget deficit/GDP Ratio and government revenue and duration of the debt portfolio in 2012.

At end 2012, the domestic debt increased by Rs. 428.7 billion (15.29 percent) to Rs. 3,232.8 billion, while the foreign debt increased by Rs. 438 billion (18.80 per cent) to Rs. 2,767.3 billion.

The domestic currency debt stock increased by Rs. 515.4 billion (17.96 per cent) to Rs. 3,385.3 billion at the end of 2012. This increase was mainly due to the issuances of T-bonds in place of maturing T-bills and the increased foreign investment in government securities. The rupee value of foreign currency denominated government debt stock increased by Rs. 351.4 billion (15.53 per cent) to Rs. 2,614.8 billion at the end of 2012. This was mainly due to the net increase of USD 500 million in outstanding value of ISB, new issuances of SLDBs, borrowings from multi-lateral and bi-lateral sources and also the unfavourable increase in rupee value of foreign debt due to the depreciation of the Sri Lanka rupee against foreign currencies.

The Structure of the Public Debt Portfolio

Domestic Debt

Even though, the total domestic debt stock of the government increased by Rs. 428.7 billion during the year and stood at Rs. 3,232.8 billion as at end 2012, the share of domestic debt in the total government debt, however, recorded a marginal decline to 53.88 per cent compared to 54.62 per cent in 2011. The total domestic debt as a percentage of GDP slightly decreased to 42.64 per cent in 2012 from 42.85 per cent in 2011.

Composition of Domestic Debt

There were no new Rupee Loans issued in 2012. However, part of the outstanding Rupee Loans was settled in April 2012 and therefore, the Rupee Loan stock decreased to Rs. 58.4 billion or to 1.81 per cent of the total domestic debt stock at the end of 2012 from Rs. 62 billion or 2.21 per cent at the end of 2011.

In 2012, The Government's borrowings

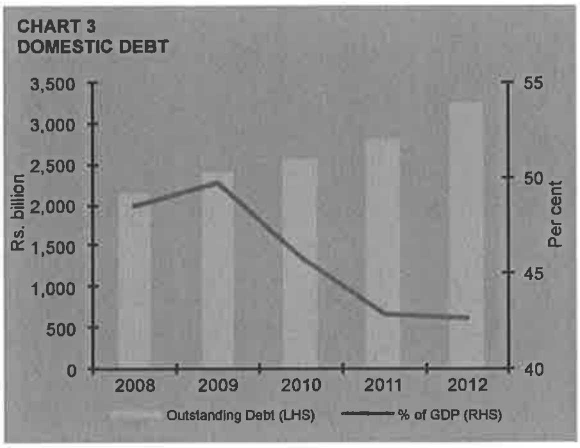


CHART 3
DOMESTIC DEBT

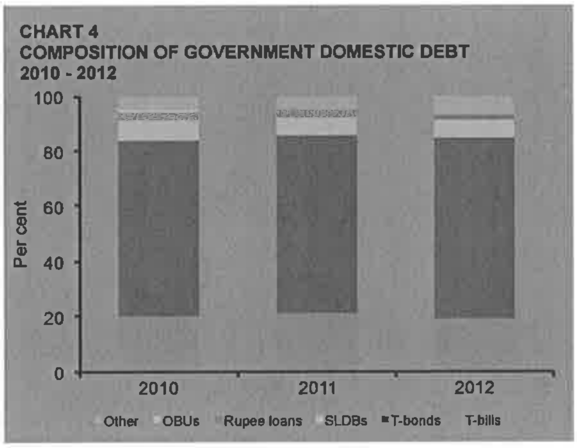


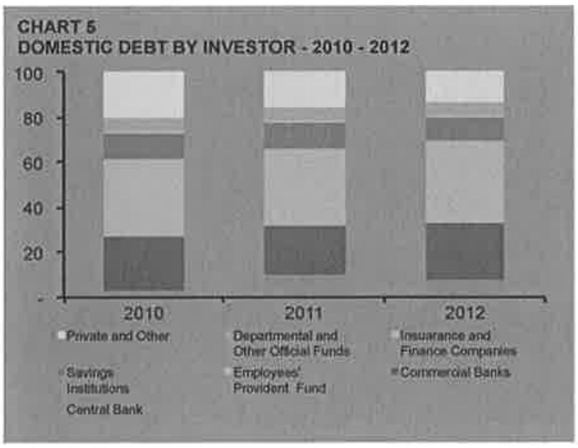
CHART 4
COMPOSITION OF GOVERNMENT DOMESTIC DEBT
2010 - 2012

from the two state banks in the form of temporary overdrafts increased by Rs 46.6 billion to Rs 96.8 billion or 2.99 per cent of the total domestic debt at the end of 2012 from Rs. 50.2 billion or 1.79 per cent at the end of 2011. Further, the share of non-tradable domestic debt stock, including Rupee Loans, borrowings from Off-shore Banking Units (OBUs), CBSL advances and overdrafts with two state banks, increased to Rs. 285.7 billion or 8.84 per cent of the total domestic debt at the end of 2012 from Rs. 210.1 billion or 7.49 per cent as at end 2011. Consequently, the relative share of total tradable debt instruments in the total domestic debt decreased from 92.51 per cent at the end 2011 to 91.16 per cent as at the end of 2012. Furthermore, rupee equivalent of the foreign currency denominated domestic debt increased to Rs. 242.1 billion or 7.49 per cent of the total domestic debt stock at the end of 2012 from 7.17 per cent or Rs. 200.9 billion at the end of 2011.

Domestic Debt by Investor Base

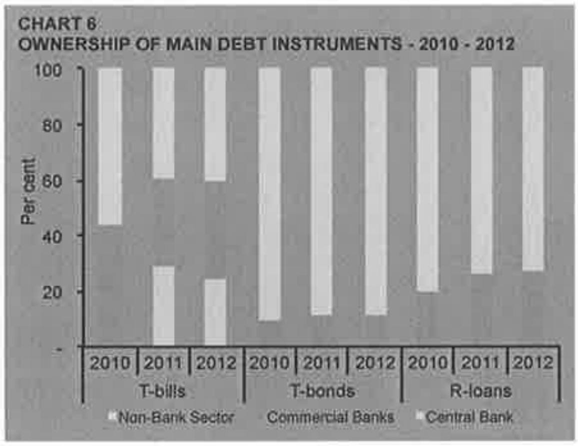
Banking Sector and Non-bank Sector

Non-bank sector, consisting of Employee Provident Fund (EPF) and National Savings Bank (NSB), insurance companies, and other official funds, continued to be the major holders of domestic debt of the government at the end of 2012. The share of total non-bank sector holdings of domestic debt of the government debt in the total domestic debt stood at 67.26 per cent at the end of 2012 in comparison to 68.40 per cent in 2011. However, the private business entities



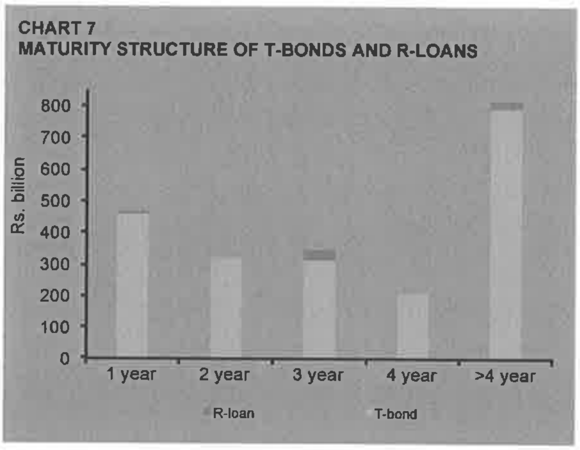
and individuals and insurance funds had reduced their holdings in the Government securities by Rs. 21.4 billion (4.78 per cent) and Rs. 0.6 billion (1.74 per cent) to Rs. 426 billion and Rs. 33.8 billion respectively, while Provident and Pension Funds increased their holdings of domestic debt instruments of the government by Rs. 245.4 billion or 25.58 per cent during the year to Rs. 1,204.7 billion as at the end of 2012 from Rs. 959.3 billion at the end of 2011.

Investment in domestic debt instruments of the government by the banking sector, i.e. Licensed Commercial Banks (LCB) and CBSL, increased



by Rs. 172.1 billion (19.4 per cent) to Rs. 1,058.4 billion at the end of 2012, mainly due to Rs. 170.3 billion incremental investments by LCBs in such debt instruments. LCBs' holding of domestic debt instruments of the government increased to Rs. 793.2 billion or 24.5 per cent of the total domestic debt at the end of 2012 from Rs. 622.9 billion (22.20 per cent) in 2011. LCB's holding of T-bills and T-bonds increased by Rs. 33.9 billion and Rs. 36.3 billion respectively during year to Rs. 219.7 billion and Rs. 242.8 billion, respectively at the end of 2012.

Meanwhile, non-bank sector investment in government securities increased by Rs. 256.5 billion of which, the increase in T-bills and T-bonds amounted to Rs.20 billion and Rs. 239.5 billion respectively, to Rs.255.3 and Rs. 1,852.2 billion respectively.

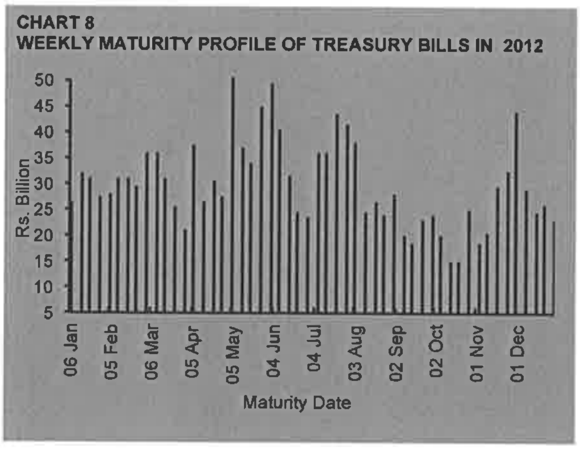


Maturity Structure of the Domestic Debt

As at end 2012, short term domestic debt amounted to Rs. 813.3 billion. CBSL was able to maintain the short term debt at a stable level of around 25 per cent of the total domestic debt held in 2012 and 2011. However, the short term non-instrumental borrowings by way of overdraft from two state owned commercial banks increased by Rs. 46.6 billion to Rs. 96.8 billion. In order to reduce the refinancing risk, CBSL issued medium to long term T-bonds and extended the yield curve for T-bonds. As a result, there was a sharp increase in ATM of T-bonds from 2.90 years in 2011 to 3.99 years in 2012. However, ATM of Rupee Loans decreased from 6.05 years in 2011 to 5.41 years in 2012 mainly due to the repayment of the existing loans. ATM of all domestic loans increased from 2.35 years in 2011 to 3.23 years at the end of 2012. ATM of domestic debt increased over and above 3 years in 2012 for the first time since 2006.

Foreign Debt

The rupee value of total foreign debt stock amounted to Rs. 2,767.3 billion at the end of 2012, an increase of Rs. 438 billion (18.80 per cent) compared to the Rs. 2,329.3 billion at the end of 2011. As a percentage of GDP it increased to 36.50 per cent at the end of 2012 from 35.59 per cent at the end of 2011. The increase was mainly attributable to the unfavourable increase in rupee value of the foreign debt owing to the depreciation of the rupee against major currencies and also to the absolute increase in foreign debt stock. The increase in the foreign debt stock as a result of the above mentioned increase amounted to Rs. 127.2 billion. During the year project related loans



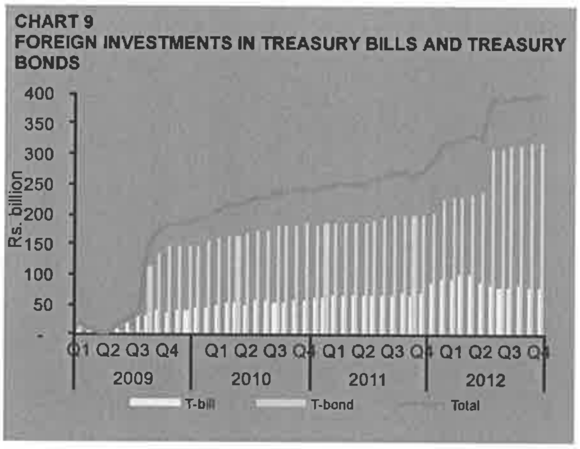


TABLE 7

DURATION AND AVERAGE TIME TO MATURITY (ATM) OF DOMESTIC CURRENCY DEBT (AS AT END OF YEAR)

Instrument	Duration(a) (Years)			Average Time to Maturity (Years)		
	2010	2011	2012	2010	2011	2012
Treasury bills	0.43	0.30	0.37	0.43	0.31	0.38
Treasury bonds	2.01	1.36	2.44	2.41	2.90	3.99
Rupee loans	3.99	3.91	3.67	6.45	6.05	5.41
Overall	**1.74**	**1.18**	**1.89**	**2.10**	**2.35**	**3.23**

(a) Weighted average maturity of the cash flows

Source: Central Bank of Sri Lanka

TABLE 8

COMPOSITION OF FOREIGN DEBT

Category	2011(a)		2012(b)	
	Rs. billion	%	Rs. billion	%
Concessional	**1,328.8**	57.05	**1,369.6**	49.49
Bilateral	657.9	28.24	574.5	20.76
Multilateral	624.6	26.82	670.7	24.24
Other	46.3	1.99	124.4	4.49
Commercial	**1,000.5**	42.95	**1,397.7**	50.51
Sovereign Bonds	341.7	14.67	445.1	16.08
Bilateral	138.6	5.95	281.5	10.17
Multilateral	97.3	4.18	173.6	6.27
Others	422.9	18.15	497.6	17.99
Total	**2,329.3**	**100.00**	**2,767.3**	**100.00**

(a) Revised

(b) Provisional

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

increased by Rs. 206.7 billion and commercial loan stock was increased by Rs. 231.3 billion. The commercial loan stock increased due to the net increase of USD 500 million in fifth ISB issuance and the net investments of Rs. 128.2 billion in T-bills and T-bonds by foreign investors during the year.

Composition of Foreign Debt

Total amount of funds raised through concessional, bi-lateral and multi-lateral loans for specific projects and programmes representing 45 per cent of total foreign debt declined by Rs. 7.3 billion (10 per cent) to Rs. 1,245.2 billion at end 2012. In spite of the Rs. 40.8 billion increase in concessional loans to Rs. 1,369.6 billion at the end of 2012, the relative share of concessional loans in the total foreign debt stock decreased to 49.49 per cent as at the end 2012 from 57.05 per cent as at the end 2011 while, the share of commercial and other non-concessional loans increased to 50.51 per cent at the end 2012 from 42.95 per cent at the end of 2011 as a result of the sharp increase of Rs. 397.3 billion in 2012. This was mainly due to the gradual diminishing of the ability of the country to access new concessional loans as a result of its elevation to "lower middle income economy" status, and hence gradual increase in dependence on commercial borrowing to bridge the domestic investment savings gap.

Total bi-lateral loans for 2012 amounted to Rs. 856 billion and constituted 30.93 per cent of total foreign debt and the share of total multi-lateral loans of Rs. 844.3 billion was 30.51 per cent. Total

CHART 10
FOREIGN DEBT

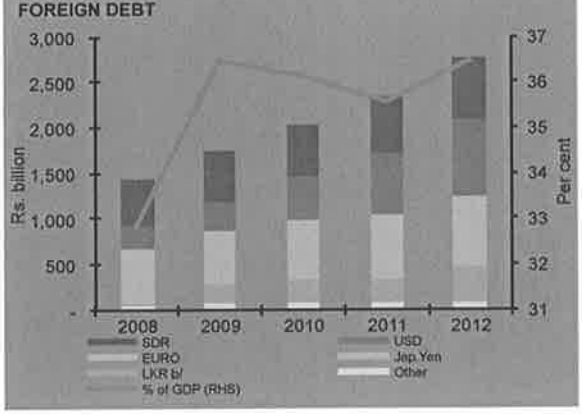


CHART 11
FOREIGN DEBT BY CONCESSIONALITY - 2010-2012

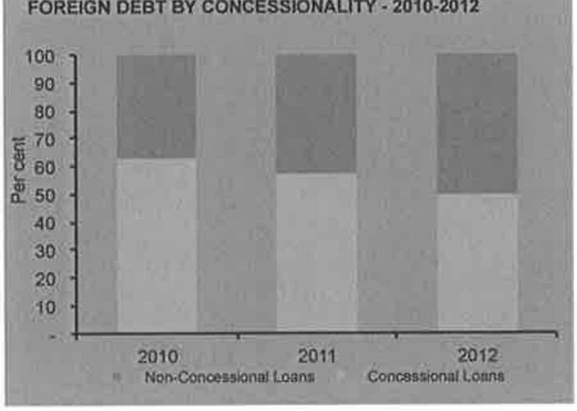


TABLE 9

MATURITY, GRANT ELEMENT & INTEREST RATES OF FOREIGN DEBT 2012

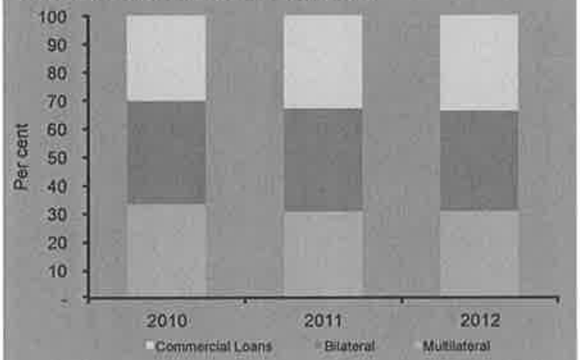
Donor Category	Amount Rs. billion	Grace Period (Yrs)	Repayment Period (Yrs)	Grant Element (%)	Avg. Interest Rates(a) (% p.a.)
Bi-lateral	855,996	0 - 21	0 - 40	0 - 92	2.57
Multi-lateral	844,292	0 - 18	2 - 50	(80) - 94	0.92
Commercial	851,877	2 - 11	0 - 20	(14) - 43	7.50
Export credit	215,135	1 - 13	1 - 18	(12) - 66	1.87
Average	**2,767,300**				**2.75**

(a) Interest paid in 2012/Disbursed outstanding debt as at end 2011

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

of the commercial loans amounting to Rs. 1,397.7 billion (50.51 per cent) of the total foreign loans included Export Credits of Rs. 215.1 billion and ISBs of Rs. 445.1 billion.

CHART 12
FOREIGN DEBT BY SOURCE - 2010-2012



Currency Composition of Foreign Debt

The currency composition of foreign debt at the end of 2012 revealed that the share of the USD denominated loans increased from 29.14 per cent in 2011 to 30.86 per cent in 2012. Further, the concentration of the foreign debt on four major currencies, i.e. USD, Special Drawing Right (SDR), Japanese Yen and Euro, reduced to 82.51 per cent in 2012 from 83.32 per cent in 2011. Meanwhile, foreign debt denominated in Sri Lankan Rupee increased from 11.57 per cent in 2011 to 14.37 per cent in 2012 due to increase in foreign holdings of T-bills and T-bonds.

Duration of Foreign Debt

Reflecting the decrease in concessional loans with features such as long grace periods and repayment periods and relative increase in commercial borrowings from the international capital markets, ATM of foreign debt decreased to 8.72 years as at the end of 2012 from 9.01 years at end of 2011. Meanwhile, the duration of foreign currency loans also decreased by 0.76 years from 7.55 years in 2011 to 6.78 years as at the end of 2012.

Usage of Foreign Debt

The debt raised through foreign sources was mainly used for the economic development activities and stood at 55.20 per cent at the year end compared to 50 per cent in 2011. Out of the total outstanding foreign debt, at the end of 2012, Rs. 1,529 billion or 55.25 percent had been used for various economic services including countrywide energy, water supply, roads and bridges, telecommunication, port and shipping etc. The foreign debt usage for social services was recorded as the second major sector at 10.12 per cent. However, it is noticeable that 2.10 per cent of the debt has used for commodities and foods in 2012 compared to 1.80 per cent in 2011.

TABLE 10

CURRENCY COMPOSITION OF FOREIGN DEBT (AS AT END OF YEAR) **Per Cent**

Currency	2010	2011[(a)]	2012 [(b)]
US Dollar	23.54	29.15	30.85
Special Drawing Rights	28.27	25.83	24.68
Japanese Yen	25.13	24.05	20.79
Sri Lanka Rupee[(c)]	11.90	11.57	14.37
Euro	7.03	6.30	6.31
Other	4.13	3.10	3.00
Total	100.00	100.00	100.00
Memo: Total External Debt (Rs.billion)	2,024.6	2,329.8	2,767.3

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

(a) Revised

(b) Provisional

(c) Non-residents' investments in T-bills and T- bonds

TABLE 11
USE OF FOREIGN DEBT BY MAJOR SECTORS (a)

Rs. billion

Economic Sector	2011	%	2012(b)	%
1. Economic Services	**1,359.9**	**58.38**	**1,529.0**	**55.25**
1.1 Agricultural Development	**163.7**	**7.03**	**178.2**	**6.44**
Agriculture	45.2	1.94	48.9	1.77
Fishing	10.1	0.43	10.7	0.39
Forestry	6.3	0.27	6.7	0.24
Plantation	35.5	1.52	37.1	1.34
Irrigation & Related Activities	66.3	2.85	73.3	2.65
Livestock Development	0.2	0.01	1.5	0.05
1.2 Industrial/Construction	**611.7**	**26.26**	**724.7**	**26.19**
Energy	273.5	11.74	263.4	9.52
Water Supply	134.8	5.79	159.6	5.77
Industrial Development	31.1	1.33	32.9	1.19
Roads and Bridges	170.0	7.30	266.4	9.63
Other Construction	2.3	0.10	2.5	0.09
1.3 Service Sector	**427.9**	**18.37**	**455.3**	**16.45**
Telecommunications	39.2	1.68	37.7	1.36
Ports & Shipping	123.7	5.31	100.1	3.62
Ground Transport	161.0	6.91	205.9	7.44
Air Transport	21.7	0.93	20.9	0.75
Finance, Insurance, etc.	79.8	3.43	88.3	3.19
Trade	2.5	0.11	2.4	0.09
1.4 Other Economic Services	**156.7**	**6.73**	**170.8**	**6.17**
Land Development	0.6	0.02	0.6	0.02
Management & Institutional Development	9.5	0.41	14.7	0.53
Information Technology Development	6.9	0.30	8.8	0.32
Private Sector Development	74.0	3.18	75.1	2.71
Rural Development	63.4	2.72	69.0	2.49
Science & Technology	2.3	0.10	2.5	0.09
2. Social Services	**242.4**	**10.41**	**280.0**	**10.12**
Education & Training	53.6	2.30	62.3	2.25
Health & Social Welfare	21.7	0.93	24.6	0.89
Environment	26.9	1.16	26.1	0.94
Housing & Urban Development	31.7	1.36	34.9	1.26
Labour & Vocational Training	6.4	0.28	7.0	0.25
Media	0.1	0.00	0.1	0.00
Rehabilitation	47.5	2.04	63.8	2.31
Sewerage	3.6	0.15	3.8	0.14
Tsunami Rehabilitation	50.9	2.19	57.4	2.07
3. Commodities & Food	**53.5**	**2.30**	**56.6**	**2.05**
Commodities	28.7	1.23	31.2	1.13
Food	24.8	1.06	25.4	0.92
4. Other Activities	**673.5**	**28.92**	**901.6**	**32.58**
Total Outstanding Debt	**2,329.3**	**100.00**	**2,767.3**	**100.00**

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

(a) Based on Outstanding External Debt data recorded in CS-DRMS as at end December 2012. Sovereign bond issues in 2009, 2010, 2011 and 2012 , and T-bills and T- bond s held by non-residents are recorded under other activities.
(b) Provisional

Box 1 - Improving the Market Infrastructure for Minimizing Asymmetric Nature of Information in Government Securities Market

Government securities market represents a key segment of the financial market in Sri Lanka and the efficiency and effectiveness of financial market is important to ensure the stability objectives of the country. Government securities market consists of two segments namely, primary market and secondary market. Primary market is the issuance platform for government securities such as Treasury bonds (T-bonds) and Treasury bills (T-bills). These are issued through primary auctions conduct by the Public Debt Department (PDD) of the Central Bank of Sri Lanka (CBSL). Primary Dealers (PDs) obtain their T-bills and T-bonds by directly participating in the primary auctions through a competitive bidding process. Secondary market is a trading platform for government securities. Key participants in the secondary market are PDs, Licensed Commercial Banks (LCB), licensed specialized banks, finance companies, insurance companies and other corporate and individual investors. The secondary market transactions in government securities consist mainly of outrights and repo transactions.

