2009

Public Debt Management in Sri Lanka

Performance in 2009
and
Strategies for 2010 and beyond

Public Debt Department
Central Bank of Sri Lanka

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Message of the Governor

Central Bank of Sri Lanka has been managing the public debt portfolio for the past 60 years, in terms of the responsibilities entrusted to it as the agent of the government by the Monetary Law Act No. 58 of 1949.

Managing the public debt, which constitutes the single largest portfolio in the country was a challenging task, especially in 2009, with the economies around the globe experiencing difficulties at the height of the worst recession since the great depression. Though the Sri Lankan economy was able to withstand the world economic recession, it encountered some spillover effects in addition to its own internal challenges. The economy was put under severe stress by the declining official reserves to low levels and the internal conflict that reached the climax during the early part of the year. It was not easy to raise funds in the international capital markets partly due to shortage of funds and lack of investor confidence in investing in emerging markets. Another challenge that was faced during the year was downgrading of the country's outlook from 'stable' to 'negative' by rating agencies. This made the task of debt management even more demanding.

However, despite all these challenges, Sri Lanka continued with its development initiatives. This necessitated raising of more funds resulting in an addition of Rs. 484 billion to the debt stock in terms of book value, in 2009. Due to adverse global and domestic conditions the economic growth during the year was 3.5 per cent. These factors together contributed to reverse the declining trend in the debt to GDP ratio and raised it from 81.4 per cent in 2008 to 86.2 per cent in 2009. This development should be viewed in conjunction with experiences in many other countries including some advanced economies where the debt to GDP ratio rose to crisis propositions. This situation improved towards the second half of the year with the war against terrorism coming to an end, bringing much needed stability. This brought new hope and confidence to both domestic and foreign investors. Inflation decreased to a historic low level since 1985, by the end of the year, while the official reserves of the country increased to an unprecedented level of over US dollars 5 billion. Interest rates in the domestic market too declined significantly. The country's outlook was upgraded to 'stable' and 'positive' by the rating agencies. These factors combined with the strategies adopted by us to build investor confidence, Sri Lanka was able to issue its second sovereign bond of US dollars 500 million in October 2009, at a competitive rate of 7.4 per cent and the offer was oversubscribed by over 13 times.

I wish to congratulate the Superintendent of Public Debt and his team for the achievements during the year under challenging circumstances both on the domestic and the external fronts and to place on record my sincere appreciation of their team effort.

Ajith Nivard Cabraal
Governor
Central Bank of Sri Lanka

Message of the Superintendent of Public Debt

This publication comes to you as the fourth annual publication on public debt management in Sri Lanka and has a comprehensive analysis on every aspect of the public debt management during 2009.

The first half of 2009 was extremely challenging for the Public Debt Department (PDD) in managing the public debt portfolio with many internal and external challenges adversely affecting the market. The global economic recession affected many developed economies limiting our opportunities to raise funds in the international market and forcing us to concentrate more on domestic funding sources. Although interest rates were declining, they remained high in the domestic market due to high inflationary expectations and an increase in the volume of borrowing. At the same time, foreign investments in government securities decreased rapidly. The servicing of bunching debt too was a major challenge encountered in 2009. In this context, the PDD had to adopt new strategies to raise funds in addition to the ones that were adopted in 2008 for the purpose such as pre-funding and forward funding arrangements. In line with this, the government securities market was opened for the Sri Lankan diaspora and migrant workforce in early 2009.

With the end of the war against terrorism in May 2009 which prevailed in the country for over three decades, the adverse conditions affecting the economy began to fade away. Foreign investors returned with large investments, reaching the stipulated limits within a short period. The PDD was able to issue Sri Lanka Development Bonds in foreign currency, successfully, three times during the second half of the year with longer maturity periods. The most notable event was the issuing of the second sovereign bond of US dollars 500 million in October, which was over subscribed by over 13 times showing the heightened international investor confidence in the country. Interest rates on government securities declined significantly and a 10 year Treasury bond was issued during the second half of 2009 extending the yield curve. These developments eased the heavy burden on effective debt management that existed during the first half of the year.

In order to strengthen the regulatory framework for Primary Dealers (PDs), the regulations issued under the legislations that regulate the PD system were amended and the dedicated PD system which existed since year 2000 was allowed to diversify its activities within a restricted framework. In addition, directions were issued to PDs to ensure stability of the system. Island wide awareness campaigns were continued with a view to broaden the investor base, increasing the number of investors in government securities by 15 per cent to nearly 65,000 investors in 2009.

I wish to extend my sincere thanks to all my staff for their commitment and untiring efforts which undoubtedly helped to overcome all the challenges we were confronted with, successfully.

C J P Siriwardena
Superintendent of Public Debt
Central Bank of Sri Lanka

Purpose of this Publication

The Central Bank of Sri Lanka is entrusted with the responsibility of managing the public debt, under the Monetary Law Act No. 58 of 1949. The function of public debt management is becoming more complex with the emerging challenges in international financial markets and in the world economy and extremely important subsequent to the recent global financial crisis where debt financing of fiscal operations resulted in a significant increase in the debt to GDP ratio in most countries. In this context, the most important aspects in effective debt management can be considered as the maintenance of investor confidence at a high level and being transparent in every step of the debt management process. Identifying these requirements the Central Bank of Sri Lanka started publishing this bulletin since 2007, annually.

As at end 2009, the total debt portfolio stood at Rs. 4.2 trillion and the public debt stock is the single largest debt portfolio in Sri Lanka. Further, it has a diverse range of investors both locally and internationally. Therefore, this publication on public debt management in Sri Lanka intends to boost the confidence of those investors and also to cater to the needs of all other stakeholders who are involved in the process of public debt management as this publication contains a comprehensive analysis of public debt management in Sri Lanka.

The information included in this publication covers the public debt management strategies adopted in 2009, the movements in debt stock during the year and the related costs and risks and the primary and secondary market operations of government securities including the performance of primary dealers. A number of statistical tables on public debt too are included in this publication.

This publication is issued in Sinhala, Tamil and English.

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 securities market, while enhancing efficiency and maintaining 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:

- Minimise the direct and indirect cost of public debt on a long-term perspective;
- Avoid volatility in debt service cost and guarantee a balanced distribution;
- Prevent an excessive concentration on redemptions, thereby minimise 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.

1. Highlights of 2009

1. Overall Borrowing and Debt Level

- Actual gross borrowings of Rs. 999.1 billion in 2009 were within the Parliament approved annual borrowing limit of Rs. 1,050 billion.
- Total borrowing from domestic sources was Rs. 643.3 billion, while total borrowing from external sources was Rs. 355.8 billion.
- Total outstanding public debt stock stood at Rs. 4,161.4 billion as at end 2009.
- As a percentage of GDP, total outstanding debt stock increased to 86.2 per cent as at end 2009 from 81.4 per cent as at end 2008.
- Domestic debt and foreign debt to GDP ratios increased to 49.8 per cent and 36.5 per cent, respectively as at end 2009 from corresponding ratios of 48.5 per cent and 32.8 per cent as at end 2008.
- Share of domestic debt to total debt stock was 57.7 per cent, while the share of foreign debt to total debt stock was 42.3 per cent.

2. Interest Cost on Public Debt

- Total interest cost on public debt increased by 46 per cent in 2009 to Rs. 310 billion.
- Interest cost of domestic and foreign debt amounted to Rs. 274 billion and Rs. 36 billion, respectively in 2009.
- In terms of GDP, interest cost of the government budget increased to 6.4 per cent in 2009, from 4.8 per cent in 2008.
- Average cost of domestic borrowing through Treasury bills and Treasury bonds declined to 12.25 per cent and 14.69 per cent respectively, in 2009 compared to 18.59 per cent each in 2008.

3. Interest Rates and Yield Curve

- Primary market interest rates for Treasury bills declined in the range of 960-979 basis points (bps) and Treasury bond interest rates for 2-4 year maturities declined in the range of 1,032-1,145 bps in 2009.
- Inline with the primary market interest rates, secondary market yield rates on Treasury bills decreased in the range of 981-1,028 bps and Treasury bond interest rates declined in the range of 863-977 bps.

- The secondary market yield curve was extended up to 6 years with the re-activation of trading operations which were limited up to 5 years in 2008.
- The interest rate on the Sri Lankan sovereign bond issued in 2009 declined to 7.4 per cent from 8.25 per cent in 2007.
- Liquidity in the Sri Lankan sovereign bond market showed marked improvement lowering the yield rate in the secondary market.

4. Broadening of the Investor Base

- The rupee denominated Treasury bill and Treasury bond market was opened to the Sri Lankan Diaspora and Migrant workforce with effect from 06 January 2009.
- A new scheme was introduced to issue dual citizenship status to ex-Sri Lankans holding foreign citizenships who have invested in government securities.
- Registered investors of government securities recorded in the Central Depository System (CDS) increased by 15.4 per cent to 64,680 in 2009.
- The second international sovereign bond for US dollars 500 million was issued at a fixed coupon rate of 7.40 per cent with five year and three months maturity and this offering was over-subscribed by more than thirteen times, reflecting a remarkable investor confidence.
- Maturing Sri Lanka Development Bonds (SLDBs) were re-issued during the year, thereby rolling over US dollars 541 million.
- US dollars 100 million was raised through Offshore Banking Units (OBUs) to service the maturing foreign currency commercial debt.
- The turnover ratio of government securities trading operations in the secondary market increased to 16.1 times in 2009 from 16 times in 2008.

5. Infrastructure Development

- Batch upload facility was increased up to five times a day (at 9.00am, 12 noon, 2.00pm, 3.00pm and 4.00pm) for RTGS/SSSS system participants to transfer smaller value transactions on government securities to the LankaSettle System, through the Central Bank of Sri Lanka Wide Area Network (CBSLWAN).
- Maximum number of days accepted by the LankaSecure system for future value dated transactions was increased to 364 calendar days from 31 calendar days.
- A Master Repurchase Agreement (MRA) was introduced to the market which can be commonly used by the Primary Dealers (PDs) as well as by Licensed Commercial Banks (LCBs).
- Access to Open Market Operations (OMO) term reverse repurchase facility under the standing facility with a Penal rate was made available for the PDs and LCBs in order to minimise their liquidity risk exposure.
- The formats of the statements issued by the CDS were re-designed to make them more user friendly.

6. Market Development

- Forty two public investor awareness programmes were conducted to popularise the government securities market.
- Eighty three radio programmes were broadcasted jointly with Sri Lanka Broadcasting Corporation to educate the general public on government securities.
- The TV documentary, “Heta Venuwen Ada” was dubbed into Tamil medium and telecast over local and satellite TV channels.
- Two TV commercials and one radio commercial were produced and telecast/ broadcast through local and overseas TV and radio channels.
- PDD participated in five live TV discussions and six local and thirty three overseas forums to increase the awareness on government securities among domestic and foreign investors.
- An advertisement series was published in overseas newspapers to promote Treasury bills and Treasury bonds for Sri Lankans living abroad.

7. Primary Dealer (PD) System

- The PD industry performed remarkably well during 2009 with key financial soundness indicators such as capital base, portfolio, income, Return on Equity (ROE) and Return on Assets (ROA) significantly improving.
- The PD industry increased its total portfolio to a record high level surpassing Rs. 100 billion for the first time during the year.
- State owned PDs dominated their participation at both the Treasury bill and Treasury bond auctions held in 2009.
- Secondary market activities showed a shift in market preference from short-term Treasury bills to long-term Treasury bonds.
- A policy decision was taken to diversify PD activities and the first phase of the programme was implemented in December 2009. The regulations were amended to enable the diversification of PD activities.
- A direction restricting dividend declaration was issued with a view to promoting safety, soundness and stability of the PD system and to build up the PD capital base.

2. Public Debt Management in 2009

Borrowing Target and Borrowing Strategy

The total gross borrowing limit originally approved by the Parliament for the year 2009 under the Appropriation Act No. 43 of 2008, (in terms of book value), amounted to Rs. 840 billion. This amount included Rs. 25 billion provision for unforeseen contingencies to be financed during the year. During the first half of the year 2009, due to the substantial shortfall in government revenue collection and the limited flexibility in the government's expenditure programme, the actual annual funding requirement deviated significantly from the originally planned borrowing limit. As a result, the total gross borrowing limit was increased to Rs. 1,050 billion in October 2009.

The annual borrowing strategy for 2009 was designed by PDD in line with the medium-term public debt management strategy and the policies outlined in the Road Map of the CBSL for 2009 and beyond. The public debt management strategy was expected to mobilise funds at the lowest possible cost, while moving towards more market oriented debt instruments. Further, plans were to issue more medium to long-term debt securities to minimise the rollover risk, establish a long-term yield curve and tap new external funding sources to meet the government's funding requirement. It also focused on strengthening intermediary participation in the government securities market, expanding the investor base in government securities to diversify risk exposures and enhancing the efficiency in the debt market.