An anomaly in the financial market refers to a situation where either price and/ or rate of return is subject to some form of distortion. This particular state contradicts with the efficient and fair market trading. Market anomaly usually relates to (a) structural factors such as unfair competition, lack of market transparency and information asymmetry, and regulatory actions; (b) behavioral biases by economic agents etc. Information asymmetry refers to the lack of equal access to information by each and every investor where one party has the access to more or better information than the other. This situation leads to an imbalance of market power in transactions on government securities. Therefore, Asymmetric information may result in less return for one or both parties. Information asymmetry, in most cases, causes the transactions to get distorted and leads to a market failure. Some of the problems associated with information asymmetry are adverse selection, moral hazard, and information monopoly. This could lead to a harmful situation because one party can take the advantage of the other party's lack of knowledge.

Information asymmetry could often cause market anomaly because some participants have the advantage of access to information or sometimes both parties will not have access to the right position in the market. Such lack of information would eventually be reflected in abnormally high bid and ask spread, reluctance to enter the market. The efficient market trading postulates that a market is efficient when security prices reflect all the information. In an optimal situation, information is free and all investors have the opportunity to take advantage of available information and to make rational decisions about securities prices in the market. However, in reality, information is not free and investors engage in comparing cost of information against the potential gains acquired from the information. Efficiency in the securities market is based upon the underlying principle of publicly available information. When new information enters the securities market, prices will adjust quickly because investors will revise their expectations formed previously. They will start selling and buying securities based on their new beliefs and this will cause changes in prices of securities.

Addressing asymmetric in information is crucial because the efficient securities markets go hand in hand with the full disclosure of information. At present, information is not publicly available with respect to key areas in government security market in Sri Lanka. There are number of areas which would lead to a situation where information asymmetry in the market. However, the most contributing factor for inefficient market due to information asymmetry is the lack of an automatic price discovery mechanism in the market place.

Lack of an automatic price discovery on instruments traded in the market is the outcome of such information asymmetry in the government securities market in Sri Lanka. Reluctance of investors to participate in secondary market activities, substantially high buying and selling spread, and existence of an informal over-the-counter market are some of the negative outcomes due to asymmetric information driven market anomalies in the government securities market in Sri Lanka. This situation hinders the creation of a dynamic yield curve, making it difficult to broaden and deepen the cash market, certain players reluctant to transact with certain players, making market liquidity inadequate, non-existence of a derivative market, inability of the market players to hedge their risk exposure, tendency for buy and hold rather than trade for enhanced return etc.

A number of steps consist of strategic policy drive and rapid market infrastructure development drives are needed to overcome the current issues faced by the domestic government securities market, which would eventually minimize asymmetry in information. As the first step, proper market infrastructure has to be put in place to capture information on market flows. Such infrastructure should essentially include a trading platform for buyers and sellers to mark their interest with a central arrangement for the instantaneous settlement of cash and security legs of transactions entered into through either the Electronic Trading (E-Trading) platform or at the Over the Counter (OTC) market. While doing so, all transactions in government securities, irrespective of whether conducted through the proposed E-Trading platform or OTC, required to be settled through the proposed central clearing arrangement so essential information for building the much needed dynamic yield curve could be captured.

A central counterparty arrangement would essentially help in addressing the credit risk for market participants thereby making the buyers and sellers indifference about their transacting counterparties. If the settlement arrangement is much quicker as Delivery Versus Payment (DVP) III, the market liquidity in terms of the rupee leg and the security leg would be enhanced allowing the market players to increase the volume of transactions.

3. Servicing of Public Debt

Debt Service Payments

The Central Bank of Sri Lanka (CBSL) continued servicing of the public debt that includes payment of principal and interest as well as other contractual obligations in relation to the debt obtained by the Government of Sri Lanka (GOSL) while upholding the country's unblemished record of debt servicing in 2012. The total debt service payment in 2012, amounted to Rs. 1,017.5 billion recording an increase of Rs. 122.1 billion (13.64 per cent) compared to Rs. 895.4 billion in 2011. The repayment of USD 500 million (Rs. 64.5 billion) on account of the maturing 5-year International Sovereign Bond (ISB) issued in 2007 and also Rs. 24.1 billion increase in amortization payments on project related foreign loans mainly contributed towards the above increase. Further, higher than expected interest cost on domestic new borrowing as a result of the increase in domestic interest rates and the increase in the rupee value of the foreign currency debt service payments owing to the depreciation of the rupee against all major currencies also contributed to the increase in the total debt service payments in 2012.

Of the total debt service payments in 2012, Rs. 609 billion or 59.85 per cent represented amortization payments while the balance of Rs. 408.5 billion or 40.15 per cent represented payments of interest compared to the amortization payments of Rs. 538.7 billion (60.16 per cent) and interest payments of Rs. 356.7 billion (39.84 per cent) in 2011. In terms of the source of borrowing, Rs. 733.1 billion (72.05 per cent) of total debt service payments in 2012 was made to domestic sources on account of domestic debt while the remaining Rs. 284.4 billion (27.95 per cent) was made to foreign sources on account of foreign debt.

TABLE 12
DEBT SERVICE PAYMENTS

Rs. million

Category	2011	2012[(a)]
Domestic	728,028	733,100
Principal Payments [(b)]	439,894	415,441
Interest Payments [(c)]	288,134	317,659
Foreign[(d)]	167,354	284,368
Principal Payments [(e)]	98,789	193,529
Interest Payments [(f)]	68,565	90,839
Total Payments	895,382	1,017,468

(a) Provisional
(b) Excludes T-bond payments to non-residents.
(c) ExcludesT-bill & T-bond interest payments to non-residents.
(d) Excludes debt service payments on State Owned Enterprises (SOE).
(e) Includes T-bond payments to non-residents.
(f) Includes T-bill & T-bond interest payments to non-residents.

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

Total debt service payments as a percentage of total government revenue in 2012 stood at 103 per cent compared to 95.79 per cent in 2011. In addition to the aforementioned increase in debt service payments, the slow growth in government revenue contributed mainly to the deterioration in the ratio of debt service payments as a percentage of total government revenue. The government revenue grew only at 5.68 per cent in 2012 compared to 14.38 per cent growth in the previous year. However, total debt service payments as a percentage of Gross Domestic Product (GDP) improved to 13.42 per cent in 2012 compared to 13.68 per cent in 2011.

Amortization of Debt

The total of the amortization payments made in 2012 amounted to Rs. 609 billion showing an increase of 13.05 per cent over the Rs. 538.7 billion in 2011. Of the total amortization payments in 2012, Rs. 415.4 billion or 68.22 per cent represented domestic debt and the balance of Rs. 193.5 billion or 31.78 per cent represented foreign debt. Despite the above mentioned increase, total amortization payments as a percentage of GDP stood at 8.03 per cent in 2012 against 8.23 per cent in 2011.

Amortization of Domestic Debt

A sum of Rs. 415.4 billion was spent in 2012 on amortization of domestic debt compared to the Rs. 439.9 billion in 2011, a reduction of Rs. 24.5 billion or 5.57 per cent. This was mainly due to a net reduction of Rs. 5.6 billion in amortization of rupee denominated domestic loans owing to an early retirement of a relatively costly three series of Rupee Loans in 2011 and also a further reduction of Rs. 18.8 billion in the rupee value of the amortization of foreign currency denominated domestic debt.

Amortization of Foreign Debt

The rupee value of total amortization payment on account of foreign debt in 2012 amounted to Rs. 193.5 billion, recording an increase of Rs. 94.7 billion or 95.90 per cent over the Rs. 98.8 billion in 2011. In addition to the Rs. 64.5 billion on account of the repayment of USD 500 million for the first ISB, Rs. 24.1 billion increase in amortization payments on project loans and an increase in maturity of Treasury bonds (T-bonds) held by foreigners amounting to Rs. 6.1 billion contributed to the above mentioned increase in amortization of foreign debt.

Interest cost

The total interest cost on public debt for 2012 amounting to Rs. 408.5 billion recorded

TABLE 13
AMORTIZATION OF LOANS

Rs. billion

Source/ Instrument	2010	2011	2012 [a]
Domestic Debt	**389.7**	**439.9**	**415.4**
T- bonds [b]	293.2	346.2	369.6
Rupee Loans	24.6	25.7	3.6
OBU Loans	6.8	6.1	0.2
SLDBs	60.1	54.9	42.1
Other Domestic	5.0	6.9	-
Foreign Debt	**78.2**	**98.8**	**193.5**
T-bonds held by Foreigners	3.1	10.4	16.5
Sovereign Bond	-	-	64.5
Other	75.1	88.4	112.5
Total Amortization Payments	**467.9**	**538.7**	**609.0**

Sources: Central Bank of Sri Lanka

(a) Provisional

(b) Excludes T-bond capital payments to non-residents

TABLE 14

INTEREST COST ON PUBLIC DEBT

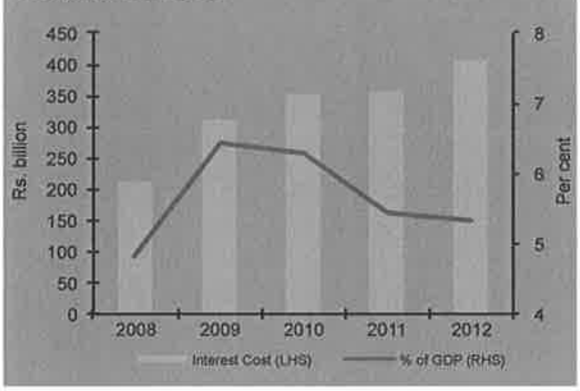
Rs. billion

Source/ Instrument	2010	2011	2012 (a)
Domestic Debt	**297.1**	**288.1**	**317.7**
T-bills (b)	58.9	46.3	65.0
T- bonds (c)	208.9	216.5	227.7
Rupee Loans	12.3	11.2	6.4
OBU Loans	1.1	0.9	1.1
SLDBs	7.9	8.2	8.9
Other Domestic (d)	8.0	5.2	8.6
Foreign Debt (e)	**55.5**	**68.6**	**90.8**
Total Interest Cost	**352.6**	**356.7**	**408.5**

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

(a) Provisional
(b) Excludes T-bills interest payments to non-residents
(c) Excludes T- bond interest payments to non-residents
(d) Includes interest on overdraft facility taken from Commercial Banks, administrative borrowings etc.
(e) Includes T-bills and T- bonds interest payments to non-residents

CHART 13
TOTAL INTEREST COST



an increase of 14.52 per cent or Rs. 51.8 billion over Rs. 356.7 billion in 2011. This increase was mainly attributable to the increase in interest paid on Treasury bills (T-bills) and T-bonds as a result of the substantial increase in domestic interest rate and the increase in rupee value of interest paid on foreign currency loans owing to the depreciation of the rupee against major foreign currencies in 2012.

The total interest cost on public debt as a percentage of the GDP in 2012 reduced to 5.39 per cent from 5.45 per cent in 2011. Further, the government spending on payment of interest on public debt in 2012 represented 41.35 per cent of its total revenue compared to 38.16 per cent in 2011.

Interest Cost on Domestic Debt

The interest cost on domestic debt increased by 10.25 per cent to Rs. 317.7 billion in 2012 from Rs. 288.1 billion in 2011 as a result of the increase in average domestic debt stock and also the increase in Primary Market Weighted Average Yield Rate (PMWAYR) on T-bills and T-bonds during the first three quarters of 2012. The domestic debt stock that stood at Rs. 2,804.1 billion at the end of 2011 increased by 15.29 per cent to Rs. 3,232.8 billion at the end of 2012. As shown in the Table 15, weekly PMWAYR on 91-day, 182-day and 364-day T-bills increased sharply by 276 bps, 441 bps and 405 bps up until 14th September 2012 and thereafter, gradually declined towards the year end.

Interest Cost on Foreign Debt

The total interest payments on foreign debt increased by 32.49 per cent or Rs. 22.3 billion to

TABLE 15

T-BILL PRIMARY AUCTION WEIGTHED AVERAGE YIED RATES

Per cent per annum

Period	30/12/2011	2012			
		30th March	29th June	14th September	28th December
91 days	8.68	11.00	11.12	11.44	10.00
182 days	8.71	11.06	12.61	13.12	11.32
364 days	9.31	11.32	12.88	13.36	11.69

Central Bank of Sri Lanka

TABLE 16

PRIMARY MARKET WEIGHTED AVERAGE INTEREST COST ON DOMESTIC BORROWING (a)

Per cent

Instrument	2010	2011	2012
T-bills	8.32	7.31	11.81
T-bonds	9.45	8.64	12.46
Rupee Loans(b)	-	-	-

Source: Central Bank of Sri Lanka

(a) Weighted average interest cost = ∑ (Amount issued*Yield) / Total amount issued

(b) No new Rupee loans were issued in 2010, 2011 and 2012

Rs. 90.8 billion in 2012 from Rs. 68.6 billion in 2011. Interest cost on T-bills and T-bonds held by foreigners and other foreign loans, including sovereign bonds and project loans, in 2012 amounted to Rs. 29.8 billion and Rs. 61 billion respectively in comparison to Rs. 24.3 billion and Rs. 44.3 billion respectively in 2011.

During 2012, the increase in interest payment on T-bills and T-bonds held by foreigners by 22.77 per cent was mainly due to the sharp increase in such holdings in 2012 following the increase in the ceiling on such holdings. The ceiling for investment by foreigners in T-bills and T-bonds was increased to 12.50 per cent from 10 per cent in December 2011.

Rupee value of interest cost on sovereign bonds in 2012 increased by 64.91 per cent to Rs. 25.6 billion in 2012 against Rs. 15.5 billion in 2011. This was mainly due to the increase in interest cost on the sovereign bonds owing to the 4th sovereign bond of USD 1,000 million issued at 6.25 per cent in 2011. The interest cost on other foreign loans, including project related multilateral, bilateral, and commercial loans, increased by 22.92 per cent to Rs. 35.4 billion in 2012 compared to Rs. 28.8 billion in 2011. The depreciation of Sri Lanka Rupee against major currencies in 2012 also contributed to the increase in rupee value of the interest cost on foreign debt during the year.

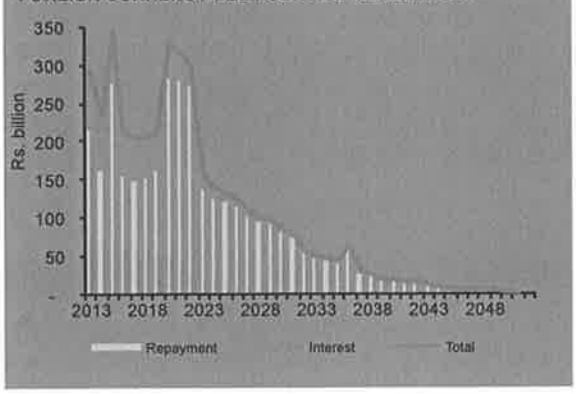
Future Debt Service Obligations

In view of the issuance of T-bonds with a time-to-maturity of 20 years in the domestic market in 2012, the life span of domestic debt service obligation of the government enhanced by six years from 2026 to 2032 in 2012. Similarly, as a result of infrastructure related long term borrowings of the government, life span of the external debt service obligations of the government extended up to 2051 at the end of 2012.

CHART 14
DOMESTIC CURRENCY DEBT SERVICE OBLIGATIONS

With respect to future debt service obligations of domestic currency debt of the government, 73.38 percent of the total domestic currency debt obligation or Rs. 2,456.8 billion is maturing in the next five years. In relation to the foreign currency denominated debt obligations of the government, debt service obligations are relatively more distributed across the maturity period. Accordingly, the total of foreign currency denominated debt service payments to be made during next five years are estimated to be Rs. 1,285.1 billion or 31.37 per cent of the total of foreign currency denominated debt outstanding and the contracted future disbursements at the end of 2012.

CHART 15
FOREIGN CURRENCY DEBT SERVICE OBLIGATIONS



4. Market Operations in 2012

Primary Market Operations

The Central Bank of Sri Lanka (CBSL), as the fiscal agent of the government, continued to engage in activities relating to the issuance of domestic debt on behalf of the government. This entailed the issue of a variety of government securities namely, Treasury bills (T-bills), Treasury bonds (T-bonds) and US dollar denominated Sri Lanka Development Bonds (SLDB) in the domestic market at the lowest possible costs while enhancing the investor confidence in the government debt instruments.

T- bill Primary Market

T-bill was the key debt instrument in mobilizing short-term funds for Treasury cash management. The uniformity of the T-bill issue was maintained in 2012 by weekly issuing three maturities of T-bills, i.e. 91-day, 182-day and 364-day.

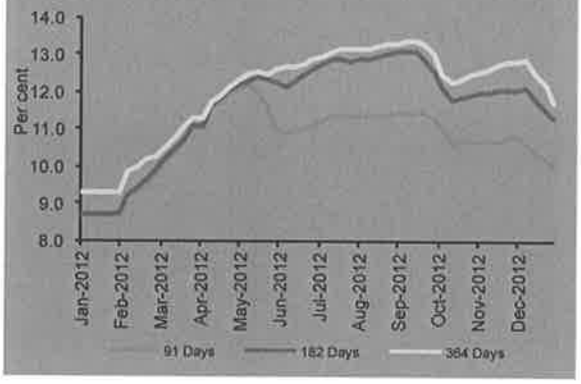
The gross value of the T-bills issued in all three maturities in 2012, amounted to Rs.1,650 billion, on face value basis, in comparison to Rs. 1,164.6 billion in the previous year. Of this, Rs. 1,602 billion was issued in place of maturing T-bills, while the balance of Rs. 48 billion was issued on account of new T-bills. At end 2012, the face value of T-bill outstanding stood at Rs. 709.3 billion in comparison to Rs. 661 billion at the end of 2011. During the year, Public Debt Department (PDD) conducted 52 T-bill auctions. As at 31 December 2012, total foreign investments in T-bills amounted to Rs. 80.2 billion compared to Rs. 70.1 billion as at end 2011. The inflow of foreign investments to T-bills, on net basis, amounted to Rs. 10.1 billion (face value) in 2012.

The yield rates of T-bills in the primary market showed a rapid upward movement during the first six months of 2012. This was attributed to the increase in policy rates twice and high dependence on domestic sources for the financing needs of the government in the first half of 2012. As a result, the primary market yield rates for 91-day, 182-day and 364-day maturities increased by 244 bps, 390 bps and 357 bps, respectively, during the first half of 2012 in comparison to end 2011. Consequent to the increase in primary market yield rates, the investor preference was shifted towards the shorter end of the yield curve thereby increasing the demand for short term T-bills. As a result, CBSL was compelled to accept more of 91-day T-bills and less of 182-day and 364-day T-bills during the first 6 months of 2012, sometimes in place of maturing T-bonds as well.

With the emergence of refinancing risk due to high dependence on short-term borrowings, CBSL adopted several measures to arrest the situation. Among those measures, attracting investments in to long dated T-bonds at the primary market by discontinuation of the facility for direct placements in T-bills at the Primary Market Weighted Average Yield Rate (PMWAYR) of the latest primary auction, encouraging investments in to T-bonds by allowing more flexibility at the primary auctions of T-bonds to maintain competitive yield rates, which were consistent with macroeconomic fundamentals are a few with significance.

With the aforesaid measures, the rapidly increasing trend in T-bill primary auction yield rates decelerated gradually towards mid-September 2012. Accordingly, the primary market yield rates from end June 2012 to mid-September 2012, increased only by 32 bps, 51 bps and 48 bps for 91-

CHART 16
T-BILL PRIMARY AUCTION YIELDS



day, 182-day and 364-day maturities, respectively as indicated in Chart 16.

The primary market yield rates on T-bills decreased gradually during the fourth quarter of 2012 mainly due to the lower borrowing requirement of the government and also due to the 25 bps easing of the policy rate in December 2012. The primary market yield rates for T-bills of 91-day, 182-day and 364-day maturities, declined by 144 bps, 180 bps and 167 bps, respectively, at end 2012 when compared with the levels prevailed at mid-September 2012. As a result, the investor demand for T-bills was shifted towards 364-day maturity allowing CBSL to extend the Average Time to Maturity (ATM) of the T-bill portfolio from 0.31 years at end 2011 to 0.38 years at end 2012. It can be noted in Table 17 that the increased demand for shorter term T-bills was gradually shifting towards longer tenors during latter part of 2012.

Table 17
TREASURY BILL PRIMARY AUCTION DETAILS (Rs. million)

2012	91 days			182 days			364 days		
	Offered	Accepted	%	Offered	Accepted	%	Offered	Accepted	%
Q1	29,000	70,844	244	43,000	19,755	46	64,000	30,112	47
Q2	50,000	76,093	152	69,000	86,763	126	77,000	33,377	43
Q3	45,500	38,763	85	76,500	144,236	188	77,000	32,130	42
Q4	25,000	15,686	62	64,000	77,657	121	88,000	102,925	117

Source: Central Bank of Sri Lanka

T- bond Primary Market

T-bond outstanding during the year increased by Rs. 394 billion. Accordingly, the total T-bond outstanding amounted to Rs. 2,413 billion, on face value basis, an increase of 19.51 per cent when compared with 2011. PDD conducted 24 T-bond auctions during the year of 2012. Taking into account the market appetite and portfolio management considerations, 11 new T-bond series were introduced, targeting short, medium and long term segments of the yield curve. These issuances enabled to increase ATM of T-bond portfolio to 3.99 years at end 2012 from 2.90 years from the preceding year end. In addition, the existing bond series were reopened after considering the market conditions, investor preference, the maturity structure of the debt portfolio in mitigating refinancing and rollover risks, and to maintain a benchmark yield curve.