TABLE 1
GOVERNMENT BORROWING [(a)]

Rs. billion

	2009 Original Plan[(b)]	2009 Actual [(c)]
Total Net Borrowing		
Domestic	183.1	242.6
Foreign	123.0	241.1
Total	**306.1**	**483.6**
Gross Borrowing by Instrument		
Domestic	**574.0**	**643.3**
Rupee loans	-	1.9
Treasury bonds	464.0	509.9
Treasury bills	40.0	49.0
SLDB/OBU	61.0	73.5
CBSL advances	9.0	-
Other	-	9.1
Foreign	**241.0**	**355.8**
Concessional	129.0	146.7
Non-Concessional	112.0	209.1
Total	**815.0**	**999.1**

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

Memo: Based on Parliamentary approval, the annual gross borrowing limit was increased to Rs. 1,050 billion in October 2009.
(a) Amounts in book value
(b) Net borrowings as per Budget 2009 and gross borrowings excludes Rs. 25 billion reserved for unforeseen contingencies
(c) Provisional

According to the external borrowing programme, a major contribution was expected from concessional borrowings and the balance funding requirement was to be obtained through commercial borrowings by attracting foreign investors to the Treasury bill and the Treasury bond programmes and raising funds from the international capital market.

In the first half of the year, due to the adverse impact of the international financial crisis and the intensification of the internal conflict, the government had to borrow more from domestic sources. However, with renewed investor confidence after the end of the war against terrorism in May 2009 and the receipt of the Stand-By Arrangement facility from the International Monetary Fund (IMF) in July 2009, a remarkable development was observed in non-resident investments in government securities. Accordingly, a significant increase in foreign investment in Treasury bills and Treasury bonds was observed during the second half of the year. Non-resident investments in government securities recorded the highest level of Rs. 186 billion in terms of face value at end December 2009 with a total increase of Rs. 162 billion during the year. This increase eased the pressure on the domestic borrowing programme, while extending the maturity structure of the domestic currency debt stock.

Further, the government of Sri Lanka successfully issued its second international sovereign bond of US dollars 500 million in October 2009, adding Rs. 57 billion to the annual borrowing programme. This offer was over-subscribed by more than 13 times and it was one of the highest levels of over-subscription of any sovereign US dollar bond offered in the emerging market during 2009. The offer was priced at par with a coupon rate of 7.40 per cent per annum, which was significantly lower than the coupon rate of 8.25 per cent on Sri Lanka's debut sovereign bond issued in October 2007.

Accordingly, the borrowings through foreign commercial sources amounted to Rs. 209 billion, while borrowings through project/programme loans from foreign multi-lateral and bi-lateral sources amounted to Rs. 147 billion during the year. Therefore, the total domestic and foreign borrowings in 2009, on a gross basis, amounted to Rs. 643 billion and Rs. 356 billion, respectively.

During the year 2009, with the improvement in interest rate expectations, there was a strong preference towards medium to long-term maturities, particularly, for Treasury bonds up to six year maturities in the market. Therefore, the market was conducive to issue medium to long-term government securities as expected in the domestic borrowing programme. Government borrowed more from medium to long-term maturities to finance the government budget, and was able to retire part of the short-term Treasury bills in the second half of the year 2009. As a result, excluding non-resident investments, new borrowings through Treasury bills were limited to Rs. 49 billion while gross borrowings through Treasury bonds were Rs. 510 billion. The corresponding amounts in 2008 were Rs. 62 billion and Rs. 407 billion, respectively. In order to ease the pressure on the rupee market, the foreign currency resources available in the domestic market were utilised by borrowing through Sri Lanka Development Bonds (SLDBs) and Offshore Banking Units (OBUs). The total borrowings through SLDBs and OBUs amounted to Rs. 73 billion. Further, continuing the strategy of reducing the share of non-marketable debt from the domestic debt stock, borrowing through Rupee loans was limited.

On net basis, total borrowings were estimated at Rs. 484 billion in 2009. Of this total, Rs. 243 billion and Rs. 241 billion were raised from domestic and foreign sources, respectively. However, total net borrowings exceeded the original target of Rs. 306 billion by Rs. 178 billion in 2009. The increase in non-resident investments in rupee denominated government securities and the international sovereign bond issue contributed to the significant increase in net foreign financing during the year 2009. Of the Rs. 241 billion of net foreign financing, Rs. 147 billion was contributed by the non-resident investments in Treasury bills and Treasury bonds, while Rs. 57 billion was added through the international sovereign bond issue of US dollars 500 million.

With the reduction of interest rates from the middle of the year, PDD was able to gradually shift the maturity structure of newly issued government securities to medium to long-term. With these favourable developments in the market, PDD was able to reduce the cost and risks involved in the debt stock, increase the duration and average time to maturity of the domestic debt stock and reduce the bunching at the shorter end of the maturity structure. Further, the increase in non-resident investment in Treasury bonds also helped PDD

Box 1 – Sri Lanka's Return to the International Bond Market in 2009

The Government of Sri Lanka (GOSL) successfully issued its second international sovereign bond of US dollars 500 million in October 2009. This issuance repositioned Sri Lanka's credit story among the international investor community after its debut bond issue in October 2007.

The transaction received a strong interest since its announcement and attracted an order book of US dollars 6.8 billion, highlighting a marked improvement in investor sentiment towards the country as investors expected a strong macroeconomic recovery after the ending of the conflict and favourable growth prospects for the post-war period. This transaction recorded one of the largest oversubscriptions (over 13 times) for an emerging market sovereign bond issue in 2009.

The tenure of the bond was set at long 5 years (5 years and 3 months), or maturing in January 2015 in order to smoothen out the maturity profile of the existing external debt portfolio of the GOSL. The issue was priced at a coupon of 7.40 per cent per annum, which translates into a spread of 506 basis points (bps) over the benchmark US Treasury rates with similar maturities. At the time of pricing, the existing international sovereign bond, which had a remaining maturity of 3 years, was trading at a yield of 7.10 per cent. Hence, the spread between the two GOSL bonds was only 30 bps, indicating a flat yield curve. At the time of pricing, Sri Lanka's bond, the comparable spread in the yield curve of US Treasuries was about 85 bps.

Over 260 investors participated in this transaction with 45 per cent, 31 per cent and 24 per cent (in value terms) based in the US, Europe and Asia, respectively. Further 78 per cent of the issue was allocated to fund managers and the balance 22 per cent was distributed among banks (8 per cent), retail investors (7 per cent), insurance and pension funds (4 per cent) and other investors (3 per cent).

The Hong Kong and Shanghai Banking Corporation (HSBC), JP Morgan, and the Royal Bank of Scotland (RBS) were the Joint Lead Managers and book runners of the issue, while Bank of Ceylon acted as a co-manager.

Chart 1.1
GEOGRAPHICAL DISTRIBUTION OF INVESTORS

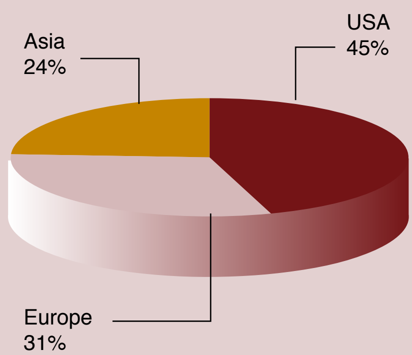


Chart 1.2
TRANSACTIONS BY INVESTOR TYPE

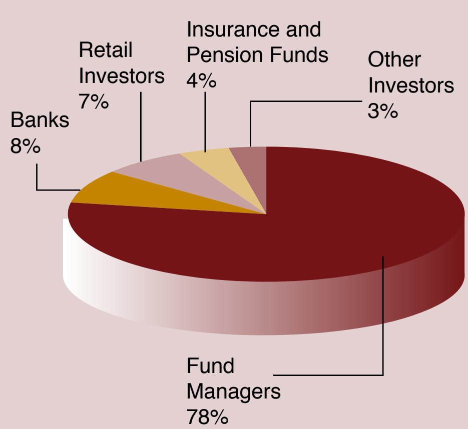


TABLE 1.1
SUMMARY OF TERMS OF THE SRI LANKA 7.40% BONDS DUE 2015

Issuer:	Democratic Socialist Republic of Sri Lanka
Issue Rating:	B (Positive) S&P/ B+ (Stable) Fitch
Format:	144A/RegS
Issue Size:	US Dollars 500 mn
Trade date:	October 15, 2009
Maturity Date:	January 22, 2015
Coupon:	7.40% fixed , semi-annual
Interest basis:	30/360
Issue price:	100.00
Issue spread:	505.9 bps over UST 2.375% September 2014
Book Runners:	HSBC, JP Morgan, Royal Bank of Scotland
Listing:	Singapore Stock Exchange

Chart 1.3
OVERSUBSCRIPTION OF INTERNATIONAL SOVEREIGN BOND ISSUES - 2009 (5 -10 YEAR MATURITIES)

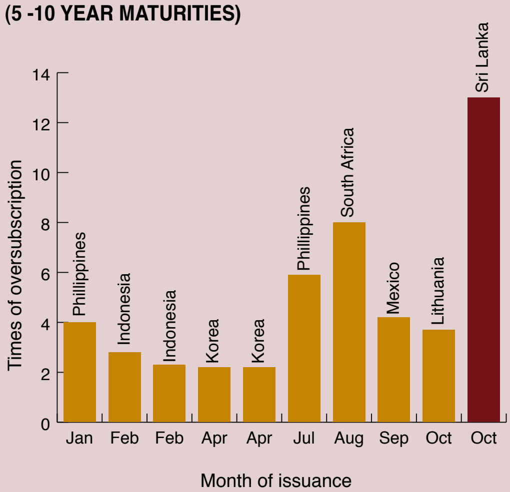


Chart 1.4
SECONDARY TRADING PERFORMANCE OF THE SRI LANKA 7.4% BONDS DUE 2015

to successfully adopt its borrowing strategy of issuing Treasury bonds with medium to long-term maturities while, extending the yield curve to long-term.

Debt Level

Reflecting the adverse impact of the global financial crisis and difficulties experienced with the higher budget deficit resulting from the combined outcome of sharp reduction of expected revenue and limited flexibility in government expenditure programme, the government debt stock increased at a rate higher than the growth of nominal gross domestic product (GDP). As a result, the debt to GDP ratio, which compares the maintenance of the growth rate of debt stock against the growth rate of nominal GDP over a period, increased to 86.2 per cent during the year 2009 reversing the downward trend experienced over the period from 2005 to 2008. As at end 2008, the debt to GDP ratio stood at 81.4 per cent.

The total government debt stock increased to Rs. 4,161 billion as at end 2009 from Rs. 3,589 billion in 2008, reflecting an increase of Rs. 572 billion during the year. Net government borrowings during 2009 were Rs. 484 billion. It is important to note that, the effect of the appreciation of major foreign currencies against the Sri Lanka rupee on the existing foreign currency debt (parity variance)

TABLE 2
OUTSTANDING GOVERNMENT DEBT

	2007	2008	2009(a)
Outstanding Debt (Rs. bn)-By Source			
Domestic	1,715	2,140	2,401
Foreign	1,326	1,449	1,760
Total	**3,042**	**3,589**	**4,161**
Outstanding Debt (Rs. bn)-By Currency			
Domestic Currency	1,584	1,973	2,393
Foreign Currency	1,457	1,615	1,769
Total	**3,042**	**3,589**	**4,161**
Outstanding Debt (% of GDP)-By Source			
Domestic	47.9	48.5	49.8
Foreign	37.1	32.8	36.5
Total	**85.0**	**81.4**	**86.2**
Outstanding Debt (% of GDP)-By Currency			
Domestic Currency	44.3	44.7	49.6
Foreign Currency	40.7	36.6	36.7
Total	**85.0**	**81.4**	**86.2**

(a) Provisional — Sources: Central Bank of Sri Lanka, Ministry of Finance and Planning

TABLE 3
INCREASE OF GOVERNMENT OUTSTANDING DEBT

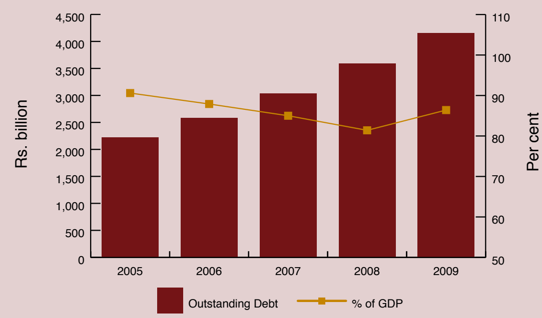
Rs. billion

Description	2007	2008	2009 (a)
Net Borrowing	262	322	484
Effect of Parity variance	70	131	25
Discount Effect	105	89	34
Other	22	5	30
Total Increase	**459**	**547**	**572**

(a) Provisional — Sources: Central Bank of Sri Lanka, Ministry of Finance and Planning

and the effect of issuance of debt instruments on discount basis (discount effect) were minimal in 2009. Compared with the previous year's levels, the impact of parity variance and discount effect

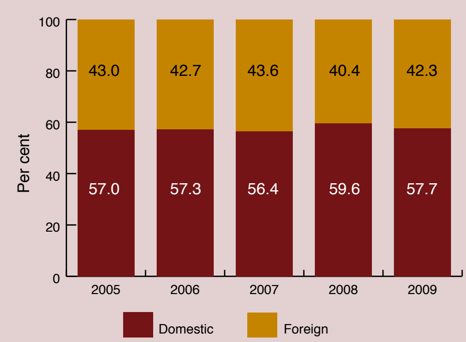
Chart 1
CENTRAL GOVERNMENT DEBT



in 2009 were limited to Rs. 25 billion and Rs. 34 billion, respectively.