In line with the rapid upward movement in T-bill rates and the heavy reliance on the domestic market to finance the government's cash flow requirements during the first half of 2012, the T-bond yields showed an upward trend during this period. However, measures adopted by CBSL to address the issues in T-bill market during the second half of the year, also affected the T-bond market. Despite this increasing trend, PDD was able to issue a T-bond with a maturity of 20 years at a yield rate of 11.00 per cent. This extended the benchmark yield curve by 5 years more to 20 years. As a result of issuing a large volume of long dated T-bonds during fourth quarter of 2012, ATM of T-bond issuance increased to 6.86 years from 5.65 years in 2011. This increase in ATM was made possible mainly due to increased demand from foreign investors and captive sources that locked their investments in long dated securities, mainly for held-to-maturity.

Foreign investment in government securities reached 12.41 per cent against the approved threshold of 12.50 per cent of total value of T-bills and T-bonds outstanding, reflecting a strong investor confidence in the Sri Lankan economy supported by attractive yields. During the year, the total inflow of foreign investments in T-bonds, on net basis, amounted to Rs. 118.1 billion (face value). The foreign inflow of investments helped to increase the liquidity and stabilize interest rates in the domestic market thereby easing the pressure on the government borrowing program. As at 31 December 2012, total foreign investments in T-bonds amounted to Rs. 317.6 billion, which was a significant increase when compared to Rs. 199.5 billion in 2011.

Sri Lanka Development Bonds

The total value of funds mobilized through the issuances of SLDBs during 2012 amounted to USD 456.6 million in comparison to USD 547 million in 2011. The primary auctions in SLDBs

TABLE 18
SLDBs ISSUED DURING 2012

Date of Issue	Amount Accepted (USD million)	Period (Years)	WA Margin %
26-Mar-12	74.5	3	3.85
26-Mar-12	12.0	4	4.15
2-Jul-12	229.0	3	4.10
24-Sep-12	141.1	3	4.00
Total	456.6		

Source: Central Bank of Sri Lanka

in 2012 were mainly aimed at the re-issuance of maturing SLDBs totalling to USD 317 million. However, in view of the high demand by investors, the government decided to accept USD 140 million of new bids in 2012. Accordingly, the total value of outstanding SLDB stock at the end of 2012 amounted to USD 1,754 million in comparison to USD 1,614 million at the end of 2011. These funds were raised at yields of six months London Inter Bank Offered Rate (LIBOR) plus a weighted average margin ranging from 385 bps to 415 bps. Licensed Commercial Banks (LCB) were the main investors in SLDBs and most of such investments are held to maturity.

International Sovereign Bond

The fifth International Sovereign Bond (ISB) issuance of the Government of Sri Lanka (GOSL) was made in July 2012 to raise USD 1,000 million with a maturity of ten years. Resulting from strong investor confidence due to benign macroeconomic conditions and healthy sovereign ratings given by three rating agencies, the final order book stood at USD 10.5 billion, recording an oversubscription ratio of 10.5 times. It was the largest order book in value as well as the largest in number of investors in an order book for an international sovereign bond issue by GOSL. The previous four issuances of international sovereign bonds by GOSL in 2007, 2009, 2010 and 2011 were oversubscribed 1.6 times, 6.8 times, 6.5 times and 7.5 times, respectively.

With the 2012 ISB issue, Sri Lanka succeeded in achieving a cost of funds, which was progressively lower compared to the previous sovereign bond issuances. Sri Lanka's previous four issuances in 2007 (5-year), 2009 (5-year), 2010 (10-year) and 2011 (10-year) were priced at yields of 8.25 per cent, 7.40 per cent, 6.25 per cent and 6.25 per cent, respectively.

The number of international investors at the latest sovereign bond issue increased up to 425 reflecting an increased interest from investors around the world on Sri Lankan sovereign papers. The number of investors at previous bond issues were 135, 260, 310 and 315 respectively, in 2007, 2009, 2010 and 2011, respectively. It is also important to note that the sovereign bond was issued at a time when international capital markets were overshadowed by the European sovereign debt crisis. In spite of this situation, the 10-year bond maturing in 2022 was priced at 5.875 per cent, the lowest price received compared with the previous bond issues. This issue enabled Sri Lanka to establish a 10 year benchmark in the international market that would help the corporate sector who desire to borrow from the international capital market to meet their funding requirements in their future endeavours.

Secondary Market Operations

The total volume of government securities (T-bills and T-bonds) transacted during 2012 on outright basis amounted to Rs. 4,242 billion, reflecting a marginal decrease of 2.39 per cent, in comparison to the volume of Rs. 4,347 billion in 2011. Similarly, the total volume of government securities transacted on Repurchase and Reverse Repurchase basis amounted to Rs. 31,678 billion reflecting a substantial decrease of 35.79 per cent from its Rs. 49,332 billion in 2011, as given in Table 19.

Table 19
SECONDARY MARKET TRANSACTIONS

Rs. billion

Year	T-Bill		T-Bond	
	Outright Purchases/ Sales	Repo/Rev. Repo	Outright Purchases/ Sales	Repo/Rev. Repo
2011	2,366.1	22,657.6	1,980.6	26,674.8
2012	2,472.3	14,392.9	1,770.0	17,284.9

Source: Central Bank of Sri Lanka

This decline of transaction volume was mainly resulted from the increasing interest rate scenario in the market that prevailed over the first three quarters of the year. Majority of the investors were willing to hold their government securities until maturity expanding their investment portfolios whilst contracting trading portfolios due to the reluctance to book marked-to-market losses. In addition, large investments made by captive sources and foreign investors were also made with the intention of holding such investments until maturity.

Due to such reasons the turnover ratio of government securities decreased to 17.7 times in 2012 from 24.4 times in 2011. However, it was higher than the average turnover ratio (17.1 times) over the 2006 - 2012, as given in Table 20.

Table 20
TURNOVER RATIOS

2006	2007	2008	2009	2010	2011	2012
9.8 times	13.2 times	16.0 times	16.1 times	22.5 times	24.4 times	17.7 times

Source: Central Bank of Sri Lanka

The top 10 traded T-bonds on outright and repurchase basis amounted to Rs. 13,121 billion, which accounts for 58.8 per cent of the total volume of transactions during 2012, as given in Table 21.

Secondary Market Yield Rates

Yield rates of government securities in the secondary market increased during the first 8 months of 2012, responding to several factors such as the increase in policy rates by CBSL, increase in the borrowing requirement of the government especially in the first half of the year, liquidity shortages and higher inflation expectation. T-bill yields were increased at the end of August 2012 by 277 bps, 433 bps and 400 bps in 91-day, 182-day and 364-day T-bills, respectively, when compared to end December 2011. The yields of T-bonds ranging from 2 – 15 years increased at end August 2012, in a range of 396 bps to 450 bps when compared to end December 2011.

However, due to several measures introduced by CBSL in the third quarter and the easing of the policy rates on 12 December 2012, the yield rates on government securities in the secondary market declined, reversing the trend that was noted at the beginning of the year. As a result, T-bill yields in the secondary market at end December 2012 reduced by 129 bps, 185 bps and 161 bps in 91-day, 182-day and 364-day maturities, respectively, when compared to their peak at end August 2012. The secondary market yields of T-bonds ranging from 2 – 15 years at end December 2012 declined in a range of 189 bps to 250 bps when compared to end August 2012. This downward shift in

Table 21

TOP TEN TRADED T-BONDs ON OUTRIGHT AND REPURCHASE BASIS BY VALUES

Rs. million

2011			2012		
Series	ISIN	Values	Series	ISIN	Values
07.50%2013A	LKB01013H012	9,071,502	11.50%2013A	LKB00413F159	2,223,824
10.50%2013A	LKB00613D019	3,730,792	07.50%2013A	LKB01013H012	1,596,029
06.85%2012B	LKB00612J158	2,950,805	08.00%2022A	LKB01022A018	1,543,361
11.00%2015B	LKB00615I013	2,058,486	08.00%2032A	LKB02032A016	1,263,070
13.50%2012B	LKB00412G019	1,690,930	11.75%2015A	LKB00615C156	1,188,698
06.60%2014B	LKB00414F017	1,296,887	07.50%2013B	LKB01013K016	1,098,814
06.90%2012A	LKB00212H011	1,132,666	07.00%2014A	LKB00414C014	1,083,817
07.00%2014A	LKB0414C014	959,497	08.00%2017A	LKB00517A018	1,080,545
06.85%2012A	LKB0612D151	936,393	13.50%2013A	LKB00413B018	1,037,317
06.50%2015A	LKB0515G159	853,464	06.85%2012B	LKB00612J158	1,005,537

Source: Central Bank of Sri Lanka

secondary market yield rates was contributed by the unavailability of T-bond issuances in the primary market due to limited borrowing requirements of the government in the latter part of the year.

Box 2 - Enhancing the Safety of Investors in Government Securities

Central Bank of Sri Lanka (CBSL) as the fiscal agent of the government is primarily responsible for ensuring that the government's financial needs are met at the lowest possible cost consistent with a prudent degree of risk. The public confidence in the integrity of the government securities market (G-sec market) is imperative for achieving the above objective. Safeguarding the interest of investors is the foremost requirement for enhancing and sustaining public confidence in G-sec market. CBSL has a statutory responsibility to safeguard the interest of investors in government securities, not only for achieving the said objective but also to ensure the stability of the entire financial system of the country which is the backbone of the economy. Accordingly, CBSL has introduced a number of measures to improve the legal framework and the institutional arrangements centered on preserving the objective of safeguarding investor safety in government securities.

Investor protection broadly consists of the legal framework and organizational arrangements designed to protect the rights of customers, fair trade competition and the free flow of perfect information in the marketplace. In particular, investor protection in financial services has gained more importance recently with the painful outcomes of global financial crisis. The experience of financial crisis emphasized the need for more effective measures for investor protection since investors need to deal in more sophisticated and complex financial markets. The availability of information has grown both in quantity and complexity and the pace of change, in terms of new product developments, product innovations, and technological advances also have increased dramatically.

Existing Investor Protection framework in Sri Lanka

Key measures taken by CBSL over the years to enhance the soundness and effectiveness of investor protection policy framework are;

- **Strengthening the legal framework governing G-sec market:**

  CBSL and the Ministry of Finance and Planning instituted several amendments to the Local Treasury Bills Ordinance (LTBO) and the Registered Stock and Securities Ordinance (RSSO) which govern the G-sec market in Sri Lanka by issuing several Regulations and Directions to regulate & streamline the market activities in government securities. These regulations and directions mainly focus on capital, capital adequacy and other prudential and operating requirements of Primary Dealers (PDs), the activities and businesses which can be carried out by PDs, mandatory contracts, maintaining of accounts and records on PD activities, reporting and other obligations to CBSL, maintaining customer accounts in Central Depository System (CDS), maintaining confidentiality in respect of dealings with customers.

- **Appointment and supervision of PDs**:

  CBSL has the sole responsibility to appoint PDs. In this process, CBSL considers the applications for primary dealership only after careful review of all key areas with regard to ownership, management, experience dealing in securities, financial soundness, legal position etc. Further, CBSL put in place a comprehensive supervisory mechanism through on-site and off-site surveillance to enhance safety and soundness of the PDs who act as the intermediary and dealers of the G-sec market. The supervision function includes regular monitoring of the activities of PDs and their compliance with the provisions in the said Regulations and Directions. Also CBSL evaluate the risks and the risk management arrangements and internal control systems of PDs.

- **Title Registry of Securities**:

  CBSL maintains a comprehensive title registry of the government securities in an electronic form in Central Depository System (CDS) which records the title of individual ownership of each security. The PDs are legally bound to maintain accounts for each and every customer in CDS and updating the accounts immediately when customers obtain legal ownership of government securities. CBSL issues statements on payments and transactions (if any) on monthly basis and holding of securities on semiannual basis to each customer to confirm their transactions and balances of government securities recorded in the CDS.

- **Dealing with Customer Complaints:**

  CBSL handles all customer complaints regarding the activities of the PDs and it has the power to investigate any activity of a PD, if required, through spot examinations.

- **Customer Awareness:**

  CBSL, through publications, seminars and press releases enhances the awareness of the customers in the G-sec market with a view of enabling the investors to have easy access to financial education, and thus promoting government securities as a secure investment option.

Why do further improvement of investor protection important?

Safeguarding the interest of the investors, building up a healthy relationship between PDs and their customers and improving the customer confidence in the PD system are prerequisites for promoting growth and stability in the G-sec market. However, careful design and implementation of a sound and robust investor protection framework is crucial to realize such benefits, especially in G-sec market in Sri Lanka, particularly due to the following:

- Sri Lanka G-sec market is yet to reach its full potential and thus requires further expansion and diversification. Achievement of such potential directly depends on enhanced trust of the current and future investors.

- The imbalance of power in terms of information and resources between PDs and the investors in G-sec market can be minimized through speedy and convenient access to them.

- Most of investors in G-sec market of Sri Lanka have low level of financial literacy mainly with regard to the risks and rewards attached to government securities and have poor knowledge on their rights as investors in government securities.

Further improvements envisaged to promote investor protection

Though the investors' interest in government securities are currently safeguarded, CBSL perceive that further improvements in investor protection in G-sec market is needed in the following areas with the anticipated future developments in the country's economy.

- Requirement for defining Fit and Propriety criteria for Directors and key officers of PDs.

- Transparency in charges imposed by PDs on customers.
- Requirement for disclosing all information to investors regarding different products in G-sec market, their interest rates, underlying terms and conditions and their risk and rewards.
- The rights and obligations of both investors and PDs.
- Procedure for making investor complaints and handling the same.
- Enhancing investor knowledge and awareness in G-sec market.
- Reducing information asymmetry in the G-sec market.

In order to address the areas mentioned above, it is proposed to;

- Issue a direction on Fit and Propriety criteria for directors and senior staff of primary dealers which aim at enhancing trustworthiness of the personnel who manage PD businesses. Fit and Propriety criteria defines minimum qualifications required for the above mentioned officers of PDs; and

- Introduce a Customer Charter to strengthen the investor safety and protect rights and obligations of the investors in the G-sec market. The customer charter is a code of best practices which incorporates the rights and obligations of the investors and primary dealers with a view of protecting and building confidence in conducting transactions in G-sec market.

5. The Medium Term Debt Management Strategy 2013 – 2017 and Issues and Challenges

Overview

Medium Term Debt management Strategy (MTDS) is the plan that the Central Bank of Sri Lanka (CBSL) intends to implement over the next five-year (medium) term in order to achieve a 'desired' composition of the government debt portfolio. It provides a framework for formulating and implementing the debt management strategy of the CSBL for the next five years. MTDS is primarily focused on determining the appropriate composition of the debt portfolio, taking into account macroeconomic indicators and market environment.

MTDS for 2013-2017 operationalizes the public debt management objectives of CBSL, which have been formulated with consideration of relative cost and risks involved, linkages with other key macroeconomic policy objectives/ targets, improved debt sustainability and the need for the development of the domestic debt markets. MTDS eventually aims at containing the risks to the government's balance sheet while minimizing the potential public debt-related burden and maximizing the resource availability for other sectors of the economy. However, the underlying debt management targets articulated in the current MTDS is subject to an ongoing review in line with other macroeconomic and external sector developments that may be forthcoming as the time passes on. Yet, attempts are made to have a better focus on achieving the targets stipulated in MTDS.

MTDS for 2013 – 2017 has been clearly articulated in the Road Map - 2013, "Monetary and Financial Sector Policies for 2013 and beyond" put into a clear action plan as delineated in CBSL, Strategic Plan 2013 – 2017.

Expected Benefits of MTDS

MTDS is expected to provide a framework within which the decision makers could make informed choice on how the government's financing requirement should be met under a given set of constraints and potential risks. Such a methodical approach to government debt management related decision making would strengthen the efficiency and effectiveness of the debt management function of CBSL as the fiscal agent of Government of Sri Lanka (GOSL). Accordingly, the following benefits are expected to be accrued through MTDS.

(a) **Evaluate the cost-risk trade-offs:**

MTDS allows well considered decisions after identification of, and adequate analysis of costs and risks associated with alternative strategies available for funding the government's requirement. CBSL believes that clearly defined medium-term strategic goals of MTDS would avoid the possibility of making one sided decisions only on the basis of the cost, or the short-term expediency.

(b) **Identify and manage risks:**

In spite of limited alternative sources available for meeting the financing needs, MTDS allows CBSL, to identify, estimate, and monitor risks associated with such alternative funding sources. Further, it provides an opportunity to evaluate the impact of such alternative sources on the overall risk profile of public debt of the country. The identification of risks associated with funding alternatives well in advance provides CBSL with an opportunity to put in place appropriate risk tolerance levels and risk mitigants to take the advantage of such alternative funding opportunities. In the process of identification of suitable risk mitigates, MTDS facilitates consideration of various options for risk mitigation, including the development of the domestic debt markets.

(c) **Coordination:**

MTDS facilitates proper coordination of debt management with fiscal and monetary policies, helping not to compromise various policy objectives of the government and CBSL. MTDS framework allows understanding the constraints, including domestic debt market development and balance of payments issues. Such smooth policy coordination allows each agency to focus more clearly on its core objectives and also helping to achieve transparency and accountability on the management of the public debt of the country separate from fiscal and monetary policies.

(d) **Identification of constraints:**

Extant MTDS allows CBSL to identify the constraints that affects its role as the fiscal agent of the government well in advance so that suitable remedial measures could be formulated and implemented to ease such constraints.

Objectives of MTDS

The primary objective of MTDS is to ensure that the government's financial needs are met at the lowest possible cost over the medium term, consistent with a prudent level of risk. In addition, the following secondary objectives have been set under MTDS to support the primary objective by reducing both cost and risk of government borrowing.

(a) Enhancing the efficiency of the primary market for government securities;

(b) Broadening and deepening of the secondary market for government securities;

(c) Diversification of investor base;

(d) Enhancing the efficiency of the secondary market by development of a dynamic benchmark yield curve for a longer period; and

(e) Enhancing the transparency in public debt management.

Targets as set out in MTDS (2013 – 2017)

The targets, as set out in MTDS for 2013-2017 as follows

(a) Enhancement of Debt Dynamics

(b) Issuance of a Half-yearly Treasury bond (T-bond) calendar;

(c) Enhancing the competition at the primary market for government securities;

(d) Upgrading the infrastructure of the domestic debt market supported by Electronic Trading (E-Trading) platform together with a central clearing arrangement;

(e) Increasing the secondary market making mechanism for government and corporate debt instruments.

TABLE 22
MTDS TARGETS (END OF YEAR)

Indicator	2012	Annual Targets				
		2013	2014	2015	2016	2017
Debt/GDP Ratio (%)	80.2	75.0	71.1	67.7	64.3	60.0
Average Time to Maturity (years)	3.2	3.5	3.7	4.0	4.5	5.0
Ratio of Short Term Domestic Debt to Total Domestic Debt (%)	25.0	23.0	22.0	21.0	20.0	20.0
Ratio of Foreign Currency Debt to Total Debt (%)	43.0	37.0	35.0	33.0	30.0	30.0

Sources: Central Bank of Sri Lanka

Issues and Challenges in Implementation of MTDS

(a) Non-availability of a dynamic benchmark yield curve

(i) A dynamic benchmark yield curve is an essential element for a well-functioning government securities market. In order to reduce the refinance risk and the cost of borrowing, it is needed to develop the yield curve for longer tenors by issuing benchmark securities on a periodic basis and by minimizing fragmentation. Further, limiting the number of issuances and increasing the issue size of securities will improve market liquidity in addition to helping the emergence of benchmark securities in the market.

(ii) Currently, more than 80 percent of the secondary market trades in government securities take place in the Over-the-Counter (OTC) market. The underlying prices and yields of these transactions are not reflected in the current yield curve and thereby creating asymmetry in market information.

(iii) The existence of an OTC market is the result of the reluctance of market participants to freely trade among themselves. This was due to the underlying credit and settlement risks. Currently, sellers/buyers of government securities do not transact with buyers/sellers if there are no pre-determined internal credit limits. On the other hand, the above has created a substantial discrimination among various sub sectors in the market. For example, licensed banks refrained from transacting with Primary Dealers (PDs), even with 100 per cent collateralized basis.

(iv) As a result of the (i) and (ii) above, the volume of secondary market transactions has been stagnated while the foreign participation is also constrained.

(b) Lack of secondary market liquidity in terms of rupee leg and the security leg

(i) Since 2004, settlements of Government securities secondary market transactions have been made through Real Time Gross Settlement System (RTGS). RTGS System, a Delivery Versus Payment (DVP)-I settlement system, is a computer based fund settlement system which processes and settles each payment instruction individually and irrevocably on real time basis using funds in the participants' RTGS Settlement Accounts in RTGS System.

(ii) As per the current DVP-I settlement arrangements, each secondary market transaction in government securities is required to be settled on one-to-one gross basis where market participants are expected to maintain substantial amounts of liquidity in both security and rupee terms. As a result, the secondary market transaction volume in government securities has been stagnated at a very low level for several years.

(c) Exclusivity in primary auction system and poor primary auction participation

(i) Primary auctions in government securities are currently made only through the dedicated PDs. There are 12 PDs. These PDs are expected to act as the intermediary between the issuer and the investors in government securities. Hence, PDs have to act as the market makers for Government securities.

(ii) However, due to the shallow and illiquid secondary market for government securities, PDs have not been able to perform the market making role. Specially, non-bank PDs have become very passive investors in Treasury bills (T-bills) and T-bonds while bank-PD units have dominated the primary auctions.

(iii) Lack of secondary market demand for government securities has resulted in PDs carrying a large stock of T-bills and T-bonds held in proprietary portfolios. When market interest rate is increasing, all PDs tend to accumulate large mark-to-market losses refraining them from actively trade in government securities.

Box 3 - Understanding Key Linkages Between MTDS and Other Macroeconomic Sectors for an Optimal Borrowing Plan

The Medium-Term Debt Management Strategy (MTDS) provides a framework for formulating and implementing a debt management strategy for the medium term. It is primarily focused on determining the appropriate composition of the debt portfolio, taking into account macroeconomic indicators and market environment. MTDS is useful for illustrating government's cost and risk tradeoffs associated with different debt management strategies and for managing the risk exposure embedded in a debt portfolio, in particular the potential variation in debt servicing costs and its budgetary impact[1]. MTDS is thus a systematic approach to decision making which helps authorities in evaluating cost-risk trade-offs, identifying and managing risks associated with debt portfolio and in addition, beneficial with respect to coordination with other sectors such as fiscal and monetary management.

Aligned with this definition, country-specific conditions also call for analyzing the impact of MTDS on macroeconomic indicators and market environment, highlighting the significance of MTDS as a powerful tool in striking a macroeconomic balance[2]. For this purpose, it has been highly recognized that authorities should understand how MTDS fits in with macroeconomic framework via the important links with other key policy areas. Fiscal planning & debt sustainability, monetary policy, exchange rate policy & Balance of Payment, market developments and borrowing plan are key policy areas that have important inter-linkages with MTDS. Nevertheless, responsibilities and accountability of debt management decisions should be defined separately from that of fiscal or monetary. Further, the process of MTDS development itself highly signifies examining the implications of MTDS on other key policy sectors.

Usually, preparation of MTDS follows eight-step sequence. This involves identifying objectives of the debt manager, analyzing cost and risk of existing debt portfolio and strategy, analyzing potential funding sources, identifying baseline projections in other key areas (fiscal, monetary, external and market), reviewing longer-term structural factors of design and strategy, ranking alternative strategies, reviewing implication of proposed strategies on other key policy sectors and finally agreeing on the best option with stakeholders[3]. Thus, it is imperative in identifying the key inter-linkages between MTDS and other sectors as it is an integral part of eight-step development process.

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1 The World Bank definition. Stable URL : http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTDEBTDEPT/0,,contentMDK:21718429~menuPK:64166739~pagePK:64166689~piPK:64166646~theSitePK:469043,00.html

2 Please refer Developing a Medium-Term Debt Management Strategy (MTDS) – Guidance Note for Country Authorities. The World Bank-IMF Joint Publication. 2009, for more details.

3 As documented in Developing a Medium-Term Debt Management Strategy (MTDS) – Guidance Note for Country Authorities. The World Bank-IMF Joint Publication. 2009.

Figure 1: Key Inter-linkages between MTDS and other key policy areas

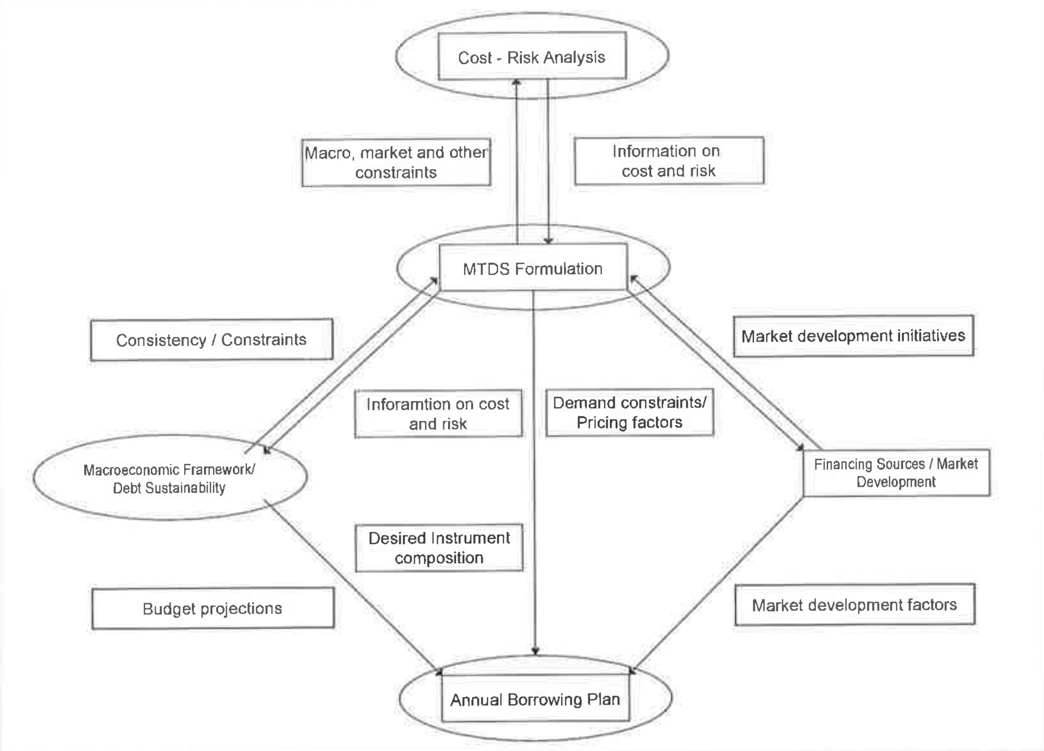

Figure 1 shows how inter-linkages between MTDS and other key policy areas could be viewed with a new systemic approach[4]. Fiscal policy is a tool employed by governments to influence the whole economy by adjusting levels of government spending whereas central banks adopt monetary policy to influence the money supply. However, these two policies are used in various combinations in an effort to direct a country's economic goals. The exchange rate policy or regime is the way a country manages its currency in respect to foreign currencies and the foreign exchange markets. The balance of payment compares exports and imports, including all financial exports and imports in US Dollars. Other two important policy areas are market developments and borrowing plan. Formulation of debt issuance strategies, i.e., determining the portfolio composition of government debt, is therefore a complicated process since there is uncertainty regarding the movements of variables that affect the outcome of the decisions made and vice versa. Therefore, understanding how the model depicted under Figure 1 works requires thorough understanding of core links of MTDS with macroeconomic perspectives. Consequently, a number of debt management offices in recent years have implemented stochastic simulation models in order to analyze these complex systems of debt strategy formulation and to evaluate alternative policies. However, in view of the importance of understanding the core links, it seems very much vital for the debt managers to review such simulation models in order to improve its comprehensiveness. Accordingly such models may be developed in order to assess the real impact on MTDS by other key macroeconomic sectors and then to roll down implications to an optimal borrowing plan through MTDS.

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4 Adopted from Developing a Medium-Term Debt Management Strategy (MTDS) – Guidance Note for Country Authorities. The World Bank-IMF Joint Publication. 2009.

6. Risk Management in Public Debt and Sustainability of External Debt

Risk Management is an Integral Part of the Public Debt Management

The public debt portfolio is the largest single debt portfolio of the country. In view of the possible consequences of imprudent public debt management, the Central Bank of Sri Lanka (CBSL) considers the risk management in public debt as an important tool for achieving the strategic debt targets articulated in the Medium Term Debt management Strategy (MTDS). Hence, public debt related medium term risk tolerance as well as portfolio preferences concerning the trade-off between expected cost and risk have been specified and clearly articulated in MTDS while annual risk tolerance and portfolio preference have been duly acknowledge in the annual borrowing plan.

The annual borrowing programme of the government is prepared aiming at the optimal public debt portfolio on the basis of cost-risk criteria so as to hedge the financing needs of the government. In deciding the various debt instruments, the relative impact of the risk and costs of such instruments on the possibility of missing medium term debt management targets have been considered.

CBSL has put in place a robust system in managing the risks pertaining to the public debt portfolio. This includes predetermined risk tolerance limits and portfolio preference, independent risks identification, measurement, monitoring and reporting by the Middle Office of Public Debt Department (PDD) in line with internationally accepted best practices and norms. Further, necessary steps have been taken to put in place an advanced, computer aided, risk management system by 2014.

Key Risks Pertaining to the Public Debt Portfolio

Refinancing/rollover risk and market risk (exchange risk and interest rate risk) continue to be the key risks that CBSL dealt in 2012 in managing the country's public debt portfolio. However, the possible incidences of other risks such as liquidity risk, operational risk, legal risk and reputational risk have been adequately factored into the risk management framework with suitable risk mitigating techniques.

Analysis of the Risk Profile of the Public Debt Portfolio

Refinancing Risk

Refinancing or rollover risk is the likelihood that the reissue of existing debt would be at an unusually high cost or, in the extreme case, inability to reissue at all. Thus, the risk, if materialized, could lead to, or exacerbate a debt crisis and thereby cause real economic losses, in addition to the purely financial effects of higher interest cost. Hence, managing the refinancing risk associated with the government debt portfolio continued to be important in 2012 too.

CBSL considers two commonly used indicators for measuring the refinance risk i.e. Average Time to Maturity (ATM) (which is also commonly known as Average Residual Life) and the Ratio of Short-Term Debt to Total Outstanding

TABLE 23

RISK ASSESSMENT INDICATORS (AS AT END OF YEAR)

Indicator	Domestic Currency Debt		Foreign Currency Debt		Aggregate	
	2011	2012 (a)	2011	2012 (a)	2011	2012 (a)
Refinancing Risk						
Average Time to Maturity (yrs)	2.35	3.23	9.12	8.75	5.41	5.74
Short-term (original maturity less than or equal to one year) / Outstanding debt (%)	27.40	26.98	-	-	14.97	14.70
Interest Risk						
Duration (yrs)	1.83	1.89	8.04	6.78	3.76	3.88
Average Time to Re-fixing (yrs)	2.35	3.51	8.26	7.68	4.96	5.30
Floating Rate debt / Outstanding debt (%)	-	-	18.47	23.76	8.14	10.22
Foreign Exchange Risk						
Share of Foreign Currency Commercial debt / Official Reserves (%)					70.98	76.42
Share of Foreign Currency debt / Total debt (%)					44.09	43.02
Other						
Foreign Investments in T-bills and T-bonds /Total T-bill and T-bond stock (%)					10.06	12.43

(a) Provisional

Source: Central Bank of Sri Lanka

Debt. Further, the risk tolerance levels in terms of the two indicators for the medium term have been stipulated in the country's MTDS.

The refinancing risk indicators of public debt portfolio recorded healthy improvements in 2012. The overall ATM of the government debt portfolio increased to 5.74 years at end 2012 from 5.41 years at end 2011 mainly due to increase of ATM of domestic currency debt from 2.35 years at end 2011 to 3.23 years at the end of 2012 as a result of the issue of long term Treasury Bonds (T-bonds). The ATM of domestic currency debt portfolio remained less than 3 years since 2004. ATM of foreign currency debt decreased to 8.75 years as at the end of 2012 from 9.12 years at the end of 2011 as a result of the reduction of the relative share of concessional external borrowings in the total debt portfolio. As a result of Sri Lanka being elevated as lower middle income economy, there has been a gradual reduction in concessional borrowings, which are generally payable in a longer time horizon.

The ratio of Short–Term Debt to Outstanding Domestic Debt improved in 2012 mainly due to the issue of longer-dated T-bonds for financing the government budget. The ratio of short–term debt to outstanding domestic debt improved to 26.98 per cent by end of 2012 from 27.40 per cent at the end of 2011. Short-term foreign currency debt was insignificant compared to the total foreign currency loans outstanding at end 2012. Total short–term debt as a percentage of total outstanding debt decreased marginally to 14.70 per cent at end 2012 compared to 14.97 per cent at end 2011 as a result of diminishing relative value of concessional loans stock.

Interest Rate Risk

Interest rate risk refers to the risk associated with changes in market interest rates on the cost of public debt servicing. For both domestic and foreign currency debt, changes in interest rates affect debt servicing costs on new issues, when fixed–rate debt is refinanced and on floating-rate debt at the rate on re-set date. CBSL continue to use three indicators, namely, the duration of the debt stock, Average-Time-to-Refixing (ATR) and the Ratio of Floating Interest Rate Debt to Total

Debt for the management of interest rate risk in the public debt portfolio.

Duration - An indicator of the weighted average of maturities of the debt stock. Duration of the overall public debt portfolio increased to 3.88 years as at the end 2012 from 3.76 years at the end 2011 mainly due to issue of longer dated T-bonds in 2012.

ATR of the debt portfolio measures the average time in which debt coupons are re-fixed. For zero coupon bonds or bonds with fixed coupons, ATR is the residual life of the bond. For floating rate bonds the ATR is the time left until fixing of the next coupon. At end 2012, ATR of the overall debt portfolio increased to 5.30 years from 4.96 years at end 2011. ATR of foreign currency debt portfolio decreased to 7.68 years at end 2012 from 8.26 years at end 2011 due to the issuance of more floating rate debt including Sri Lanka Development Bonds (SLDBs) and project related bi-lateral loans. ATR of rupee denominated debt, however, increased substantially to 3.51 years as at the end of 2012 from 2.35 years at the end 2011 due mainly to issuance of fixed coupon long-term T- bonds in place of maturing T-bills.

Floating interest rate debt to total debt increased to 10.22 per cent at end 2012 from 8.14 per cent at end 2011. Floating rate foreign currency debt to total foreign currency debt increased significantly to 23.76 per cent at end 2012 from 18.47 at end 2011. There was no domestic currency floating rate debt in the portfolio.

Exchange Rate Risk

Exchange rate risk arises due to adverse fluctuations in the exchange rate where, depreciation of domestic currency would increase the rupee value of debt servicing cost and the outstanding value of foreign currency denominated debt.

CBSL continued to use the Ratio of Foreign Currency Debt to Total Debt to assess the degree of susceptibility of the debt portfolio to exchange rate risk. In 2012, a careful assessment of the trade-off between cost and risk was made in deciding the optimal borrowing mix from domestic currency and foreign currency.

The share of foreign currency denominated debt in the total debt decreased to 43.02 per cent at the end 2012 as envisaged in the MTDS from 44.04 per cent at the end 2011. The increase in the relative share of domestic currency denominated debt stock was mainly due to increased foreign investments in Treasury bills (T-bills) and T-bonds during the year. This has been achieved while maintaining the domestic bond market more liquid during the period under review thereby, striking a trade-off between costs of borrowing from domestic sources and exposure to foreign exchange risk.

Liquidity Risk

There are two types of liquidity risks affecting the public debt of a country. One refers to the cost or penalty investors in government debt securities face in trying to exit a position when the number of transactions has markedly decreased or because of the lack of depth of a particular market. The other form of liquidity risk, for the government/ borrower, refers to a situation where the volume of market liquidity can diminish quickly in the face of unanticipated cash flow/ debt maturity obligations or possible difficulty in raising cash through borrowing in a short period of time. A liquid market facilitates the issuance of large quantities of a debt instrument without significant movement in the interest rate/price.

CBSL implemented several strategies in 2012 to minimize the liquidity risk associated with the public debt portfolio. Such strategies included the issuance of a dollar denominated Sovereign Bond amounting to USD 1,000 million with ten year tenure, issuing long-term T- bonds mainly in benchmark maturities, removing previously imposed restrictions on composition within the leeway for more foreign participation in longer dated T-bonds within the existing threshold of 12.50 per cent, increasing the demand for Government securities of Sri Lanka by enhancing the confidence among foreign investors through awareness campaigns, maintaining sovereign ratings etc. Due to these measures, the domestic rupee market liquidity increased.

Operational Risk

Operational risk is endogenous to an institution, which means that it cannot be captured and measured as easily as rollover, interest rate, exchange rate or liquidity risk. Therefore, the operational risk management processes are complicated. It is linked to the nature and the complexity of the activities, to the processes and the systems in place, to the level of expertise of people involved and to the quality of the management and of the information flows. Operational risk associated with public debt portfolio include the risk of loss, whether direct or indirect, arising from a range of different types of risks, including transaction errors, in various stages of executing and recording transactions, inadequacies or failures in internal controls, processes, people or systems, reputation risk, legal risk, security breaches, or natural disasters that affect business continuity.

The operational risk associated with the public debt portfolio continued to be minimized through several measures. These measures included various stringent internal control measures implemented in line with international best practices and risk management principles. Internal controls are put in place with segregation of duties, dual access control for auction systems, etc. Settlement risk associated with the government debt portfolio is minimized through the fully automated Scripless Securities Settlement System (SSSS) and Real Time Gross Settlement System (RTGS) to facilitate Delivery Versus Payment (DVP), protecting both parties to a transaction. Continuation of comprehensive Business Continuity Plan (BCP) is in place with a fully-fledged Disaster Recovery Site (DRS), to support crucial public debt management activities in case of a contingency situation. BCP and DRS that are made mandatory for every direct dealer in government securities are periodically tested.

Sustainability of External Debt

In general, debt sustainability of a borrower is the ability to service its debt as they fall due without restructuring, defaulting or compromising its long-term goals and objectives. Maintaining the sustainability of external debt is vital for a country as it has limited options to settle financial obligations in foreign currencies.

There are various indicators to determine the sustainable level of external debt. Each has its advantages and disadvantages, and there is no unanimity on adopting a sole indicator. These indicators are primarily in the nature of ratios, i.e., comparison between two relevant variables, and facilitate the policy makers in their external debt management exercise.

The sustainability of external debt is measured using five groups of indicators, namely, liquidity monitoring indicators, debt burden indicators, debt structure indicators, Net Present Value (NPV) indicators, and dynamic indicators. The external debt indicators discussed in this review are mainly based on the proportion of receipts in exports of goods and non-factor services including workers' remittances and compensation of employees (XGS) that is absorbed for servicing of external debt.

Liquidity Monitoring Indictors

Liquidity Monitoring Indicators refer to the capacity of a country to settle its due external liabilities. These include; Interest Service Ratio, Medium and Long-term Debt Service Ratio, Total Debt Service Ratio and Short-term Debt Ratio.

The Interest Service Ratio (INT/XGS) measures the cost of external debt as a percentage of XGS, where INT represents interest payments relating to external debt. The value of the ratio increased slightly to 3.51 per cent in 2012 from 3.30 per cent in 2011. The Medium to Long-term Debt Service Ratio (MLDS/XGS) and the Total Debt Service Ratio (TDS/XGS) also increased to 11.02 per cent and 11.26 per cent respectively

TABLE 24

EXTERNAL DEBT SUSTAINABILITY INDICATORS (AS AT END OF YEAR) (a)

Per cent

Description	2010	2011	2012 (b)
Liquidity Monitoring Indicators (c)			
Interest Service Ratio	3.23	3.30	3.51
Medium & Long-term Debt Service Ratio (MLDS/XGS)	7.54	7.83	11.02
Total Debt Service Ratio (TDS/XGS)	7.77	8.05	11.26
Short-term Debt Ratio (Short-term Debt/XGS)	2.35	2.76	2.81
Debt Burden Indicators			
DOD/GNP	36.61	35.99	37.23
DOD/XGS	117.76	112.11	111.00
Debt Structure Indicators			
Rollover Ratio (Principal Payments/ Disbursements) (c)	23.85	30.61	40.03
Short-term Debt / Total DOD	2.83	3.01	2.90
NPV Indicators (d)			
NPV of Debt Service/GNP	36.91	40.37	40.41
NPV of Debt Service/XGS	118.68	130.02	124.86
Dynamic Indicators (c)			
Avg. rate of Interest/rate of growth of export	8.06	10.28	68.18
Avg. rate of Interest/rate of growth of GNP	24.11	28.63	50.08

Source: Central Bank of Sri Lanka

(a) Based on central government debt
(b) Provisional
(c) Including T-bills & T- bond payments to non-residents
(d) NPV calculation is based on UN-ESCAP definitions and methodology
Note: DOD represents total disbursed external debt outstanding
GNP : gross national product
XGS : exports of goods and non factor services including workers' remittances and compensation of employees,
TDS : total external debt service payments
INT : external interest payments
MLDS : external medium and long-term debt service payments and,
NPV represents the present value of the stream of future debt payments on foreign debt, discounted at CIRR.

in 2012 from 7.83 per cent and 8.05 per cent respectively, in 2011. This was mainly due to the increase in external capital and interest payments to Rs. 284.4 billion in 2012 from Rs. 167.4 billion in 2011. Short-term debt ratio (Short-term debt/ XGS) increased marginally to 2.81 per cent at end 2012 from 2.76 per cent at end 2011 due to increase in foreign investments in T-bills and T-bonds.

Debt Burden Indicators

Debt burden indicators measure the level of the burden of external debt on the country's economy. For this purpose, the first ratio that was used is by comparing Disbursed Outstanding External Debt (DOD) with XGS. This ratio measures the foreign debt level as a proportion of exports of goods and services. It shows the debt burden level over exports or the capability of acquiring foreign exchange. The second indicator is the ratio of DOD/GNP.

The ratio of DOD/GNP marginally weakened to 37.23 per cent as at the end of 2012 compared to 35.99 per cent at the end of 2011. However, DOD/ XGS ratio improved to 111 per cent at the end 2012 compared to 112.11 per cent at the end of 2011.

Debt Structure Indicators

External debt portfolio has a great impact on the risk exposure level of a country and such risk exposure is measured by rollover ratio which indicates the principal payments to disbursements. This ratio reflects the ability of a country to meet its debt service obligations via external disbursements.

The rollover ratio increased significantly to 40.03 per cent in 2012 compared to 30.61 per cent in 2011, due to a higher increase in repayments in external debt than the increase in disbursements. A second indicator, short-term debt to total DOD ratio increased to 2.90 per cent at end 2012 from 2.12 per cent at end 2011 due to the increase in the T-bills and T-bonds holdings by foreigners.

Net Present Value Indicators

There are two commonly used NPV indicators. The first is the ratio of NPV of debt service to Gross National Product (GNP). The objective of using this ratio is to compare future debt service payments in present value terms, with general level of current economic activity. Second ratio is the ratio of NPV of debt service to XGS and this implies the capacity of a country to generate foreign exchange receipts.

The ratio of NPV of Debt Service/GNP did not show significant change. This ratio stood at 40.41 at end of 2012 compared to 40.37 at end 2011. However, the NPV of Debt Service /XGS ratio, showed a significant degree of positive impact during the period under review, recording 124.86 per cent at end 2012, a reduction of 5.16 per cent, from 130.02 per cent at end 2011. This was mainly due to the decrease in NPV of Debt Service in 2012 compared to previous year.

Dynamic Indicators

Debt dynamic indicators compare growth in cost of borrowing with the increase in exports earnings and also with the growth in the overall economy. The ratio of average interest rate of the debt portfolio to the rate of export growth recorded 68.18 per cent in 2012 compared to the 10.28 per cent recorded in 2011. The ratio of average interest rate to the rate of GNP growth has increased to 50.08 per cent in 2012 compared to 28.63 percent in 2011. The increase in each of these indicators reflects mainly the relatively lowered rate of growth in exports earnings during 2012 compared to 2011.

Overall Sustainability of Debt

Overall debt sustainability can be broadly assessed using two aggregate indicators, namely, overall debt to Gross Domestic Product (GDP) ratio and foreign debt service payments as a ratio of official reserves.

The total debt to GDP ratio increased to 79.14 per cent at end 2012 from 78.44 per cent at end 2011. The ratio of external debt service payments to official reserves too, increased to 36.50 per cent in 2012, compared to 21 per cent in 2011. These two figures reflect an increased debt level at the end of 2012. Nevertheless, by comparing the debt sustainability indicators with their critical values as given in the Table 26, Sri Lanka is considered as a country in the class of less indebted countries. Further, Sri Lanka has been able to successfully face spillover effects of several global and regional economic drawbacks without having much variance on its debt portfolio and the debt management indicators, owing to prudent management of the public debt.