In 2009, the domestic debt stock increased by Rs. 261 billion to Rs. 2,401 billion, while the foreign debt stock increased by Rs. 312 billion to Rs. 1,760 billion. In terms of GDP, the domestic debt stock marginally increased to 49.8 per cent from 48.5 per cent in 2008. The external debt as a percentage of GDP increased significantly by 3.7

Chart 2
COMPOSITION OF DOMESTIC AND FOREIGN DEBT



percentage points, to 36.5 per cent in 2009. This was mainly due to the increase in non-resident investments in Treasury bills and Treasury bonds and the issuance of the second international sovereign bond in 2009.

During the year 2009, the domestic currency debt stock increased significantly by 21 per cent, to Rs. 2,393 billion. The foreign currency debt stock also increased by 9 per cent to Rs. 1,769 billion in 2009. The domestic currency debt stock as a percentage of GDP increased to 49.6 per cent in 2009, mainly due to the accommodation of non-resident investments in rupee denominated Treasury bills and Treasury bonds to finance the budget deficit. However, the foreign currency debt stock as a percentage of GDP increased marginally by 0.1 percentage points to 36.7 per cent in 2009.

Chart 3
DOMESTIC DEBT

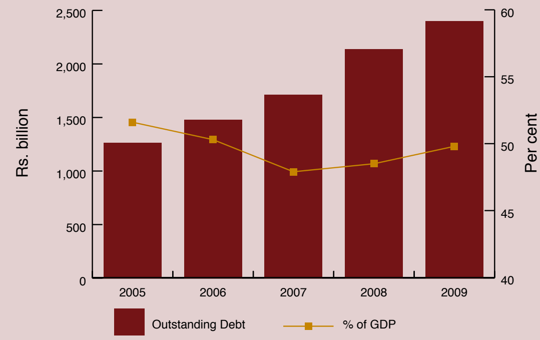
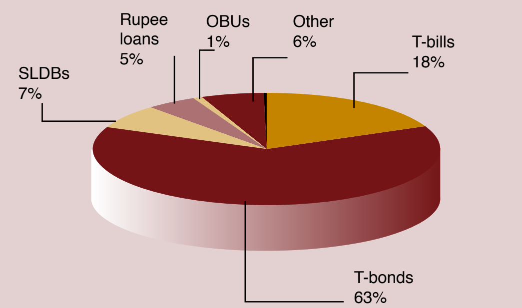


Chart 4
COMPOSITION OF GOVERNMENT DOMESTIC DEBT - 2009



The Structure of the Debt Portfolio

Composition of Domestic Debt

The share of total domestic debt as a percentage of the total debt decreased by 1.9 percentage points to 57.7 per cent in 2009, compared to 59.6 per cent in 2008. The shifting of investments in Treasury bills and Treasury bonds from domestic to foreign investors and settlement of high cost domestic borrowings from funds received from foreign sources were the key drivers of this decrease. However, as the rate of growth of the domestic debt stock is above the rate of growth of nominal GDP over this period, the domestic debt to GDP ratio increased from 48.5 per cent in 2008 to 49.8 per cent in 2009.

The PDD continued to reduce the non-tradable debt stock, while encouraging the issuance of medium to long-term tradable instruments by successfully adopting the medium-term debt management strategy. Accordingly, PDD limited the borrowing through Rupee loans, thereby reducing the Rupee loan stock by 1 percentage point (Rs. 17.7 billion) to 5 per cent of total domestic debt in 2009 from 6 per cent in 2008. Further, under the strategy of retiring high cost non-tradable domestic debt, OBU loans amounting to US dollars 168 million was settled from funds received from the international sovereign bond in 2009. In addition, Rs. 20 billion of the government overdrafts with the two state banks were also converted to medium-term Treasury bonds during this year. As a result, the tradable securities as a percentage of total outstanding domestic debt increased to 88 per cent in 2009 from 86 per cent in 2008. The share of SLDBs in the debt stock remained at 7 per cent in 2009, and the ratio of foreign currency domestic debt to total domestic debt decreased to 8 per cent in 2009 from 9 per cent in 2008.

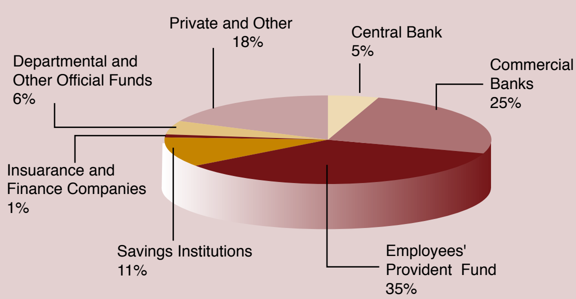
Reflecting significant developments in the government securities market, the share of medium to long-term marketable government securities in the total portfolio increased, while the share of Treasury bills decreased over the period. Accordingly, the share of Treasury bonds increased by 3 percentage points to 63 per cent compared to the previous year, while the Treasury bill stock decreased slightly from 19 per cent to 18 per cent over the period. This was mainly contributed by the early retirement of short-term Treasury bills and strategies adopted by PDD to encourage the medium to long-term investments by extending the yield curve for government securities.

Domestic Debt by Investor Base

Continuing the trend of the previous years, a large portion of outstanding domestic debt was held by the non bank sector as at end 2009. The share of non bank sector investments as a percentage of total domestic debt remained at 71 per cent as at end 2009, an increase of two percentage points compared to the previous year. Non bank sector investors such as Employees Provident Fund (EPF), the Employees Trust Fund (ETF), the National Savings Bank (NSB), insurance companies and other official funds have contributed largely to investments with medium to long-term maturities.