TABLE 25
OVERALL DEBT SUSTAINABILITY

Per cent

Indicator	2010	2011	2012(a)
Debt/GDP	81.9	78.4	79.1
Share of foreign debt service payments /Official reserves (b)	21.8	21.0	36.5

(a) Provisional

(b) Official reserves at end of the previous year

Source: Central Bank of Sri Lanka

TABLE 26

CRITICAL VALUES OF EXTERNAL DEBT INDICATORS

Per cent

Indicator	Less Indebted	Moderately Indebted	Highly Indebted	Sri Lanka – 2012[a]
Disbursed External Debt Outstanding/Gross National Income	<30%	>30% and < 50%	>50%	37.20%
Disbursed External Debt Outstanding/Exports of Goods and Non Factor Services	<165%	>165% and <275%	>275%	111.06%
Total External Debt Service Payments/Exports of Goods and Non Factor Services	<18%	>18% and <30%	>30%	11.40%
External Interest Payments/Exports of Goods and Non Factor Services	<12%	>12% and <20%	>20%	3.60%
Net Present Value/Gross National Income	<48%	>48% and <80%	>80%	40.40%
Net Present Value/Exports of Goods and Non Factor Services	<132%	>132% and <220%	>220%	124.90%

Source: Manual on Effective Debt Management, UN-ESCAP, 2006
Central Bank of Sri Lanka

(a) Provisional

Box 4 - Reducing Public Debt Burden without Hindering the Development Process

On the eve of reaping dividends of peace in the aftermath of a 3 decades' long civil conflict, Sri Lanka is steadily marching for a higher growth trajectory. With traditionally low participation in most of mega development initiatives by the non-public sector and with fiscal revenue being insufficient to fund for such investments, the Government of Sri Lanka (GOSL) has largely been resorting to raising debt for funding those investments both locally and externally.

In the past, Sri Lanka, as a low income country had access to low interest foreign debt for investment initiatives. However with the graduation of the country to a lower middle income category, it is no longer entitled for loans on concessionary terms from bilateral and multilateral sources and the foreign borrowing at commercial rates is in the increase. Such borrowings may carry the risk of increasingly elevating the country's foreign debt service obligations with high exposure to foreign exchange risks, while adding to the burden on the government budget. In this context looking for alternative means of project financing is vital to maintain the growth momentum needed for achieving development objectives of medium to long terms without having to alter the foreign debt profile of the government.

A viable option that is being entertained by most countries recently is the Public-Private Partnerships (PPPs). It is as an effective mechanism of designing, financing, constructing and operating large infrastructure development projects, harnessing the resources and expertise of both private and public entities. The term PPP refers to a contractual agreement between a public sector and a private sector entity, through which the skills and assets of each sector are shared in delivering a service or facility for the use of the general public(1). As per the World Bank, PPP is a long-term contract between a private party and a government agency, for providing a public asset or service, in which the private party bears significant risk and management responsibility. PPP does not mean privatization, which is commonly used to refer outright sale of public facility or service to the private sector. Ideally, PPPs are aimed to combine the expertise, capacity and experience of both the public sector and private sector in achieving opimal outcomes for public needs, while allocating risks, resources and returns between parties appropriately in a mutually agreed manner. In a PPP, there is greater participation of private sector in design, financing, construction, operation and management of public utilities or services while government involvement is mainly limited to guiding, facilitating and regulating. At the same time, government service delivery objectives are aligned with private partner's profit objectives.

There are several "value drivers" behind the use of PPPs by the governments worldwide as off-budget mechanism for infrastructure development which increase value for money spent for the provision of more efficient, lower cost and reliable public service. Some of them are improved service quality, reduced life cycle costs, sharing risks with the private sector, quicker delivery, increased financing certainty, technology transfer and enhanced public management.

However, PPPs are not a panacea. Hold-up problems could arise with long term and often complex PPP contracts due to difficulty in disclosing information on effects and risks associated with them. These problems can be overcome by offering renegotiations, higher compensations by the public entity and asking for surety bonds. If the projects are not properly structured it will make more damages to governments than projects implemented using traditional public procurement methods.

PPPs can be of many forms, depending on the degree of involvement and risk shared by the private entity and the duration of the contract. The most suitable model could be selected considering financial and technical features of the project with the prevailing economic, political, legal and social conditions of the country. Among the PPP models,

- Supply and management contracts are the simplest model with least risk taken by the private investor, which involves in functions like design, labour management, procurement and operational activities for a fee paid by the government during a short period of time of 2-3 years.

- Turnkey or Design–Build contracts are with less innovation and investment by the private sector which only involves in designing and construction of the facility and taking risks for that for a short period of time.

- Lease or Affermage contracts, are where government takes the investment risk while operational risk is borne by the private investor who involves in the operation and maintenance of the infrastructure facility. The revenue collected from customers is either retained by the operator (in Lease) or shared with the government (in Affermage).

- Concessions are agreements that private investor constructs and operates infrastructure facilities for a longer period of time ranging for 5-50 years. There is high level of private investment, innovation, technology and skills while a significant level of risk is taken by the private investor. Some types of concessions are Build-Operate-Transfer (BOT), Build-Rehabilitate-Operate-Transfer (BROT) and Build-Lease-Transfer (BLT) in which the ownership of the infrastructure facility is transferred from the concessionaire to the government after the concessionaire builds and operates the facility for a fixed period of time. These PPPs require long period of time for the negotiations while close regulatory oversight and longer term contingent liabilities should be supplied by the government. The revenue is generated from managing and marketing the facility.

- Private Finance Initiatives (PFI) are agreements where government purchases the infrastructure facility through a long term agreement after the design, construction and operation are carried out by the private investor. This is most suitable for social infrastructure like hospitals, prisons, schools, etc and high level of investment, innovation and risk sharing is by the private investor.

In Sri Lanka, potential Public - Private Partnerships exist in areas of upgrading roads, ports, airports, power generation, water supply, telecommunication, hotels, healthcare and prisons, etc. Construction of star class hotels and domestic or international airports where the government can provide land or property, construction of modern highways for which passengers pay toll and port with enhanced ports services and terminals comprising of improved handling capacities and accommodating modern container mega ships, introduction of Mass Rapid Transit (MRT) systems in congested city areas, provision of cargo and passenger transport from ports and airports to city limits and electricity generation using alternative energy sources are among the priorities for investment. Public services like healthcare, prisons and higher education can also be provided as PPPs with enhanced service delivery.

Sri Lanka has very successful stories on PPPs in the ports sector. The Queen Elizabeth Quay (QEQ) of Colombo harbour was transferred to a private consortium on a Build Own Operate and Transfer (BOOT) concession. The terminal will be handed over to the government after 30 years of operation by the concessionaire. Started in 2011 was another PPP project involving construction of three terminals in the Colombo South Harbor on Built, Own, and Transfer (BOT) agreement financed by China Merchants Holdings (International) Co. Ltd. (CMHI), Aitken Spence PLC and Sri Lanka Ports Authority (SLPA), and the terminals will be transferred to Sri Lanka Ports Authority SLPA after 35 years.

Around the world raising funds for development projects through public-private partnerships without excessively burdening governments are time tested. At present with the emergence of Sri Lanka as an investment jurisdiction with promising prospects, greater potential is available for long outstanding mega projects especially in the infrastructure sector to be commenced under such partnership that would help in realizing the country's development targets.

(1) Adapted from the definition of PPP provided by the National Council for PPPs, in Arlington, USA (see the Council's PPP definition at http://www.ncppp.org/howpart/index.shtml).

7. Performance of Primary Dealers

Introduction

Primary Dealers (PDs) are specialized intermediaries in the government securities market, appointed by the Central Bank of Sri Lanka (CBSL) under the Local Treasury Bills Ordinance (LTBO), No 8 of 1923 and the Registered Stock and Securities Ordinance (RSSO) No. 7 of 1937. The key contribution expected from the PD system is to strengthen the government securities market by, (a) helping to build stable, dependable source of demand for securities by effectively participating in the primary auctions conducted by CBSL, (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. At end 2012, there were 12 PDs consisting of 5 PD units attached to Licensed Commercial Banks (LCBs) (Bank PD units), 2 PD companies owned by Licensed Banks (Bank PD companies) and 5 Non-Bank PD companies (Standalone PDs). PDs continued to be the key players in the government securities market in 2012.

Financial Performance

PD industry recorded improvements in its Key Performance Indicators (KPIs) at end 2012 in spite of the negative implications of increasing yield rates during the first three quarters of the year. Total assets, total investment portfolio, profitability and capital base recorded healthy growth during 2012 in comparison to the deceleration experienced in 2011. A summary of KPIs for the period from 2010 to 2012 is given in Table below.

Table 27
SELECTED KEY FINANCIAL INDICATORS OF PD INDUSTRY

Performance Indicator	2010	2011 (a)	2012 (b)	(%) Change in	
				2011(a)	2012(b)
Total Assets (Rs. Bn.)	127.2	132.7	160.4	4.32	20.87
Total Gov. Security Portfolio (Rs. Bn.)	125.0	130.8	157.7	4.64	20.57
Repo (Rs. Bn.)	75.3	85.3	103.6	13.28	21.45
Capital Base (Rs. Bn.)	13.5	14.4	16.0	6.67	11.11
Risk Weighted Capital Adequacy Ratio (%)	22.56	23.31	17.95	0.75	(5.36)
Repo/Assets Ratio at end Period (%)	59.17	64.24	64.61	5.07	0.37
Leverage (times)	5.57	5.92	6.49	0.35	0.57
Net Interest Margin (%)	1.96	1.59	0.76	(0.37)	(0.83)
Trading Gains Ratio (%)	2.97	(0.52)	0.89	(3.49)	1.41
ROA (%)	3.86	1.14	1.95	(2.72)	0.81
ROE (%)	33.99	7.75	15.97	(26.24)	8.22
One year T-bill yield (year-end)	7.55	9.31	11.69	1.76	2.38

Source: Central Bank of Sri Lanka

(a) Revised
(b) Provisional

Positive growth in total assets:

Total assets of the industry recorded a significant increase of 20.87 per cent during the year and amounted to Rs. 160.4 billion at end 2012, compared to 4.32 per cent increase in 2011. The portfolio of government securities in trading, investments and reverse repo accounted for 98.30 per cent of the total assets of the industry. The sharp increase in the investment portfolio during the fourth quarter following the decline in yield rates of Treasury bills (T-bills) and Treasury bonds (T-bonds) was the main reason for the above increase in total assets of the industry. Government securities held by the PD industry in its investment portfolio recorded an increase of 122 per cent to Rs. 50.9 billion at end 2012 from Rs. 22.9 billion at end 2011.

Significant increase in repo borrowings:

As a result of high reliance on borrowed funds in financing the increase in total assets portfolio of the industry, total borrowing of the industry under repo agreements increased by 21.45 per cent to Rs. 103.6 billion at end 2012 from Rs. 85.3 billion at end 2011. The absence of an adequate inflow of funds in the form of new capital or retained earnings to the industry contributed to the above heavy reliance of the industry on borrowing.

Improved capital base:

Total capital funds of the PD industry increased by 11.11 per cent to Rs. 16 billion at end 2012 compared to Rs. 14.4 billion at end 2011. The Risk Weighted Capital Adequacy Ratio (RWCAR) of the industry decreased to 17.95 per cent as at end 2012 from 23.31 per cent at end 2011. This was mainly due to the increase in total asset base of the industry. However, all PDs were able to maintain the minimum regulatory capital requirement of Rs. 300 million and RWCAR of 8 per cent at end 2012. The increased borrowing position of the industry was reflected in capital leverage ratio, the ratio of borrowed funds to the PDs' own funds, of 6.49 times at end 2012 compared to 5.92 times at end 2011.

Improved profitability:

Profitability of the PD industry measured in terms of the Return on Assets (ROA) and Return on Equity (ROE) increased from 1.14 per cent and 7.75 per cent respectively, in 2011 to 1.95 per cent and 15.97 per cent respectively, in 2012. Total industry profits before tax increased by 67.11 per cent to Rs. 2,527.9 million in 2012 from Rs. 1,512.7 million in 2011. Net interest income, realized capital gains through sale of government securities and unrealized marked-to-market profits on trading portfolios resulting from declined yield rates towards latter part of 2012 positively contributed to the improved profitability.

Risk Management

Market risk:

Market risk exposure of the individual PDs as well as the industry as a whole decreased at end 2012 partly due to the decline in trading portfolio and partly due to the decline in market yield rates. The trading portfolio of the total government securities portfolio of the PD industry stood at Rs. 83.4 billion or 52.89 per cent at end 2012 compared to 67.75 per cent at end 2011. Further, as a result of decrease in market yield rates, PD industry recorded a marked-to-market gain of Rs. 452.1 million at end 2012. At end 2011, the industry recorded a marked-to-market loss of Rs. 853.1 million.

The stress tests conducted at end 2012 to measure the impact of a percentage change in interest rate on the value of the trading portfolio and the ability to maintain capital adequacy to absorb the decline in the value of trading portfolio due to increase in market yields indicated that the industry as well as individual PDs would be able to maintain the minimum regulatory capital requirement of Rs. 300 million and RWCAR of 8 per cent, even if interest rate moves up by 100 bps from its level at end 2012.

Liquidity risk:

The overall liquidity risk exposure of the PD industry, as measured in terms of the mismatch in overnight maturity profile of assets and liabilities, improved during 2012. The overnight negative mismatch in the maturity profile of assets and liabilities of the industry stood at Rs. 11.2 billion at end 2012, compared to Rs. 14.2 billion at end 2011. In view of the large proportion of risk free government securities holdings of PDs and also the ability of PDs to use such government securities as collateral for obtaining funds to bridge unforeseen liquidity gaps, the liquidity risk profile of PDs remained low throughout the year. Further, most PDs had stand-by funding arrangements through banks to bridge liquidity gaps, if emerged.

Participation in Primary and Secondary Markets

Primary Market Participation:

Bank PD units continued to dominate T-bill auctions held during 2012 by recording the highest effective participation level of 64.11 per cent, compared to 74.22 per cent participation level recorded in 2011. The effective participation of Bank PD companies in T-bill primary auctions increased to 23.03 per cent in 2012 from 20.21 per cent in 2011.

T-bond auctions were mainly subscribed by captive sources, particularly, Employees' Provident Fund (EPF) recording 78.50 per cent of the total subscriptions during 2012.

Secondary Market Participation:

Total secondary market transaction volume of the PD industry increased by 9 per cent to Rs. 7,830.5 billion in 2012 from Rs. 7,184 billion in 2011, due mainly to the increase in repo transactions. Correspondingly, the repo transactions in government securities also increased by 5.59 per cent to Rs. 6,246.4 billion in 2012 from Rs. 5,915.7 billion in 2011. The ratio of repo transactions to total secondary market transactions in 2012 recorded at 79.77 per cent compared to 82.35 per cent in 2011.

New Developments:

Over the years, CBSL has taken several initiatives to develop the government securities market to its current levels in terms of issuance process, instruments, investor base and trading and settlement infrastructure. CBSL with a view of continuing its effort towards the development of domestic debt market took the following measures in 2012.

Put in place an E-trading platform for government securities:

An Electronic Trading (E-trading) platform was introduced with a view of employing state of the art technology to facilitate trading in government securities electronically, by bringing buyers and sellers on to one platform. The new trading platform is expected to eliminate information asymmetry while helping the price discovery. Availability of information pertaining to all secondary market transactions in government securities will enable the formulation of a dynamic benchmark yield curve, which would eventually enhance the efficiency of the market. The new trading platform is also expected to provide facilities for trade negotiation and matching and regulatory reporting, based on the secondary market trading which takes place in the platform.

Implemented an online data reporting system for PDs:

PD industry is expected to grow both in terms of number of PDs and volume of transactions along with the anticipated rapid growth path of the economy. These developments will have a significant impact on the risk profile of PDs, requiring continuous monitoring and surveillance by CBSL. This necessitated the introduction of an online data reporting system to facilitate off-site surveillance of PDs more efficiently. The new system (FInNet), is expected to enhance the efficiency and effectiveness of off-site surveillance of PDs by minimizing delays, inaccuracies and duplication of work by automating generation of analytical reports on performance of individual PDs.

Box 5 - Improving the Efficiency and Effectiveness of Primary Dealer System

The Primary Dealer (PD) system of Sri Lanka has evolved over 20 years undergoing several improvements in terms of issuance processes, instruments, investor base, and trading and settlement infrastructure to its current level.

The PD System was first introduced in 1992 as an Accredited Primary Dealer (APD) System. As APD system was not restricted to government securities transactions and there found to be a conflict of interest, the Dedicated Primary Dealers (DPDs) in government securities were appointed in 2000, with a view to infuse greater competition, liquidity and depth into the government securities market. By the introduction of the DPDs, the borrowing cost of the government was expected to be reduced, through effective participation of PDs in both primary and secondary markets. In 2002, Licensed Commercial Banks (LCBs) were allowed to become PDs with a view to increase the intermediation abilities of the system and to infuse more competition and liquidity into the government securities market. However, PD System is still burdened with certain systemic limitations.

(a) Asymmetry in market information due to non-availability of a dynamic benchmark yield curve

A significant proportion of the secondary market transactions in government securities take place in the Over-the-Counter (OTC) market. The underlying prices and yields of these transactions are not reflected in the current yield curve, thereby creating an asymmetry in market information. This leads to low volume of transactions and low level of market liquidity in the secondary market.

(b) Lack of secondary market liquidity in terms of rupee leg and the security leg

As per the current settlement system, delivery versus payment-1 (DVP-I), each secondary market transaction in government securities is required to be settled on one-to-one gross basis where market participants are expected to maintain substantial amounts of liquidity in both security and money terms. As a result, the secondary market transaction volume in government securities has stagnated at a considerably low level for several years.

(c) Limited participation at primary and secondary market activities

DPDs are expected to act as the intermediaries and market makers for government securities. However, due to the shallow and illiquid secondary market for government securities, PDs tend to buy and hold securities rather than exploring yield enhancement through secondary market trading thereby distorting the price discovery mechanism. In a rising interest rate regime, PDs tend to incur large marked-to-market losses leading them to refrain from actively trading in government securities.

The illiquid nature of the market has created a substantial spread between the buying and selling prices of government securities by making such instruments comparatively less attractive for secondary market investors, including retail investors.

Apart from the above systemic limitations, PDs have experienced certain inherent operational inefficiencies as well such as:

(a) Lack of an institutional arrangement for the management of risks

Certain standalone PDs continue to operate with lack of board approved policies, procedures and a clear institutional arrangement for the management of risks inherent to the activities that they have been engaged with.

(b) Inherent liquidity risk

Standalone PDs are faced with an inherent liquidity risk due to the large overnight maturity mismatch they carry in the assets and liability maturity profile. Their activities are funded mainly through short-term repo borrowings from the market. Also, some PDs do not have satisfactory stand-by liquidity arrangement/s to bridge unforeseen liquidity shortfalls in time to come.

(c) Non-availability of a Business Plan

Most PDs do not have a business plan clearly articulating its strategies on business expansion, enhancement of market share and strategies to improve the PD operations in the medium-term.

Suggestions for improving the efficiency and effectiveness of Primary Dealer System

In order to address the above issues, the present PD system requires certain improvements that will facilitate PDs to operate efficiently in volatile market conditions and to energize the government securities markets, which will ultimately help to reduce the cost of borrowing to the government. Efficiency and effectiveness of PDs can be improved by the following strategies:

(a) Implementation of an E-trading and reporting platform for Government securities

An Electronic Trading (E-trading) platform for Government securities together with mandatory reporting of all secondary market transactions, including those contracted through OTC market would help eliminating the current information asymmetry while helping the price discovery in the secondary market yields. Also, the dynamic yield curve based on trades executed on the platform for government securities, can be used as a benchmark yield curve for trading government securities, thus promoting volume of transactions and liquidity in the secondary market for government securities.

(b) Central Clearing Arrangement

A central clearing arrangement on net settlement of rupee leg and security leg (DVP III) would help to enhance the efficiency in intra-day liquidity management of participants and thereby increase the secondary market trading volumes substantially.

(c) Liquidity Support

In order to overcome the liquidity constraints faced by PDs due to lack of secondary market demand for government securities, a mechanism of liquidity support for standalone PDs can enhance the liquidity position in the government securities market and activate secondary market transactions. In developed government securities markets, standalone PDs are provided with liquidity support, based on their performance in the primary and secondary markets.

(d) Diversification

Diversification of PD activities by permitting PDs to act as corporate debt dealers, will facilitate PDs to reduce the vulnerability to market risk in a rising interest rate scenario as PDs have the flexibility to diversify their activities in line with the changes in the market, instead of operating in a single product market. Also, the appointment of PDs as corporate debt dealers would improve the activities in the domestic debt market and lower the borrowing cost of the government through greater competition.

(e) Customer Charter

For the purpose of safeguarding the interests of both PDs and customers and to strengthen their relationships, it is required to introduce a customer charter that includes certain rights, obligations, ethical standards and norms which will be applicable to PDs and their customers.

(f) Fitness and Propriety Assessment

In view of the need for development of the government securities market, PD system and customer protection, it is also necessary to put a system in place to assess the fitness and propriety (honesty, integrity and reputation, competence and capability, and financial soundness) of directors and officers performing executive functions of PD institutions. This will protect the interests of investors in government securities.

(g) Short Selling

As a measure of enhancing the secondary market liquidity, it is suggested to allow PDs to undertake short selling which would facilitate PDs to sell government securities without actually holding the relevant securities in their portfolio. This will also enable firm two-way quotes for benchmark government securities.

Above improvements would provide significant contributions towards expanding and strengthening the PD system and ensuring an improved and efficient primary and secondary market for government securities.

Special Appendix

1. Major Developments in the Government Securities Market in Sri Lanka

1923 - Enactment of the Local Treasury Bills Ordinance (LTBO) enabling the Government to borrow through the issue of Treasury bills (T-bills)

1937 - Enactment of the Registered Stock and Securities Ordinance (RSSO) enabling the Government to borrow through the issue of medium and long term government securities

1941 - Commencement of T-bill issues under parliamentary approval

1949 - Enactment of the Monetary Law Act (MLA) entrusting the Central Bank of Ceylon to act as the agent of the government in managing public debt

1957 - Enactment of the Foreign Loans Act

- Enactment of the Tax Reserve Certificates Act

1981 - Commencement of the issuance of six months (182 days) T-bills. Prior to 1981, only three months (91 days) T-bills were issued.

- Introduction of secondary market operations for T-bills

1982 - Enactment of the Loans (Special Provisions) Act

1986 - Commencement of weekly issues of T-bills. Fortnightly issues of T-bills on the 1st and the 15th of each month had taken place before 1986.

- Introduction of Tap system through the regional offices of the Central Bank of Sri Lanka (CBSL).

1989 - Issuance of T-bills with multiple maturities of 91-days, 182-days and 364-days

- Introduction of the Treasury Certificates of Deposit Act

- Tap system extended through authorized agents

1992 - Introduction of accredited Primary Dealer (PD) system. Eleven PDs consisting of eight Licensed Commercial Banks (LCBs) and three non bank dealers were appointed

1993 - Introduction of repurchase agreements on T-bills

1994 - Reforming the PD system. Eighteen PDs consisting of thirteen LCBs and five non-bank dealers were appointed.

1995 - Phasing out of non- competitive bidding by public sector institutional investors

- Introduction of reverse repurchase transactions on T-bills

- Fixing and prior announcement of T-bills to be issued under each maturity

- Amendment of LTBO and RSSO to facilitate the issue of scripless T-bills and T-bonds and maintenance of the Central Depository System (CDS)

1997 - Commencement of the issuance of Treasury bonds (T-bonds)
- Formation of the Association of Primary Dealers in June 1997

1998 - Introduction of an electronic bidding facility

2000 - Introduction of the dedicated PD system, where only the dedicated companies were appointed as PDs.

2001 - Issuance of Sri Lanka Development Bonds (SLDBs)

2002 - Expansion of PD system to LCBs

2003 - Enactment of the Fiscal Management (Responsibility) Act
- Introduction of a Code of Conduct for PDs
- CBSL moved from a system of 'passive' Open Market Operations to an 'active' OMO system in order to enhance the effectiveness and market orientation of monetary policy operations.
- Introduction of a screen based trading platform for government bonds.

2004 – Conversion of T-bills and T-bonds issued in scrip form into scripless form pursuant to the Regulations issued under LTBO and RSSO in 2004.
- Introduction of Scripless Securities Settlement System (SSSS) (on Delivery Versus Payment (DVP) basis) and the CDS for government securities
- Issue of government securities in scripless form

2005 - Issuance of first index-linked T-bonds
- Issue of the first sovereign credit rating of Sri Lanka by Standard and Poor's (S&P) and Fitch Ratings (Fitch).

2006 - Introduction of the Risk Weighted Capital Adequacy framework for PDs
- Opening up the T-bond market to foreign investors with an aggregate ceiling of 5 per cent of the outstanding bonds.
- Issue of Sri Lanka Nation Building Bonds (SLNBB)
- Suspension of the participation of PDs in the CBSL's OMOs

2007 - Opening of retail outlets to sell government securities
- Lifting the suspension of PDs' participation in the CBSL's OMOs
- Enhancement of the aggregate ceiling of 5 per cent to 10 per cent in respect of investment in T-bonds by foreign investors.
- Issuance of the first International Sovereign Bond (ISB) of USD 500 million in the international capital market

2008 - Authorizing LCBs to invest in the ISB issued by the Government of Sri Lanka (GOSL), in the secondary market
- Opening up of the T-bill market to foreign investors with the aggregate ceiling of 10 per cent of the outstanding bills.
- Introduction of the PC based payment and securities settlement system as part of the Business Continuity Plan (BCP) of the LankaSettle System.

2009 - Issuance of the second ISB of USD 500 million.
- Opening up of the T-bill and T-bond market to the Sri Lankan Diaspora and Migrant workforce

- Providing concessions in obtaining Dual Citizenship status by ex-Sri Lankans (holding foreign citizenship) who invest in Sri Lanka government T-bonds subject to certain conditions.
- Extending the yield curve on government securities up to 10 years
- Increasing the maximum number of days accepted by the LankaSecure system for future value dated transactions from 31 calendar days to 364 calendar days
- Upgrading of the sovereign credit rating outlook by S&P and Fitch
- Setting up of the Domestic Debt Management Committee (DDMC) by the Monetary Board on 05 November 2009.

2010 - Introduction of participant managed Intraday Liquidity Facility to the LankaSettle and LankaSecure Systems
- Introduction of an Analytical Tool to develop a Medium-term Public Debt Management Strategy
- Conducting a workshop for the dealers and treasury officials of PDs on the development of domestic and international economy
- Issuance of the third ISB of USD 1,000 million with 10 year maturity.
- Issue of first sovereign credit rating of Sri Lanka by Moody's Investors Service (Moody's) and upgrading of the sovereign credit rating of Sri Lanka by Fitch and S&P.

2011 - Issuance of the fourth ISB of USD 1,000 million with 10 year maturity.
- Upgrading the sovereign credit ratings of Sri Lanka by Fitch, S&P and Moody's.
- Appointment of three new participants to LankaSecure including one PD and two LCBs namely, WealthTrust Securities Limited, Amana Bank Limited and Axis Bank Limited.
- Limit on foreign investments in government securities was increased from 10 per cent to 12.5 per cent of the total outstanding stock of T-Bills and T-Bonds.

2012 - Issuance of the fifth ISB of USD 1,000 million with 10 year maturity.
- Upgrading of LankaSettle and LankaSecure (new version 3.6) with many new features to make the day-to-day business operations more efficient and effective.
- Standardization of investor information registration in the CDS in LankaSecure.
- Implementation of an Electronic Trading (E-Treading) platform to promote the secondary market for Government securities.
- Issuance of 20 year T-Bonds.
- Fitch affirmed Sri Lanka's Foreign- and Local-Currency Issuer Default Rating (IDRs) at BB- with a "Stable" outlook in May 2012.
- Moody's affirmed Sri Lanka's rating of B1 with a "Positive" outlook in November 2012.
- S&P's affirmed Sri Lanka's rating of B+ with "Stable" outlook in December 2012.

Glossary

Average Time to Maturity - Weighted average time to maturity of all the debt securities/loans in the debt portfolio.

Benchmark Bond - A bond that provides a standard against which the performance of other bonds can be measured. Government bonds are often used as benchmark bonds. This is also referred to as "benchmark issue".

Bunching of Debt Stock - An excessive amount of debt maturing on a given date or within a given period of time.

Central Counterparty (CCP) – A central counterparty interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the performance of open contracts. A CCP becomes counterparty to trades with market participants through novation, an open-offer system, or through an analogous legally binding arrangement. CCPs have the potential to reduce significantly risks to participants through the multilateral netting of trades and by imposing more-effective risk controls on all participants and, as a result, they can reduce systemic risk in the markets they serve.

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

Coupon - The interest payment made to bond holders during the lifetime of the bond. Coupon payments are usually paid semi-annually. The annual amount of interest is equal to the principal value times the coupon rate.

Debt Sustainability - 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 - The weighted average maturity of the cash flows of a debt security/portfolio.

DVPIII - Simultaneous Net Settlement of Securities and Funds Transfers. These systems settle transfer instructions for both securities and funds on a net basis, with final transfer of both occurring at the end of the processing cycle. Settlement may occur once a day or several times a day.

Floating Rate Bond – A bond that has a variable coupon equal to a money market reference rate, like LIBOR plus a spread. The spread is a value that remains constant.

FinNet – Financial Information Network (FinNet) is a common interface to submit financial information by banks, finance companies, leasing companies and primary dealers .

Grace Period - Period of time provided for in a loan agreement for commencement of repayment of the loan.

Grant Element – A measure of concessionality of a loan, calculated as the difference between the face value of the loan and the sum of discounted future debt service payments to be made by the borrower expressed as a percentage of the face value of the loan.

Index Linked Bond – A bond, which pays a coupon, that varies according to some underlying Index usually the Consumer Price Index.

Intra-day liquidity – Funds, which can be accessed during a business day and settled on the same day, usually to enable financial institutions to make payments on real time.

LIBOR - The London Inter Bank Offered Rate. This rate is used as a reference rate by the international banking markets and is commonly the basis on which lending/borrowing margins are fixed.

Maturity - 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.

Open Market Operations - The process of which the Central Bank buys or sells securities in the open market to control the volume of money (liquidity) or price of money (interest rates).

Outright Transactions - Transactions by which ownership (title) of the securities are transferred permanently to the buyer.

Parity Variance - Effect of the appreciation/ depreciation of foreign currencies against the local currency on the existing foreign currency debt portfolio stated in the local currency

Primary Dealer - An intermediary appointed by the CBSL to deal in government securities.

Primary Market - Market where securities are first issued to buyers.

Repayment Period - The period during which the debt obligation is to be repaid.

Repurchase Transaction – A transaction involving a sale of securities with an agreement to reverse the transaction on a future date.

Risk Weighted Capital Adequacy Ratio - The ratio computed by dividing available capital by the risk weighted assets.

Running Cost Ratio - The interest paid as a proportion of the outstanding debt stock at the beginning of the year.

Rupee Loan - A medium to long-term debt instrument issued with maturities more than two years on tap basis or as private placements by the CBSL on behalf of the government under the Registered Stock and Securities Ordinance. Interest rates of this instrument are determined administratively.

Scripless Securities - Treasury bills and Treasury bonds issued in book entry form or as paperless securities.

Secondary Market - The market where securities are traded and exchanged among buyers and sellers after the securities are issued at the primary market.

Special Drawing Rights - The unit of account of the IMF of which the value is based on a basket of key international currencies.

Sovereign Bond – A debt security issued by a sovereign government denominated in domestic or a foreign currency. The foreign currency most likely is a hard currency.

Sovereign Credit Rating – Sovereign Credit Rating is an assessment of the credit worthiness of a country or sovereign entity. At the request of the country, a credit rating agency will evaluate the country's economic and political environment to determine representative credit ratings.

Statutory Reserve Ratio – Percentage of deposits, which the commercial banks should keep with the central bank, through which the central bank can influence their credit creating ability.

Treasury Bill - A short-term debt instrument issued usually on a discount basis and for maturities of 91, 182, and 364 days by the CBSL on behalf of the government under the Local Treasury Bills Ordinance.

Treasury Bond - A medium to long-term debt instrument issued by the CBSL on behalf of the government under the Registered Stock and Securities Ordinance.

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

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

Zero Coupon Bond – A bond that does not pay interest during the life of the bond. Instead, investors buy a zero coupon bond at a deep discount on the face value. The face value of the bond is paid at the maturity.

Statistical Appendix

Definitions 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

TABLE 1

GOVERNMENT DEBT

Rs. million

Year[a]	Domestic Debt					Foreign Debt [b][c]	Total Debt	As a % of GDP [d]		
	Treasury bills[b]	Rupee loans	Treasury bonds [c]	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	1044	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	1,670,343	60.0	45.6	105.6
2003	219,295	248,414	483,107	69,153	1,019,969	843,882	1,863,851	56.0	46.3	102.3
2004	243,886	164,758	643,349	91,396	1,143,389	996,138	2,139,527	54.7	47.6	102.3
2005	234,174	140,563	751,569	139,416	1,265,722	956,621	2,222,342	51.6	39.0	90.6
2006	257,732	116,713	885,972	218,813	1,479,230	1,103,418	2,582,648	50.3	37.5	87.9
2007	307,012	131,509	1,018,852	257,825	1,715,198	1,326,487	3,041,685	47.9	37.1	85.0
2008	402,600	130,009	1,281,978	325,641	2,140,228	1,448,734	3,588,962	48.5	32.8	81.4
2009	441,032	112,292	1,513,512	334,120	2,400,955	1,760,467	4,161,422	49.8	36.5	86.2
2010	514,442	87,709	1,643,887	319,624	2,565,662	2,024,583	4,590,245	45.8	36.1	81.9
2011	590,885	61,961	1,819,251	331,988	2,804,085	2,329,280	5,133,365	42.8	35.6	78.4
2012[e][f]	629,070	58,386	2,095,054	450,304	3,232,813	2,767,299	6,000,112	42.6	36.5	79.1

Sources : 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) Rupee denominated Treasury bills issued to foreign investors from 2008 and to the Sri Lankan diaspora and migrant workers from 2009 are excluded from domestic debt and included in foreign debt.
(c) Rupee denominated Treasury bonds issued to foreign investors from 2007 and to the Sri Lankan diaspora and migrant workers from 2009 are excluded from domestic debt and included in foreign debt.
(d) From 2003, based on GDP estimates compiled by the Department of Census and Statistics.
(e) Provisional
(f) Excludes government bonds of Rs. 78,441 million issued to CPC in January 2012.

GOVERNMENT DEBT

TABLE 2

OUTSTANDING GOVERNMENT DEBT AS AT END YEAR (a)

Rs. million

Item	2008	2009	2010	2011	2012 Provisional
Total Domestic Debt	**2,140,228**	**2,400,955**	**2,565,662**	**2,804,085**	**3,232,813**
By Maturity					
Short-term	516,364	560,646	619,549	698,190	813,272
Treasury bills (b)	402,600	441,032	514,442	590,885	629,070
Provisional advances from the Central Bank	76,308	73,881	77,879	94,743	111,292
Import bills held by commercial banks	12,748	11,994	9,154	11,479	18,340
Other liabilities to the banking sector net of bank deposits	20,458	24,188	10,396	150	53,638
Other (Administrative Borrowing)	4,251	9,551	7,678	933	933
Medium and Long-term	1,623,863	1,840,309	1,946,113	2,105,895	2,419,541
Rupee loans	130,009	112,292	87,709	61,961	58,386
Treasury bonds (c)	1,281,978	1,513,512	1,643,887	1,819,251	2,095,054
Sri Lanka Development Bonds	158,805	168,079	173,877	183,845	222,994
Other	53,071	46,427	40,640	40,838	43,107
By Debt Instrument	2,140,228	2,400,955	2,565,662	2,804,085	3,232,813
Rupee loans	130,009	112,292	87,709	61,961	58,386
Treasury bills (b)	402,600	441,032	514,442	590,885	629,070
Treasury bonds (c)	1,281,978	1,513,512	1,643,887	1,819,251	2,095,054
Sri Lanka Development Bonds	158,805	168,079	173,877	183,845	222,994
Provisional advances	76,308	73,881	77,879	94,743	111,292
Other	90,528	92,160	67,869	53,400	116,017
By Institution	2,140,228	2,400,953	2,565,662	2,804,085	3,232,813
Banks	657,424	705,766	691,716	886,221	1,058,366
Central Bank	239,248	109,593	78,376	263,329	265,198
By debt instrument					
Treasury bills (b)	163,584	37,451	2,993	169,797	154,005
Provisional advances	76,308	73,881	77,879	94,743	111,292
Other	(644)	(1,739)	(2,496)	(1,210)	(99)
Commercial Banks	418,177	596,172	613,340	622,892	793,168
By debt instrument					
Rupee loans	15,870	17,251	17,615	16,234	15,870
Treasury bills	87,869	160,081	220,358	185,756	219,748
Treasury bonds	90,081	188,576	162,215	206,547	242,819
Sri Lanka Development Bonds	158,805	168,079	173,877	183,845	222,994
Other	65,550	62,186	39,276	30,511	91,737
Non bank sector	1,482,804	1,695,188	1,873,945	1,917,864	2,174,447
By debt instrument					
Rupee loans (d)	114,139	95,040	70,094	45,727	42,516
Treasury bills	151,146	243,499	291,091	235,333	255,317
Treasury bonds	1,191,897	1,324,936	1,481,672	1,612,704	1,852,235
Other	25,622	31,713	31,089	24,100	24,379
By institution	1,482,804	1,695,189	1,873,945	1,917,864	2,174,447
National Savings Bank	204,067	257,084	286,514	314,319	330,150
Employees' Provident Fund	676,310	806,192	861,341	950,474	1,173,870
Other	602,427	631,914	726,090	653,071	670,427
Total Foreign Debt	**1,448,734**	**1,760,467**	**2,024,583**	**2,329,280**	**2,767,299**
By Type	1,448,734	1,760,467	2,024,583	2,329,280	2,767,299
Project Loans	1,261,304	1,362,806	1,461,729	1,640,117	1,846,772
Non-Project Loans	187,430	397,661	562,854	689,163	920,527
Commodity	66,499	62,304	54,653	53,460	56,599
Other	120,931	335,357	508,201	635,703	863,928
By Institution	1,448,734	1,760,467	2,024,583	2,329,280	2,767,299
Concessional Loans	1,227,222	1,271,142	1,266,910	1,328,797	1,369,568
Multi-lateral	590,776	623,174	601,691	624,634	670,692
Bi-lateral	636,446	647,967	665,218	704,163	698,876
Non-Concessional Loans	57,491	78,649	147,240	235,923	455,069
Multi-lateral	27,405	41,866	73,245	97,282	173,600
Bi-lateral	30,087	36,783	73,995	138,642	281,469
Commercial Loans	164,020	410,677	610,433	764,560	942,662
International Sovereign bonds	56,570	114,384	221,906	341,704	445,063
Non-resident investments in Treasury bills	6,358	40,410	57,317	70,123	80,184
Non-resident investments in Treasury bonds	17,647	145,124	183,538	199,531	317,604
Other (e)	83,445	110,759	147,672	153,202	99,812
Total Outstanding Government Debt	**3,588,962**	**4,161,422**	**4,590,245**	**5,133,365**	**6,000,112**

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

(a) Outstanding Treasury bills and Treasury bonds have been adjusted for secondary market transactions.
(b) Excludes rupee denominated Treasury bills held by foreign investors from 2008 and the Sri Lankan diaspora and migrant workers from 2009.
(c) Excludes government bonds of Rs. 4,397 million issued to CWE in November 2003, Rs. 78,441 million issued to CPC in January 2012 and rupee denominated Treasury bonds held by foreign investors from 2007 and the Sri Lankan diaspora and migrant workers from 2009.
(d) Includes sinking fund
(e) Includes outstanding defence loans

GOVERNMENT DEBT

TABLE 3

COMPOSITION OF OUTSTANDING GOVERNMENT DEBT AS AT END YEAR

Rs. million

Source	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 (a)
1. Foreign Debt	**843,882**	**996,138**	**956,620**	**1,103,418**	**1,326,487**	**1,448,734**	**1,760,467**	**2,024,583**	**2,329,280**	**2,767,299**
1.1 Project Loans (b)	769,559	914,232	865,494	978,356	1,087,359	1,261,304	1,362,806	1,461,729	1,640,117	1,846,772
1.2 Non-Project Loans	74,323	81,906	91,126	125,062	239,128	187,430	397,661	562,854	689,163	920,527
Commodity (c)	68,891	73,835	69,116	69,021	68,665	66,499	62,304	54,653	53,460	56,599
Other (d)	5,431	8,071	22,010	56,041	170,463	120,931	335,357	508,201	635,703	863,928
2. Domestic Debt	**1,019,969**	**1,143,389**	**1,265,722**	**1,479,230**	**1,715,198**	**2,140,228**	**2,400,955**	**2,565,662**	**2,804,085**	**3,232,813**
2.1 Rupee loans(e)	248,414	164,758	140,563	116,713	131,509	130,009	112,292	87,709	61,961	58,386
2.2 Treasury bills (f)	219,295	243,886	234,174	257,732	307,012	402,600	441,032	514,442	590,885	629,070
2.3 Treasury bonds (g)	483,107	643,349	751,569	885,972	1,018,852	1,281,978	1,513,512	1,643,887	1,819,251	2,095,054
2.4 Sri Lanka Development Bonds	8,816	26,083	25,519	62,469	86,459	158,805	168,079	173,877	183,845	222,994
2.5 Central Bank Advances (h)	31,204	34,791	39,746	49,015	60,679	76,308	73,881	77,879	94,743	111,292
2.6 Other (i)	29,133	30,522	74,151	107,329	110,686	90,528	92,160	67,869	53,400	116,017
Total	**1,863,851**	**2,139,527**	**2,222,342**	**2,582,648**	**3,041,685**	**3,588,962**	**4,161,422**	**4,590,245**	**5,133,365**	**6,000,112**

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

(a) Provisional

(b) 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 Benkens - Sweden, Salomon Brother's Incorporated-New York, Bank Indosuez, BFCE-France, Citibank International of USA, Australia, Austria, Saudi Arabian Fund, EIB, Hong Kong and Korea.

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

(d) Includes cash loans received from the ADB, USA, China, Germany , Japan, OPEC , rupee denominated Treasury bonds from 2007 and Treasury bills from 2008 issued to foreign investors, Treasury bills and Treasury bonds issued to Sri Lankan diaspora and migrant workers from 2009, the international sovereign bonds and outstanding defence loans.

(e) Includes the market value of investments held by the Joint Investment Fund on behalf of the sinking funds.

(f) Excludes outstanding Treasury bills issued to foreign investors from 2008 and Sri Lankan diaspora and migrant workers from 2009.

(g) Excludes government bonds of Rs. 4,397 million issued to CWE in November 2003, Rs. 78,441 million issued to CPC in January 2012 and rupee denominated Treasury bonds held by foreign investors from 2007 and the Sri Lankan diaspora and migrant workers from 2009.

(h) Excludes contributions to international financial organisations.

(i) Includes administrative borrowings arising from foreign loans channelled through government or semi-government agencies and outstanding borrowings from Offshore Banking Units (OBUs).

GOVERNMENT DEBT

TABLE 4

OWNERSHIP OF OUTSTANDING GOVERNMENT DEBT AS AT END YEAR (a)

Rs.million

Owner	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 (b)
1. Domestic Debt(c)	**1,019,969**	**1,143,389**	**1,265,722**	**1,479,230**	**1,715,198**	**2,140,228**	**2,400,955**	**2,565,662**	**2,804,085**	**3,232,813**
1.1 Banking Sector	228,411	272,981	298,411	395,470	415,318	657,425	705,766	691,716	886,221	1,058,366
Central Bank	44,587	113,017	78,364	117,624	104,817	239,248	109,593	78,376	263,329	265,198
Commercial Banks	183,824	159,965	220,047	277,846	310,501	418,177	596,172	613,340	622,892	793,168
1.2 Non-Bank Sector	791,557	870,409	967,311	1,083,760	1,299,879	1,482,804	1,695,189	1,873,945	1,917,864	2,174,447
Market Borrowings	784,104	858,321	951,547	1,069,577	1,289,688	1,478,553	1,685,638	1,866,267	1,916,930	2,173,513
Savings Institutions	138,939	151,158	169,590	166,457	192,413	204,067	257,084	286,514	314,319	330,150
Insurance Funds	24,828	27,398	20,704	13,234	21,012	25,976	34,490	32,839	34,356	33,768
Provident and Pension Funds (d)	333,289	369,205	423,283	480,731	595,807	698,192	835,402	884,279	959,303	1,204,729
Official Funds (e)	40,739	46,341	65,825	95,988	107,480	107,234	132,485	167,374	161,568	178,900
Private Business and Individuals (f)	246,309	264,219	272,145	313,166	372,976	443,084	426,177	495,261	447,385	425,967
Non Market Borrowings	7,453	12,088	15,764	14,183	10,191	4,251	9,551	7,678	933	933
2. Foreign Debt	**843,882**	**996,138**	**956,620**	**1,103,418**	**1,326,487**	**1,448,734**	**1,760,467**	**2,024,583**	**2,329,280**	**2,767,299**
Total	**1,863,850**	**2,139,526**	**2,222,342**	**2,582,648**	**3,041,685**	**3,588,962**	**4,161,422**	**4,590,245**	**5,133,365**	**6,000,112**

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

(a) Outstanding Treasury bills and Treasury bonds have been adjusted for secondary market transactions.

(b) Provisional

(c) Excludes government bonds of Rs. 4,397 million issued to CWE in November 2003 and Rs. 78,441 million issued to CPC in January 2012.