Chart 5

DOMESTIC DEBT BY INVESTOR - 2009

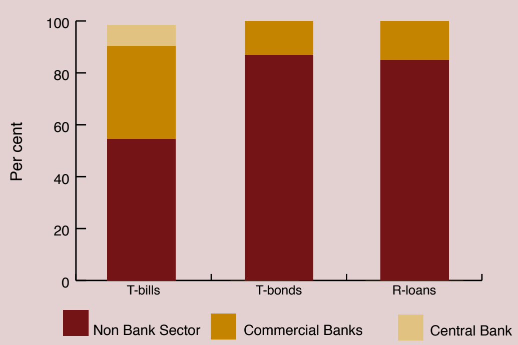


Non bank sector investments in government debt increased by Rs. 212 billion to Rs. 1,695 billion as at end 2009 compared to the previous year.

Non bank sector investment in Treasury bonds and Treasury bills increased by Rs. 133 billion and by Rs. 92 billion, respectively, while investments in non-tradable Rupee loans declined by Rs. 19 billion. Investment in other instruments by the non bank sector increased by Rs. 6 billion in 2009.

Chart 6

OWNERSHIP OF MAIN DEBT INSTRUMENTS - 2009



Among the non bank sector institutions, Rs. 806 billion or 48 per cent of non bank sector investments had been made by the EPF. The contribution of the NSB was Rs. 257 billion or 15 per cent as at end 2009. The share of the EPF and NSB in the total non bank sector investments increased to 63 per cent from 59 per cent in 2008.

The total domestic debt held by the banking sector was Rs. 706 billion as at end 2009, an increase of Rs. 48 billion compared to the previous year. Out of the total banking sector investments Rs. 596 billion or 84 per cent was held by commercial banks and the balance Rs. 110 billion or 16 per cent was held by CBSL, a significant decrease compared to 36 per cent in 2008.

With the renewed investor confidence after the eradication of terrorism, non-resident investments in long-term Treasury bonds increased substantially in the second half of the year. A part of these low cost funds were utilised to retire most of the high cost Treasury bills, which were held by CBSL. Hence, the CBSL holdings of Treasury bills drastically decreased by Rs. 126 billion to Rs. 37 billion as at end 2009. With this reduction, Treasury bill ownership by the banking sector decreased by Rs. 54 billion compared to 2008. In contrast, government liabilities to commercial banks increased significantly by 43 per cent to Rs. 596 billion as at end 2009. This increase was mainly due to increased investments in Treasury bills by Rs. 72 billion and in Treasury bonds by Rs. 98 billion.

Maturity Structure of the Domestic Debt Portfolio

As at end 2009, approximately, 39 per cent of the domestic debt stock or Rs. 876 billion including a Treasury bill stock of Rs. 441 billion, will be maturing in 2010. An increase in borrowing from the domestic market in the recent past and preference for short-term maturities that prevailed during the first half of the year mainly contributed to the increase in short-term maturities. This maturing amount has to be rolled over, while raising new funds to meet budgetary requirements in 2010.

Box 2 – Debt Crisis: a Global Phenomenon

As a consequence of the on going global recession, the debt to GDP ratio of a large number of contries, which is the key indicator reflecting the sustainability of government debt, increased significantly in 2009. This has been experienced during the recent financial crisis as banks restrained from granting credit to private and corporate customers due to their risk considerations compelling governments to intervene and absorb part of their burden to maintain the stability in the economy. As a result, government borrowings have increased considerably during and after the crisis giving rise to debt to GDP ratios across the world.

This increase in government borrowings is more severe in developed countries than in developing and emerging market countries. For instance, out of 16 countries in the Euro zone, half of them have entered into a full blown debt crisis in 2010 registering a high risk situation[1]. The other major

Chart 2.1
DEBT TO GDP RATIO OF MAJOR ADVANCED ECONOMIES

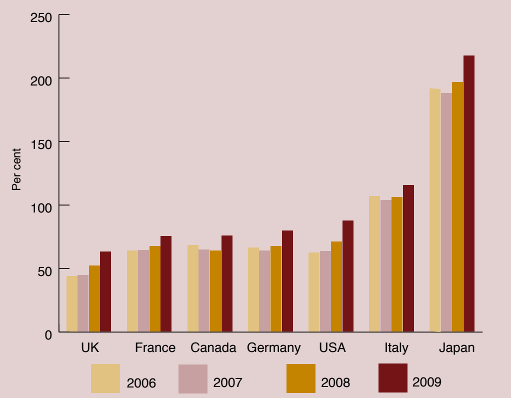


TABLE 2.1
GOVERNMENT DEBT AS A PERCENTAGE OF GDP 2007–2009 (SELECTED COUNTRIES)

Country	2007	2008	2009
United Kingdom	44.1	51.9	62.7
France	63.9	67.3	74.9
Canada	64.2	63.6	75.4
Germany	63.6	67.2	79.4
United States	63.1	70.5	87.0
Italy	103.5	105.8	115.3
Japan	187.7	196.3	217.2

Source: IMF World Economic Outlook April 2009
Debt to GDP Ratio of Major Advanced Economies

advanced economies too showed a significant increase in public debt during the crisis, compared with the situation before the crisis. Japan showed the largest increase in debt compared to other countries with its debt to GDP ratio increasing to 217.2 per cent in 2009, from 187.7 in 2007, a year before the crisis[2]. Italy, the nation with the highest debt in the Euro area among major advanced economies, has a continuous debt crisis hit by 115.3 per cent debt to GDP ratio in 2009 from 103.5 per cent in 2007. The total amount of public debt in Italy first exceeded its GDP in early 1990s. The U.S. government debt to GDP ratio increased to 87.0 per cent in 2009, from 63.1 per cent in 2007 as a result of the decline in tax receipts and the implementation of several stimulus packages through the budget during 2009. The United Kingdom, an advanced economy outside the Euro zone recorded a debt stock of 62.7 per cent of GDP in 2009, increasing from 44.1 per cent in 2007 mainly due to the expansion in government borrowings, which was used to mitigate the adverse impact of a decline in tax revenue and an increase in unemployment payments. It is important to note that the ratio of government debt to GDP equal to 90 per cent is a critical point in economic growth as shown by some researchers[3]. In terms of the debt to GDP ratio, Italy (115.3 per cent), Greece (96 per cent), Portugal (56 per cent) and Spain (51.8 per cent) were critical debtor nations in Europe by 2009.