(d) Trusts, Benevolent, Pension and Provident Funds and the Employees' Provident Fund

(e) The Central Government, Local Authorities, State Corporations, Departmental and other official funds

(f) Includes the value of Treasury Certificates of Deposits, Public Debt Sinking Funds (the Investment Fund w.e.f. September,1971) and the National Housing Sinking Fund.

DOMESTIC DEBT

TABLE 5

DETAILS OF OUTSTANDING TREASURY BONDS AS AT END 2012 (a)

Maturity Date	Issue Date	Series	ISIN	Face Value (Rs. mn.)
15/01/2013	15/01/2003	08.50%2013A	LKB01013A157	72,934.6
01/02/2013	01/02/2009	13.50%2013A	LKB00413B018	77,006.7
01/04/2013	01/04/2007	10.50%2013A	LKB00613D019	80,259.1
15/06/2013	15/06/2009	11.50%2013A	LKB00413F159	56,044.0
15/07/2013	15/07/2003	08.50%2013B	LKB01013G154	64,397.3
01/08/2013	01/08/2003	07.50%2013A	LKB01013H012	79,593.3
01/09/2013	01/09/2010	06.75%2013A	LKB00313I015	70,270.3
05/10/2013	05/10/2011	08.84%2013A	LKB00213J056	398.0
01/11/2013	01/11/2003	07.50%2013B	LKB01013K016	59,449.6
21/11/2013	21/11/2011	09.22%2013A	LKB00213K211	467.4
01/02/2014	01/02/2010	06.60%2014A	LKB00414B016	53,752.4
01/03/2014	01/03/2010	07.00%2014A	LKB00414C014	75,848.1
01/04/2014	01/04/2008	11.75%2014B	LKB00614D017	77,844.5
01/06/2014	01/06/2010	06.60%2014B	LKB00414F017	77,256.0
15/07/2014	15/07/2009	11.25%2014A	LKB00514G152	65,352.9
01/10/2014	01/10/2011	09.00%2014A	LKB00314J011	22,947.0
15/01/2015	15/01/2011	06.20%2015A	LKB00415A155	49,826.5
15/03/2015	15/03/2009	11.75%2015A	LKB00615C156	76,458.4
15/06/2015	15/06/2011	06.20%2015B	LKB00415F154	39,782.5
15/07/2015	15/07/2010	06.50%2015A	LKB00515G159	83,666.0
01/08/2015	01/08/2009	11.00%2015A	LKB00615H015	77,866.1
01/09/2015	01/09/2009	11.00%2015B	LKB00615I013	68,964.4
01/11/2015	01/11/2011	08.50%2015A	LKB00415K014	7,665.6
01/04/2016	01/04/2010	07.25%2016A	LKB00616D012	72,532.7
01/06/2016	01/06/2011	08.00%2016B	LKB00516F019	40,473.4
01/08/2016	01/08/2010	06.40%2016A	LKB00616H013	78,620.8
01/09/2016	01/09/2011	08.00%2016A	LKB00516I013	18,596.0
01/10/2016	01/10/2010	06.40%2016B	LKB00616J019	34,533.0
01/01/2017	01/01/2012	08.00%2017A	LKB00517A018	41,386.7
15/01/2017	15/01/2011	05.80%2017A	LKB00617A156	50,890.9
15/06/2017	15/06/2012	08.00%2017B	LKB00517F157	18,771.5
15/07/2017	15/07/2011	05.80%2017B	LKB00617G153	80,984.1
01/02/2018	01/02/2003	08.50%2018A	LKB01518B013	69,872.0
15/07/2018	15/07/2003	08.50%2018B	LKB01518G152	49,692.1
15/08/2018	15/08/2003	07.50%2018A	LKB01518H150	78,222.9
15/11/2018	15/11/2011	08.00%2018A	LKB00718K151	9,043.0
15/01/2019	15/01/2011	05.65%2019A	LKB00819A158	7,989.6
01/05/2019	01/05/2009	08.50%2019A	LKB01019E016	82,174.6
01/11/2019	01/11/2011	08.00%2019A	LKB00819K017	23,179.8
01/06/2020	01/06/2012	08.00%2020A	LKB00820F015	9,549.5
01/08/2020	01/08/2010	06.20%2020A	LKB01020H017	71,349.9
01/01/2022	01/01/2012	08.00%2022A	LKB01022A018	49,246.2
01/10/2023	01/10/2003	07.00%2023A	LKB02023J016	60,324.9
01/03/2026	01/03/2011	05.35%2026A	LKB01526C014	59,548.1
01/01/2032	01/01/2012	08.00%2032A	LKB02032A016	67,624.9
Total		45		2,412,657.3

Source: Central Bank of Sri Lanka

(a) Includes Treasury bonds held by non-residents and excludes Rs. 4,397 million issued to CWE in 2003 and Rs. 78,441 million issued to CPC in January 2012.

DOMESTIC DEBT

TABLE 6

DETAILS OF OUTSTANDING SRI LANKA DEVELOPMENT BONDS AS AT END 2012

Maturity Date	Issue Date	Series	ISIN	Face Value (US Dollar mn.)
26/03/2013	26/03/2010	SLDB2013C	LKG00313C260	55.0
30/06/2013	30/06/2010	SLDB2013D	LKG00313F305	102.0
15/07/2013	15/07/2010	SLDB2013E	LKG00313G154	195.0
15/07/2013	15/07/2008	SLDB2013B	LKG00513G159	398.1
16/03/2014	16/03/2011	SLDB2014A	LKG00314C169	134.0
29/06/2014	29/06/2011	SLDB2014B	LKG00314F295	106.0
18/08/2014	18/08/2011	SLDB2014C	LKG00314H184	81.0
16/03/2015	26/03/2012	SLDB2015D	LKG00315C166	74.5
16/03/2015	16/03/2011	SLDB2015A	LKG00415C164	93.0
29/06/2015	29/06/2011	SLDB2015B	LKG00415F290	23.0
29/06/2015	02/07/2012	SLDB2015E	LKG00315F292	229.0
18/08/2015	24/09/2012	SLDB2015F	LKG00315H181	141.1
18/08/2015	18/08/2011	SLDB2015C	LKG00415H189	30.0
26/03/2016	26/03/2012	SLDB2016D	LKG00416C261	12.0
30/06/2016	30/06/2011	SLDB2016B	LKG00516F303	25.0
18/08/2016	18/08/2011	SLDB2016C	LKG00516H184	55.0
Total		16		1,753.6

Source: Central Bank of Sri Lanka

TABLE 7

DETAILS OF OUTSTANDING RUPEE LOANS AS AT END 2012

Maturity Date	Issue Date	Series	Interest Rate	Face Value (Rs. mn.)
01/04/2013	01/04/2005	09.40%2009-2013	9.40	2,868.0
01/04/2015	01/04/2005	09.50%2009-2015	9.50	26,000.0
01/05/2015	01/05/2005	09.50%2009-2015A	9.50	1,366.4
01/07/2015	01/07/2005	11.00%2009-2015	11.00	4,063.4
01/02/2023	01/02/1993	12%2023	12.00	24,088.0
Total		5		58,385.8

Source: Central Bank of Sri Lanka

DOMESTIC DEBT

TABLE 8

CHANGES IN RELATIVE COMPOSITION OF GOVERNMENT SECURITIES (a)

	2008	2009	2010	2011	2012
1. Maturity (%)					
Short-term	22	21	23	24	23
Medium and long-term	78	79	77	76	77
2. Marketability (%)					
Marketable	93	95	96	97	98
Non-marketable	7	5	4	3	2
3. Investor base (%)					
Central Bank	9	2	0	7	6
Commercial banks	11	18	18	17	17
Captive sources	56	54	55	54	57
Others	24	27	27	23	20
4. Maximum maturity in the yield curve (yrs)					
Primary market	10	10	10	15	20
Secondary market	6	6	10	15	15

(a) Treasury bills, Treasury bonds, Rupee loans only.
Excludes Treasury bills and Treasury bonds held by non-residents

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

TABLE 9

MATURITY PROFILE OF DOMESTIC DEBT AS AT END 2012 (a)

Rs. million

Maturity Year	Instrument					Total
	Treasury bill(b)	Treasury bond (b) (c)	Rupee loan	SLDB (d)	OBU loans (d)	
2013	629,070	460,207	2,868	95,380	19,074	1,206,599
2014	-	323,405	-	40,819	-	364,223
2015	-	314,013	31,430	75,097	-	420,540
2016	-	204,069	-	11,699	-	215,768
2017	-	162,978	-	-	-	162,978
2018	-	203,834	-	-	-	203,834
2019	-	108,944	-	-	-	108,944
2020	-	80,899	-	-	-	80,899
2022	-	49,246	-	-	-	49,246
2023	-	60,325	24,088	-	-	84,413
2026	-	59,548	-	-	-	59,548
2032	-	67,586	-	-	-	67,586
Total	629,070	2,095,054	58,386	222,994	19,074	3,024,578

Source : Central Bank of Sri Lanka

(a) Other liabilities to the banking sector are not included.
(b) Excludes Treasury bonds and Treasury bills issued to non-residents.
(c) Excludes Treasury bonds of Rs. 4,397 million issues to CWE in 2003 and Treasury bonds of Rs. 78,441 million issued to CPC in 2012
(d) Exchange rate used for conversion is 1 US Dollar=Rs.127.1608 (End 2012 rate).

DOMESTIC DEBT

TABLE 10

FUTURE DOMESTIC CURRENCY DEBT OBLIGATIONS AS AT END 2012 (a)

Rs. million

Year	Capital	Interest	Total
2013	490,610	324,007	814,616
2014	344,313	170,052	514,365
2015	396,693	150,792	547,485
2016	211,691	113,781	325,472
2017	145,143	109,697	254,840
2018	163,280	91,460	254,741
2019	94,251	49,502	143,753
2020	58,994	46,360	105,354
2021	-	19,649	19,649
2022	32,726	41,887	74,614
2023	69,805	28,872	98,677
2024	-	8,596	8,596
2025	-	8,596	8,596
2026	25,515	41,036	66,551
2027	-	5,410	5,410
2028	-	5,410	5,410
2029	-	5,410	5,410
2030	-	5,410	5,410
2031	-	5,410	5,410
2032	34,944	48,905	83,849
Total	2,067,967	1,280,240	3,348,207

(a) Represents capital payments (book values of Treasury bonds and Rupee loans) and interest payments (coupon payments and discounts of Treasury bonds, Treasury bills and Rupee loans) as at end 2012.

Source : Central Bank of Sri Lanka

TABLE 11

OWNERSHIP OF TREASURY BILLS (a)

Rs. million

Ownership	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 Provisional
1.Bank Sector	**58,002**	**118,843**	**78,102**	**122,175**	**113,782**	**251,453**	**197,532**	**223,351**	**355,552**	**373,753**
1.1 Central Bank	13,365	78,162	38,951	69,370	44,964	163,584	37,451	2,993	169,797	154,005
1.2 Commercial Banks	44,637	40,681	39,151	52,805	68,818	87,869	160,081	220,358	185,756	219,748
2. Non Bank Sector	**161,293**	**125,043**	**156,072**	**135,558**	**193,231**	**151,146**	**243,499**	**291,091**	**235,333**	**255,317**
2.1 Employees' Provident Fund	5,198	5,000	5,659	4,793	5,208	1	420	5,969	-	33,410
2.2 Other Provident Funds	906	805	-	42	166	55	-	15	1,279	122
2.3 Savings Institutions	36,534	31,513	39,938	33,456	32,046	20,791	42,677	52,541	58,733	61,972
2.4 Insurance and Finance Companies	7,742	562	18,034	5,963	8,623	10,988	7,192	12,072	11,010	19,097
2.5 Departmental and Other Official Funds	6,898	9,957	19,574	28,173	29,481	16,431	21,452	20,636	5,968	2,566
2.6 Private and Other	104,016	77,206	72,867	63,131	117,707	102,882	171,757	199,858	158,344	138,149
3. Foreign Investors (b)	-	-	-	-	-	**6,358**	**40,410**	**53,317**	**70,123**	**80,184**
Total	**219,295**	**243,886**	**234,174**	**257,732**	**307,013**	**408,958**	**481,4441**	**571,759**	**661,009**	**709,254**

(a) Adjusted for secondary market transactions.
(b) Includes diaspora investments

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

DOMESTIC DEBT

TABLE 12

OWNERSHIP OF TREASURY BONDS (a)(b)(c)

Rs million

Ownership	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 Provisional
1. Bank Sector	**65,246**	**33,350**	**55,118**	**46,595**	**58,416**	**90,082**	**188,576**	**162,215**	**206,547**	**242,819**
1.1 Central Bank	-	-	-	-	-	-	-	-	-	-
1.2 Commercial Banks	65,246	33,350	55,118	46,595	58,416	90,082	188,576	162,215	206,547	242,819
2. Non-Bank Sector	**417,861**	**609,999**	**696,452**	**839,377**	**960,436**	**1,191,897**	**1,324,936**	**1,481,672**	**1,612,704**	**1,852,235**
2.1 Employee's Provident Fund	187,665	283,428	344,830	408,757	501,331	607,770	718,717	814,451	927,374	1,117,360
2.2 Other Provident Funds	287	240	-	4,940	7,862	9,507	13,766	19,872	7,550	30,639
2.3 Savings Institutions	54,499	92,227	104,235	112,062	134,994	164,457	195,588	221,805	246,418	261,309
2.4 Insurance and Finance Companies	20,740	26,551	8,214	13,632	21,215	26,410	33,194	33,624	34,410	31,711
2.5 Departmental and Other Official Funds	17,375	23,641	34,922	58,061	69,588	90,778	21,949	36,963	37,006	37,596
2.6 Private and Other	137,294	183,912	204,251	241,925	225,446	292,975	341,722	354,957	359,946	373,620
3. Foreign Investors (c)	-	-	-	-	**49,647**	**17,647**	**145,124**	**183,538**	**199,531**	**317,604**
Total	**483,107**	**643,349**	**751,569**	**885,972**	**1,068,499**	**1,299,625**	**1,658,636**	**1,827,425**	**2,018,782**	**2,412,657**

(a) Adjusted for secondary market transactions.
(b) Excludes government bonds of Rs. 4,397 million issued to CWE in November 2003 and Rs. 78,441 million Issued to CPC in January 2012.
(c) Includes diaspora investments.

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

TABLE 13

OWNERSHIP OF RUPEE LOANS

Rs. million

Ownership	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 Provisional
1. Bank Sector	**43,481**	**41,481**	**41,481**	**22,088**	**15,870**	**15,870**	**17,252**	**17,615**	**16,234**	**15,870**
1.1 Central Bank	-	-	-	-	-	-	-	-	-	-
1.2 Commercial Banks	43,481	41,481	41,481	22,088	15,870	15,870	17,252	17,615	16,234	15,870
2. Non Bank Sector	**204,933**	**123,277**	**99,081**	**94,625**	**115,639**	**114,139**	**95,040**	**70,094**	**45,727**	**42,516**
2.1 Savings Institutions	47,906	27,418	25,418	20,938	19,938	18,820	18,820	12,168	9,168	6,868
2.2 Departmental and Other Official Funds(a)	17,550	12,742	9,754	9,755	8,410	8,400	6,111	6,103	6,101	5,190
2.3 Employees' Provident Fund	130,319	74,308	56,068	56,068	68,921	68,539	56,583	40,921	23,100	23,100
2.4 Other Provident Funds	7,144	5,425	6,105	6,132	12,320	12,327	11,417	10,369	7,358	7,358
2.5 Insurance Corporations	285	285	-	-	-	-	-	-	-	-
2.6 Insurance Companies	-	-	-	-	-	-	-	-	-	-
2.7 Other State Corporations	1,575	-	1,575	1,575	1,575	1,575	1,575	-	-	-
2.8 Other(b)	154	3,099	161	158	4,475	4,477	535	532	-	-
Total	**248,414**	**164,758**	**140,562**	**116,713**	**131,509**	**130,009**	**112,292**	**87,709**	**61,961**	**58,386**

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

(a) Including Employee's Trust Fund.
(b) Comprises Sinking Funds, co-operative banks, other companies, institutions and individuals.

FOREIGN DEBT

TABLE 16

FOREIGN LOANS - 2012

Rs. million

Type and Source	Gross Receipts	Repayments	Net Change in the Liability(a)	Liability as at end December
1. Project Loans	**241,662**	**74,711**	**166,951**	**1,846,772**
ADB	37,582	11,182	26,400	441,396
Australia	-	1,105	-1,105	8,471
Austria	-	721	-721	13,921
Canada	-	369	-369	5,011
China	65,618	2,638	62,980	91,605
Denmark	777	-	777	22,118
EIB	3,995	1,349	2,646	20,700
Finland	-	381	-381	2,816
France	2,558	690	1,868	25,355
Germany	327	2,498	-2,171	39,469
Hong Kong	-	2,520	-2,520	4,330
India	31,338	457	30,881	58,662
IDA	20,765	7,438	13,327	349,997
Japan	48,025	26,743	21,282	549,857
Korea	6,085	843	5,242	29,082
Kuwait	285	575	-290	5,509
Netherlands	-	-	-	8,748
Opec Fund for International Development	661	297	364	2,416
Saudi Arabian Fund	55	241	-186	2,358
Spain	-	202	-202	4,534
Sweden	3,034	228	2,806	13,820
UK	62	1,683	-1,621	26,407
USA	-	1,241	-1,241	17,925
Other	20,495	11,310	9,185	102,265
2. Non-Project Loans	**240,597**	**118,818**	**121,779**	**920,527**
2.1 Commodity Loans	-	2,364	-2,364	56,599
Canada	-	198	-198	2,351
France	-	51	-51	91
India	-	-	-	15,670
Pakistan	-	518	-518	4,332
Germany	-	284	-284	5,747
Netherlands	-	-	-	-
USA (b)	-	42	-42	27,601
Japan	-	1,271	-1,271	809
2.2 Other Loans	240,597	116,454	124,143	863,928
ADB	210	6,117	-5,907	7,025
China	804	103	701	1,423
USA	-	-	-	-
Germany	-	436	-436	-
Japan	-	-	-	-
Other (c)	239,583	109,798	129,785	855,480
Memo: Liability due to variations in exchange rates			127,202	
Grand Total (d)	**482,259**	**193,529**	**288,730**	**2,767,299**

91605
62980
28,625

58662
30881
27,781

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

(a) This includes the impact of exchange rate variation.
(b) Comprises P.L. 480 loans and loans from the Agency for International Development.
(c) Includes rupee denominated Treasury bonds (since 2007) and Treasury bills (since 2008) issued to foreign investors and Treasusy bonds and Treasury bills issued to Sri Lankan diaspora and migrant workers (since 2009) and proceeds from the international sovereign bonds issued.
(d) Liability as at end 2012 includes outstanding defence loans.

FOREIGN DEBT

TABLE 17

FOREIGN LOAN DISBURSEMENTS BY SOURCE

Rs. million

Category	Disbursements									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 [a]
1. Lender	87,638	78,299	75,180	92,296	183,046	129,628	256,402	327,878	322,771	482,259
Bi-lateral	29,888	35,110	25,552	38,614	50,102	42,248	60,131	59,272	78,739	109,165
Multi-lateral	41,119	29,219	35,014	33,942	29,126	39,981	48,547	52,685	54,459	65,782
Commercial[b]	10,082	5,268	10,208	10,756	95,147	31,127	109,371	163,892	144,963	250,505
Export Credits	6,549	8,702	4,406	8,984	8,671	16,272	38,353	52,028	44,611	56,807
2. Use of Funds	87,638	78,299	75,180	92,296	183,046	129,628	256,402	327,878	322,771	482,259
Cash[b]	-	-	10,209	9,138	56,202	-	57,404	111,926	109,488	130,695
Commodity	-	11	-	-	-	-	-	-	-	-
Food	-	-	-	-	-	-	-	-	-	-
Goods & Services	2,321	3,196	280	3,227	2,515	58	314	126	3,254	2,316
Programme	33,012	3,091	1,987	5,362	270	1,791	593	4,788	194	-
Project	52,220	66,331	62,472	73,052	84,830	112,560	145,850	158,770	174,097	227,041
Technical Assistance	85	401	232	127	288	249	275	302	232	210
Other[c]	-	5,268	-	1,390	38,941	14,970	151,967	51,967	35,507	121,997

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

(a) Provisional
(b) Include Sovereign bonds issued in 2009, 2010, 2011 and 2012
(c) Includes Treasury bonds and Treasury bills(net) issued to non-residents since 2007.

DEBT SERVICE PAYMENTS

TABLE 18

GOVERNMENT DEBT REPAYMENTS AND INTEREST PAYMENTS

Rs. million

Year	Principal Repayments			Interest Payments		
	Domestic[a]	Foreign[b]	Total	Domestic[c]	Foreign[d]	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	251,900	65,934	317,834	158,701	23,980	182,681
2008	258,720	121,609	380,330	182,198	30,277	212,475
2009	403,723	114,716	518,439	273,977	35,698	309,675
2010	389,672	78,184	467,856	297,127	55,464	352,592
2011	439,894	98,789	538,683	288,134	68,565	356,699
2012 [e]	415,441	193,529	608,970	317,659	90,839	408,498

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

(a) Excludes Treasury bond payments to non-residents.
(b) Includes Treasury bond payments to non-residents and pre-mature liquidation of non-resident investments.
(c) ExcludesTreasury bill & Treasury bond interest payments to non-residents.
(d) Includes Treasury bill & Treasury bond interest payments to non-residents.
(e) Provisional.

GOVERNMENT BORROWINGS

TABLE 19

ISSUES AND MATURITIES OF DOMESTIC DEBT IN 2011 AND 2012[a]

Rs. million

Maturity		2011			2012		
		Issues	Repayments	Net Issues	Issues [b]	Repayments	Net Issues
Treasury bills	$0 < M \leq 91$ days	359,497	308,834	50,663	548,780	616,202	(67,423)
	$91 < M \leq 182$ days	359,875	336,882	22,994	663,556	490,901	172,656
	$182 < M \leq 364$ days	445,198	429,605	15,593	437,648	494,635	(56,987)
Total		1,164,570	1,075,321	89,249	1,649,984	1,601,738	48,246
Treasury bonds							
	1 year	29,832	33,974	(4,142)	102,640	30,332	72,308
	2 year	40,644	130,739	(90,094)	72,529	108,749	(36,220)
	3 year	119,364	137,430	(18,066)	78,701	120,390	(41,689)
	4 year	57,353	36,308	21,045	87,016	99,163	(12,147)
	5 year	99,450	73,143	26,307	153,642	86,409	67,233
	6 year	44,194	-	44,194	101,734	8,980	92,754
	7 year	45,261	-	45,261	39,994	-	39,994
	8 year	60,866	-	60,866	29,659	-	29,659
	9 year	32,869	-	32,869	4,801	-	4,801
	10 year	19,358	-	19,358	44,445	-	44,445
	12 year	50,022	-	50,022	9,241	-	9,241
	13 year	62	-	62	39,814		
	14 year	2,282	-	2,282	16,059	-	16,059
	15 year	1,394	-	1,394	-	-	-
	19 year	-	-	-	53,215	-	53,215
	20 year	-	-	-	14,410	-	14,410
Total		602,951	411,594	191,357	847,898	454,023	354,062
Rupee loans	2 year	-	1,904	(1,904)	-	-	-
	3/4 year	-	1	(1)	-	-	-
	3/6 year	-	6	(6)	-	-	-
	4/6 year	-	5,011	(5,011)	-	-	-
	4/7 year	-	-	-	-	3,575	(3,575)
	3/7 year	-	2	(2)	-	-	-
	3/10 year	-	18,824	(18,824)	-	-	-
Total		-	25,748	(25,748)	-	3,575	(3,575)
Sri Lanka Dev. Bonds	2 year	-	54,924	(54,924)	-	36,683	(36,683)
	3 year	35,321	-	35,321	58,874	5,395	53,479
	4 year	16,086	-	16,086	1,564	-	1,564
	5 year	8,785	-	8,785	-	-	-
Total		60,192	54,924	5,268	60,437	42,079	18,359
Loans from OBUs	<= 1 year	5,465	5,992	(528)	-	-	-
	2 years	-	-	-	-	-	-
	3 years	-	-	-	-	-	-
Total		5,465	5,992	(528)	-	-	-
Grand Total		1,833,177	1,573,579	259,598	2,558,320	2,101,415	417,092

Source : Central Bank of Sri Lanka

(a) Face Value.
(b) Excludes T-bonds of Rs. 78,441 million issued to CPC in January 2012.