1. The Wall Street Journal : December 30, 2009: Debt Crisis to Test Europe in 2010 - World News - European Outlook
2. IMF Staff Position Note: June, 2009 ; " Fiscal Implications of the Global Economic and Financial Crisis"
3. Reinhart, Carmen and Rogoff, Kenneth (2009): This Time It's Different: Eight Centuries of Financial Folly, Princeton

Over the financial crisis, the debt to GDP ratio of G-20 countries increased to 75.7 per cent in 2009 from 62.8 per cent in 2007. Among the G-20 economies, debt to GDP ratio of advanced economies[4] increased substantially to 97.7 per cent in 2009 from 77.6 per cent in 2007, reflecting the severity of the impact of financial crisis on advanced economies (Table 2.2).

TABLE 2.2
GOVERNMENT DEBT AS A PERCENTAGE OF GDP 2007-2009

	2007	2008	2009
Advanced G-20 Countries	77.6	83.4	97.7
G-20 Countries	62.8	65.9	75.7

Source: IMF World Economic Outlook, April 2009

The underlying reason for this increase in debt to GDP ratio is identified as the fiscal stimuli provided by crisis affected governments after the financial crisis. With the onset of the crisis, various forms of government support measures were provided to the financial sector as well as other sectors resulting in an increase in the country's debt stocks along with the increase in government expenditure. The support measures provided by advanced countries were broadly, (a) capital injections, (b) asset purchases and lending by the Treasury, (c) central bank support with or without direct treasury funding, and (d) guarantees for financial sector liabilities. Although these measures may not be used in full, their immediate impact was as high as 5 per cent of GDP. Among these measures, the consequences of the provision of central bank liquidity and guarantees were severe than other measures. However, most of the developed countries are being extremely cautious regarding the early exit of their fiscal support programmes as such an exit could adversely affect the global recovery in the medium-term.

TABLE 2.3
GOVERNMENT DEBT AS A PERCENTAGE OF GDP 2009-2014

		2009	2010	2014
Advanced G-20 Countries		**97.7**	**106.4**	**114.1**
o/w	Japan	217.2	227.4	234.2
	Italy	115.3	121.1	129.4
	USA	87.6	97.5	106.7
	France	74.9	80.7	89.7
	Germany	79.4	86.6	91.0
	UK	62.7	72.7	87.8
G-20 Countries		**75.7**	**81.6**	**84.6**

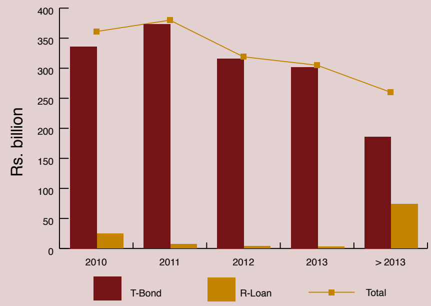
Source: IMF World Economic Outlook, April 2009

In this backdrop, it is very likely this increasing trend in debt to GDP ratio will continue over the next few years especially in developed countries. According to IMF estimates, the debt to GDP ratio in G-20 countries in the medium-term will continuously increase from 75.7 per cent in 2009 up to 84.6 per cent in 2014, while in advanced economies it will continuously increase from 97.7 per cent to 114.1 per cent between these two periods. The debt to GDP ratio in Japan, Italy, USA, France, Germany and UK in particular are expected to increase significantly during the medium-term.

4. Belgium, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, Australia, Japan and Korea

Chart 7

MATURITY STRUCTURE OF TREASURY BONDS AND RUPEE LOANS



With growing market preference towards long-term maturities during the second half of the year and demand for non-resident investments in Treasury bonds, PDD was able to issue more medium to long-term Treasury bonds in 2009. Therefore, it was observed that, there was a shift from accumulation of short-term debt to medium-term over the year, decreasing the share of short-term debt maturing in 2011 to 19 per cent or Rs. 437 billion of the domestic debt portfolio by end 2009. Further, this would amount to reduce the pressure on bunching of the domestic debt portfolio in the short-term. Although more than 73 per cent of the domestic debt stock will be maturing before 2013, this amount is expected to decrease further in the future with the issuance of more medium to long-term debt instruments by bringing in new investors to the domestic borrowing programme.

Duration of Domestic Currency Debt

The overall duration of the domestic currency debt as at end 2009, was 1.8 years, a considerable increase of 0.2 years, compared to the previous year's duration of 1.6 years. This was achieved by reducing the Treasury bill stock and improving the duration of Treasury bond stock. Accordingly, the average duration of the Treasury bond stock increased significantly by 0.3 years to 2.0 years in 2009 from 1.7 years in 2008.

TABLE 4

DURATION OF DOMESTIC DEBT [(a)]

Instrument	Duration (Years)		
	2007	2008	2009
Treasury bills	0.3	0.4	0.4
Treasury bonds	1.9	1.7	2.0
Rupee loans	4.0	3.5	3.6
Overall	**1.8**	**1.6**	**1.8**

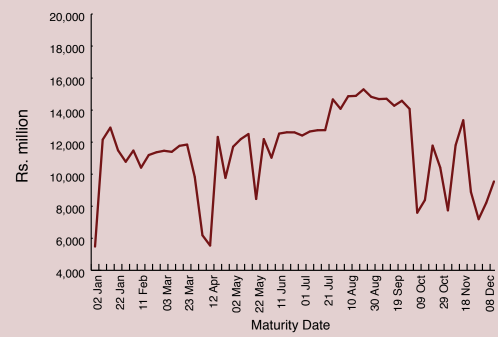
(a) Weighted average maturity of the cash flow

Source: Central Bank of Sri Lanka

This was mainly attributed to the debt management strategies adopted by the PDD to issue more medium to long-term Treasury bonds, while identifying and stabilising benchmark maturities. The extension of the yield curve for government securities up to 10 years by issuing new 10 year bonds and activating the secondary market yield curve up to 6 years have helped to improve investments in medium to long-term. The duration of the Treasury bill stock remained unchanged at 0.4 years in 2009. The overall improvement in the duration of the debt stock reduced the rollover risk and interest rate risk of the domestic debt stock.

Chart 8

WEEKLY MATURITY PROFILE OF TREASURY BILLS - 2009[(a)]



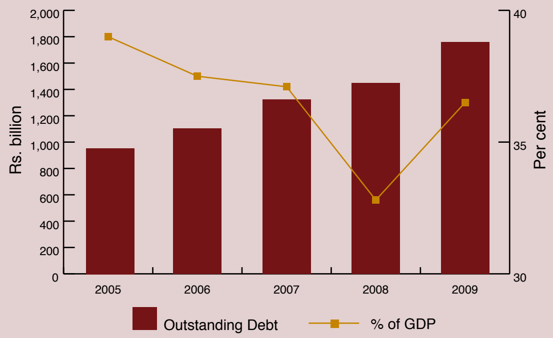
(a) Effect of early retirement of Treasury bills has been excluded.