GOVERNMENT BORROWINGS

TABLE 20

AUCTION AND PRIMARY ISSUE DETAILS IN 2011 AND 2012(a)

Rs. million

	2011			2012		
	Treasury bills	Treasury bonds	Rupee loans	Treasury bills	Treasury bonds	Rupee loans
Auctions						
Number of Auctions	52	24	-	52	24	-
Amount Offered	521,500	21,000	-	710,000	53,000	-
Amount Received	1,073,288	60,518	-	1,763,958	124,460	-
Amount Accepted	489,073	26,107	-	728,341	59,326	-
CBSL Purchases	217,584	-	-	485,332	-	-
Placements	457,913	576,844	-	436,312	788,572	-
Total Issues	1,164,570	602,951	-	1,649,984	847,898	-

(a) Face Value.

Source: Central Bank of Sri Lanka

TABLE 21

GOVERNMENT BORROWING LIMITS AND USAGE IN 2011 AND 2012

Rs. million

	2011		2012	
	Approved Limit	Usage	Approved Limit	Usage
1. Gross Borrowing	997,000	994,090	1,139,000	1,139,000
1.1. Domestic	658,100	671,319	767,800	656,741
1.2. Foreign	338,900	322,771	371,200	482,259
2. Sources of Financing				
2.1. Domestic Financing	658,100	671,319	767,800	656,741
2.1.1. Rupee loans	-	-	-	-
2.1.2. Treasury bonds(a)	539,200	514,647	666,900	513,056
2.1.3. Treasury bills (net)(b)	40,000	79,617	50,000	16,782
2.1.4. CBSL Advances	15,000	16,864	14,700	16,549
2.1.5. SLDBs	63,900	60,192	36,200	60,437
2.1.6. OBU Loans	-	-	-	-
2.1.7. Other	-	-	-	49,917
2.2. Foreign Financing	338,900	322,771	371,200	482,259
2.2.1. Project/Programme Loans	179,200	177,809	270,300	231,754
2.2.2. Other(c)	159,700	144,962	100,900	250,505
Total Financing	997,000	994,090	1,139,000	1,139,000

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

(a) Excludes Treasury bonds issued to non-residents and Rs. 53.9 billion (Book value) and Rs. 13.5 billion (Book value) Treasury bonds issued to CPC and Sri Lankan Air Lines.

(b) Excludes Treasury bills (net) issued to non-residents

(c) Includes Treasury bonds, Treasury bills(net) issued to non-residents, International Sovereign bonds and non-project loans

GOVERNMENT BORROWINGS

TABLE 22

FINANCING OF THE GOVERNMENT NET CASH DEFICIT

Rs. million

Item	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 [a]
1. NET CASH SURPLUS (+) / DEFICIT (-)	(133,123)	(162,501)	(177,424)	(215,516)	(262,252)	(322,329)	(486,626)	(451,924)	(455,207)	(551,142)
1.1 Revenue and grants	308,717	341,116	428,643	527,435	614,329	708,596	746,359	858,372	973,476	1,030,128
1.2 Expenditure[b]	(441,839)	(503,618)	(606,067)	(742,951)	(876,581)	(1,030,925)	(1,232,984)	(1,310,295)	(1,428,683)	(1,581,271)
2. FINANCING OF THE DEFICIT	133,123	162,501	177,424	215,516	262,252	322,329	486,626	451,924	455,207	551,142
2.1 Domestic Financing	79,910	117,243	123,603	163,808	145,136	314,312	245,556	202,229	231,224	257,847
2.1.1 Domestic Market Borrowings	79,830	112,563	119,303	164,458	127,076	309,694	234,276	191,999	236,021	252,409
Rupee Loans	48,113	564	43,679	23	18,833	-	1,904	-	-	-
Less: Direct Repayments	87,400	84,219	67,875	23,873	8,500	1,500	19,621	24,583	25,748	3,576
Net	(39,287)	(83,656)	(24,196)	(23,850)	10,333	(1,500)	(17,717)	(24,583)	(25,748)	(3,576)
Treasury Bills	14,917	25,026	(9,402)	20,300	37,092	69,766	49,008	82,796	79,616	16,782
Treasury Bonds	137,093	156,669	108,113	97,429	52,807	192,356	201,935	140,440	168,401	154,548
Sri Lanka Development Bonds (SLDBs)	(15,179)	16,361	-	34,254	23,592	65,497	7,564	11,073	5,268	18,359
Central Bank Advances	171	3,587	4,955	9,269	11,664	15,629	(2,428)	3,998	16,864	16,549
Other Borrowings from Banks[c]	(15,617)	(2,109)	47,492	33,874	(3,025)	(43,598)	(2,918)	(7,291)	13,730	45,139
Use of Cash Balances	(2,268)	(3,316)	(7,659)	(6,818)	(5,386)	11,544	(1,169)	(14,434)	(22,109)	4,609
2.1.2 Domestic Other Borrowings[d]	80	4,680	4,300	(650)	18,060	4,618	11,280	10,230	(4,798)	5,438
2.2 Foreign Financing	53,213	45,256	53,821	51,708	117,115	8,018	241,070	249,694	223,983	293,295
2.2.1 Project Loans	85,317	69,600	64,691	78,254	72,871	114,600	146,717	163,860	174,523	228,808
Less: Repayments	20,422	24,472	17,274	33,715	39,108	47,762	66,059	55,360	63,632	80,958
Net	64,895	45,128	47,417	44,539	33,763	66,838	80,658	108,500	110,892	147,850
2.2.2 Non-project Loans	(11,682)	128	6,404	7,169	83,352	(58,820)	160,412	141,194	113,092	145,445
Commodity Loans	2,321	3,196	280	3,227	2,510	58	314	126	3,254	2,316
Less: Repayments	4,783	5,493	390	5,163	5,417	5,771	5,871	6,100	5,793	5,634
Net	(2,462)	(2,297)	(110)	(1,936)	(2,907)	(5,713)	(5,557)	(5,974)	(2,539)	(3,319)
Other loans[e]	-	5,501	10,209	16,216	105,848	14,970	208,755	163,893	144,995	255,700
Less: Repayments	9,220	3,076	3,695	7,111	19,589	68,077	42,786	16,724	29,364	106,937
Net	(9,220)	2,425	6,514	9,105	86,259	(53,107)	165,969	147,169	115,631	148,764

Sources : 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 borrowings from offshore banking units of commercial banks.
(d) Includes domestic grants and administrative borrowings and payments to be made
(e) Includes cash loans received from the Iraq, China, OPEC, Japan and military equipment loans and Euro currency commercial loans.

COST OF BORROWING

TABLE 23

ANNUALIZED WEIGHTED AVERAGE YIELD RATES OF TREASURY BILLS , TREASURY BONDS AND RUPEE LOANS [a]

Per cent per annum

Instrument	2006	2007	2008	2009	2010	2011	2012
Treasury bills (Days) [b]							
91	10.65	16.61	18.54	11.43	7.86	7.28	10.72
182	10.68	16.81	18.45	12.18	8.42	7.21	12.29
364	10.89	16.23	18.89	12.76	8.43	7.41	12.14
Overall average	10.69	16.57	18.59	12.25	8.32	7.31	11.81
Treasury bonds (Years)							
2	12.47	15.21	18.95	16.32	9.46	7.77	11.30
3	10.96	15.36	18.44	17.01	9.01	7.99	11.11
4	11.01	13.88	17.87	14.29	9.65	8.23	11.58
5	11.05	15.28	17.00	11.20	9.31	8.55	13.32
6	10.90	15.44	-	12.09	9.43	8.70	11.84
7	-	-	-	-	9.19	8.84	12.50
8	-	-	-	-	9.15	8.91	14.40
9	-	-	-	-	-	9.00	-
10	-	-	-	13.39	9.59	9.15	14.00
12	-	-	-	-	-	9.10	-
15	-	-	-	-	-	9.30	-
20	-	-	-	-	-	-	11.00
Overall average	11.05	15.15	18.59	14.69	9.45	8.64	12.46
Rupee Loans (Years) [c]							
2	-	9.90	-	12.60	-	-	-
4	-	16.56	-	-	-	-	-
5	-	-	-	-	-	-	-
6	9.54	16.74	-	-	-	-	-
7	-	16.83	-	-	-	-	-
8	-	-	-	-	-	-	-
10	-	17.10	-	-	-	-	-
Overall average	9.54	15.72	-	12.60	-	-	-
Overall average	10.81	16.10	18.59	12.94	8.69	7.76	12.05

(a) Net of 10% withholding tax. Effective from May 3, 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 2012

Series	Settlement Date	Maturity Date	Maturity Period (Years)	Amount Offered (Rs. mn.)	Bid Received (Rs. mn.)	Amount Accepted (Rs. mn.)	Coupon Rate	Weighted Average Yield [(a)]
06.60%2014A	17/01/2012	01/02/2014	2	2,000	4,600	2,000	6.60	9.45
07.25%2016A	17/01/2012	01/04/2016	4	2,000	4,450	2,000	7.25	9.55
08.50%2018B	17/01/2012	15/07/2018	6	2,000	4,450	2,000	8.50	9.75
08.00%2022A	01/02/2012	01/01/2022	10	1,000	2,450	1,000	8.00	10.25
08.00%2032A	01/02/2012	01/01/2032	20	1,000	2,950	1,026	8.00	11.00
06.20%2015B	15/02/2012	15/06/2015	3	2,000	5,200	3,000	6.20	10.20
05.80%2017B	15/02/2012	15/07/2017	5	2,000	4,400	2,000	5.80	10.75
06.60%2014A	01/03/2012	01/02/2014	2	2,000	4,305	2,000	6.60	10.61
07.25%2016A	01/03/2012	01/04/2016	4	2,000	4,410	2,000	7.25	10.83
08.50%2018A	01/03/2012	01/02/2018	6	2,000	4,410	2,000	8.50	11.07
09.00%2014A	02/04/2012	01/10/2014	2	2,000	5,000	3,000	9.00	11.46
08.50%2015A	02/04/2012	01/11/2015	4	2,000	4,200	2,000	8.50	11.60
08.00%2016B	02/04/2012	01/06/2016	4	2,000	4,200	2,000	8.00	11.80
05.80%2017A	16/04/2012	15/01/2017	5	2,000	4,450	2,050	5.80	12.10
08.50%2018B	16/04/2012	15/07/2018	6	2,000	4,500	2,000	8.50	12.30
05.65%2019A	16/04/2012	15/01/2019	7	2,000	4,670	2,000	5.65	12.50
06.20%2015B	11/05/2012	15/06/2015	3	1,000	2,450	1,150	6.20	13.50
05.80%2017B	11/05/2012	15/07/2017	5	1,000	6,200	5,075	5.80	14.00
08.00%2017B	02/07/2012	15/06/2017	5	5,000	11,010	5,000	8.00	14.15
08.00%2020A	02/07/2012	01/06/2020	8	5,000	11,015	5,000	8.00	14.40
08.00%2022A	02/07/2012	01/01/2022	10	5,000	11,005	5,000	8.00	14.75
09.00%2014A	02/08/2012	01/10/2014	2	2,000	5,110	2,000	9.00	13.62
06.40%2016B	02/08/2012	01/10/2016	4	2,000	4,525	2,025	6.40	14.10
08.00%2018A	02/08/2012	15/11/2018	6	2,000	4,500	2,000	8.00	14.25

Source: Central Bank of Sri Lanka

(a) Effective from May 3, 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 2012

Issue Date	Amount Offered (Rs. mn.)			Amount Received (Rs. mn.)			Amount Accepted (Rs. mn.)			Weighted Average Yield Rates[a]		
	91 Days	182 Days	364 Days	91 Days	182 Days	364 Days	91 Days	182 Days	364 Days	91 Days	182 Days	364 Days
06/01/2012	3,000	3,000	4,000	13,113	5,985	7,909	7,142	3,075	3,920	8.68	8.71	9.31
13/01/2012	2,000	5,000	5,000	13,813	9,127	7,520	7,879	4,193	2,724	8.68	8.71	9.31
20/01/2012	3,000	4,000	5,000	10,808	5,353	10,265	6,488	1,408	4,797	8.67	8.71	9.31
27/01/2012	3,000	4,000	5,000	14,593	6,225	7,836	8,673	2,455	3,505	8.67	8.71	9.30
03/02/2012	3,000	4,000	5,000	6,428	5,224	8,750	4,603	1,124	4,024	8.68	8.71	9.30
10/02/2012	2,000	3,000	5,000	5,686	5,348	6,165	2,831	1,308	1,150	9.24	9.26	9.88
17/02/2012	2,000	3,000	5,000	10,739	4,975	6,463	3,700	1,000	1,383	9.31	9.44	9.99
24/02/2012	2,000	3,000	5,000	10,287	3,792	6,072	6,747	1,006	1,368	9.51	9.64	10.19
02/03/2012	2,000	3,000	5,000	10,669	4,088	6,072	869	733	677	9.81	9.94	10.30
09/03/2012	2,000	3,000	5,000	9,043	3,895	8,214	4,968	1,046	3,459	10.11	10.18	10.45
16/03/2012	2,000	3,000	5,000	8,538	3,863	6,260	6,085	1,103	1,105	10.42	10.46	10.76
23/03/2012	2,000	3,000	5,000	9,018	3,641	6,005	7,128	-	1,000	10.75	-	11.11
30/03/2012	2,000	3,000	5,000	12,168	5,380	6,805	3,731	1,304	1,000	11.00	11.06	11.32
06/04/2012	4,000	3,000	3,000	10,216	5,390	8,476	1,560	2,180	3,611	11.05	11.06	11.32
13/04/2012	3,000	3,000	4,000	7,996	3,672	5,065	2,960	947	1,920	11.62	11.65	11.69
20/04/2012	3,000	3,000	4,000	13,892	3,791	5,093	9,587	1,570	1,218	11.73	11.85	11.96
27/04/2012	4,000	4,000	4,000	19,185	6,577	6,012	6,080	2,151	402	11.93	12.05	12.16
04/05/2012	4,000	4,000	4,000	15,522	6,516	5,066	8,955	2,331	1,201	12.11	12.20	12.36
11/05/2012	3,000	3,000	4,000	35,692	8,695	5,425	8,061	3,372	510	12.19	12.30	12.49
18/05/2012	5,000	5,000	5,000	46,708	12,741	6,696	10,237	9,466	1,101	11.99	12.40	12.58
25/05/2012	6,000	7,000	7,000	35,321	20,159	12,520	6,050	13,869	5,860	11.58	12.32	12.50
01/06/2012	5,000	10,000	15,000	25,360	31,319	21,454	8,160	18,319	5,142	11.01	12.29	12.60
08/06/2012	5,000	10,000	10,000	12,067	25,630	18,617	5,333	10,391	4,750	10.86	12.12	12.66
15/06/2012	3,000	6,000	6,000	7,579	10,885	9,244	2,921	6,935	1,011	10.95	12.29	12.67
22/06/2012	2,000	5,000	5,000	7,190	11,967	8,056	3,095	9,232	3,946	11.04	12.47	12.78
29/06/2012	3,000	6,000	6,000	5,745	15,388	8,850	3,094	6,000	2,705	11.12	12.61	12.88
06/07/2012	3,000	6,000	6,000	5,443	18,885	9,410	3,051	10,350	1,095	11.20	12.77	12.99
13/07/2012	4,000	7,000	7,000	5,924	23,313	11,560	3,030	17,768	2,680	11.34	12.86	13.10
20/07/2012	5,000	10,000	10,000	6,958	35,163	16,694	1,025	13,470	2,282	11.36	12.91	13.16
27/07/2012	4,000	7,000	7,000	9,401	29,298	10,108	5,861	20,231	4,148	11.35	12.85	13.15
03/08/2012	4,000	7,000	7,000	6,340	21,765	12,770	2,650	18,415	1,142	11.35	12.87	13.15
10/08/2012	4,000	7,000	7,000	7,312	22,492	11,107	3,262	11,617	4,302	11.37	12.91	13.18
17/08/2012	4,000	7,000	7,000	8,913	19,540	9,978	4,026	12,470	1,686	11.36	12.95	13.23
24/08/2012	3,000	5,000	5,000	5,959	11,387	6,426	2,774	8,617	1,346	11.36	13.02	13.27
31/08/2012	5,000	6,000	6,000	11,655	13,109	9,950	6,403	7,842	4,307	11.41	13.07	13.31
07/09/2012	4,000	4,000	5,000	7,250	16,225	6,172	1,115	11,420	582	11.44	13.12	13.36
14/09/2012	2,000	4,000	3,000	5,105	17,327	6,451	2,340	2,326	2,668	11.44	13.12	13.36
21/09/2012	1,500	2,500	3,000	3,007	18,211	5,880	1,101	5,500	1,000	11.41	12.91	13.30
28/09/2012	2,000	4,000	4,000	4,841	17,946	13,508	2,125	4,210	4,892	11.30	12.57	13.02
05/10/2012	2,000	3,000	5,000	5,393	11,865	21,443	700	2,455	9,860	11.00	12.10	12.48
12/10/2012	2,000	3,000	10,000	4,603	11,187	23,210	1,100	2,569	15,240	10.63	11.77	12.29
19/10/2012	2,000	4,000	10,000	4,829	5,951	13,596	2,001	2,967	6,936	10.66	11.83	12.37
26/10/2012	2,000	3,000	5,000	5,548	4,263	15,391	-	1,148	9,451	-	11.90	12.48
02/11/2012	2,000	2,000	4,000	5,846	7,329	9,137	524	5,558	2,987	10.68	11.97	12.56
09/11/2012	1,000	4,000	5,000	4,680	11,478	9,918	1,000	6,568	3,068	10.68	12.02	12.65
16/11/2012	2,000	6,000	6,000	4,953	19,250	13,469	2,192	8,080	5,329	10.67	12.05	12.73
23/11/2012	3,000	8,000	8,000	5,039	22,377	17,396	1,464	12,499	8,461	10.74	12.07	12.81
30/11/2012	3,000	7,000	8,000	5,904	20,295	14,901	3,669	11,529	8,469	10.79	12.09	12.85
07/12/2012	3,000	6,000	6,000	5,155	18,983	12,417	-	7,978	5,414	-	12.10	12.86
14/12/2012	1,000	6,000	5,000	3,215	11,496	24,127	1,000	3,919	8,510	10.44	11.78	12.45
21/12/2012	1,000	6,000	8,000	6,145	10,962	29,540	1,000	6,032	10,000	10.23	11.53	12.18
28/12/2012	1,000	6,000	8,000	3,371	11,054	23,547	1,036	6,355	9,200	10.00	11.32	11.69

Source: Central Bank of Sri Lanka

(a) Effective from May 3, 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

SECONDARY MARKET TRANSACTIONS AS REPORTED BY PRIMARY DEALERS

Rs. million

	2006	2007	2008	2009	2010	2011	2012 (a)
1. Outright Transactions	787,672	1,200,537	1,356,110	1,743,780	1,449,390	1,268,287	1,584,095
1.1. Treasury bills							
Purchased	72,636	257,216	284,304	210,284	177,902	239,168	374,597
Sold	414,549	551,905	603,114	526,246	574,842	398,622	672,438
Total	487,185	809,121	887,418	736,530	752,744	637,790	1,047,035
1.2. Treasury bonds							
Purchased	130,176	193,836	245,722	465,616	344,567	326,589	259,999
Sold	170,311	197,580	222,970	541,634	352,079	303,908	277,061
Total	300,487	391,416	468,692	1,007,250	696,646	630,497	537,060
2. Repurchase Transactions	2,882,902	3,601,070	4,310,982	4,715,910	4,992,887	5,915,725	6,246,422
2.1. Treasury bills							
Repo	575,982	842,003	1,359,014	1,015,066	1,217,880	1,215,200	1,510,151
Reverse repo	328,961	986,072	615,879	172,238	177,882	159,057	219,855
Total	904,943	1,828,075	1,974,893	1,187,304	1,395,762	1,374,257	1,730,006
2.2. Treasury bonds							
Repo	1,194,443	886,251	1,442,266	2,757,851	2,877,407	3,936,271	3,989,074
Reverse repo	783,516	886,744	893,823	770,755	719,718	605,196	527,341
Total	1,977,959	1,772,995	2,336,089	3,528,606	3,597,125	4,541,468	4,516,416
3. Total Transactions	3,670,574	4,801,607	5,667,092	6,459,690	6,442,277	7,184,012	7,830,517

(a) Provisional

Source: Central Bank of Sri Lanka

TABLE 27

SECONDARY MARKET TRANSACTIONS RECORDED IN THE LANKASECURE (a)

Rs. million

	2009	2010	2011	2012
1. Treasury bills				
1.1. Outright Purchases / Sales	1,116,481	2,033,242	2,366,056	2,472,283
1.2. Repo / Rev. Repo	6,932,150	19,346,454	22,657,601	13,915,619
Total	8,048,631	21,379,696	25,023,656	16,387,902
2. Treasury bonds				
2.1. Outright Purchases / Sales	2,125,035	1,974,273	1,980,582	1,769,980
2.2. Repo / Rev. Repo	10,368,869	17,896,054	26,674,790	17,284,906
Total	12,493,904	19,870,327	28,655,372	19,054,886
3. Total Transactions	20,542,535	41,250,023	53,679,028	35,442,788

Source: Central Bank of Sri Lanka

(a) Note:
- All transactions have been recorded in the LankaSecure System in Face Value basis.
- Accuracy of the information is subject to the accuracy of the data recorded by the system participants in the LankaSecure System.