The average amount of Treasury bills maturing each week was around Rs. 10.8 billion in the first half, and Rs. 12.3 billion in the second half of the year 2009. The high interest rate expectations of investors towards 6 month maturities and above, which prevailed in the first half of the year, caused an increase in the weekly maturing Treasury bills in the second half of the year. As a strategy to reduce the pressure on interest rates during the festive seasons and to manage the low liquidity situation that prevailed in the market in early 2009, the average maturing amounts of the debt stock were reduced.

Foreign Debt

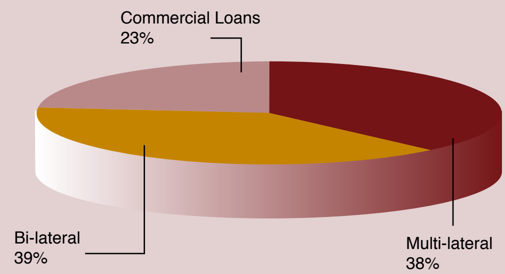
The foreign debt stock increased by Rs. 312 billion or 22 per cent to Rs. 1,760 billion in 2009 compared to that of end 2008. This was mainly due to the increase in non-resident investments in rupee denominated government securities and issuance of the second international sovereign bond of US dollars 500 million. As a result, the external debt to GDP ratio increased from 32.8 per cent in 2008 to 36.5 per cent in 2009.

Chart 9
FOREIGN DEBT



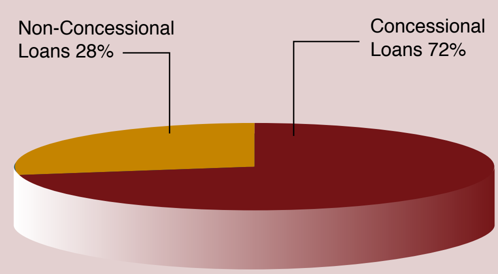
Specific project and programme loans within total foreign debt decreased by 10 percentage points to 77 per cent in 2009, while non-project loans, which consist of trade credit, commodity loans and other loans, increased by 10 percentage points to 23 per cent of the total foreign debt stock in 2009. Commodity loans including food loans, goods and services loans and other commodity loans decreased by 1 percentage point to 4 per cent by end 2009 compared to that of the previous year. However, other loans, which consist of commercial loans, defence loans, international sovereign bonds and non-resident investments in Treasury bills and Treasury bonds increased significantly during the year 2009. Two major reasons for this increase were the non-resident investments in government securities and the issuance of the second international sovereign bond in 2009. The total non-resident investments in Treasury bills increased to Rs. 40.4 billion by end 2009 from Rs. 6.4 billion by end 2008, while non-resident investments in Treasury bonds increased to Rs. 145.1 billion compared to Rs. 17.6 billion in the previous year, which caused an increase in foreign investments in Treasury bills and Treasury bonds stock by Rs. 162 billion. The Diaspora programme, which started in early 2009, also attracted Rs. 397 million by end 2009.

Chart 10
FOREIGN DEBT BY SOURCE - 2009



External debt is raised through bi-lateral, multi-lateral and commercial sources. Bi-lateral loans contributed to 39 per cent of total external debt at end 2009, followed by 38 per cent of multi-lateral debt and 23 per cent of commercial debt. The share of commercial loans increased to 23 per cent from 11 per cent in 2008. The share of loans raised through bi-lateral sources and multi-lateral sources decreased by 7 percentage points and 5 percentage points respectively. The major bi-lateral donor was Japan followed by Germany, United States of America (USA) and China. Japan had contributed to 24 per cent of the total external debt, while Germany had contributed to 3.3 per cent, USA and China had contributed 2.7 per cent each of the total external debt. Major multi-lateral donors were Asian Development Bank (ADB) and International Development Association (IDA), who contributed 20 per cent and 16 per cent of the external debt, respectively.

Chart 11
FOREIGN DEBT BY CONCESSIONALITY - 2009



A significant reduction in the concessional type borrowings was experienced in the year 2009. With the increase in non-resident investments in government securities and the issuance of

TABLE 5

MATURITY, GRANT ELEMENT & INTEREST RATES OF EXTERNAL DEBT 2009

Donor Category	Grace Period (Yrs)	Repay-ment Period (Yrs)	Grant Element (%)	Avg. Interest Rates[(a)] (% p.a.)
Bi-lateral	2 - 16	6 - 40	6 - 90	2.0
Multi-lateral	3 - 10	5 - 40	8 - 98	1.0
Commercial	0 - 10	1 - 30	(14) - 31	7.3
Export credit	0 - 10	1 - 23	(12) - 73	2.9
Average				**2.1**

(a) Interest paid in 2009/ Disbursed outstanding debt as at end 2008

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

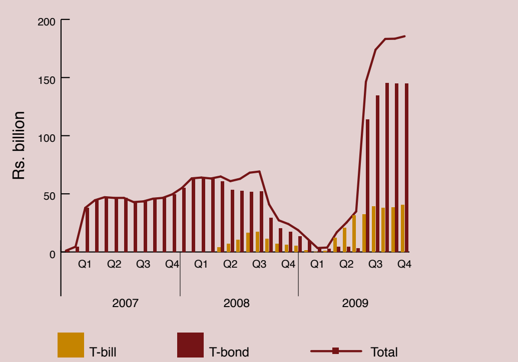
the second international sovereign bond in the international market, non-concessional type debt increased sharply to 28 per cent in 2009 against 15 per cent at end 2008.

The average maturity period of foreign currency debt declined to 10 years in 2009 compared to 11 years at end 2008, as a result of medium-term external government debt issues in 2009. For project and programme loans, considerable changes were not observed in grace periods, repayment periods and grant elements of new loans in 2009 as well compared to previous two years. Average interest rate on bi-lateral and multi-lateral loans decreased marginally compared with that of the previous year, while the interest rate on commercial loans increased due to high commercial debt mobilised in year 2009. The interest rate on export credit loans also increased as a consequence of an increase in loan floatation costs of major development projects.

The composition of external debt of the government is mainly denominated in Special Drawing Rights

Chart 12

FOREIGN INVESTMENTS IN TREASURY BILLS AND TREASURY BONDS

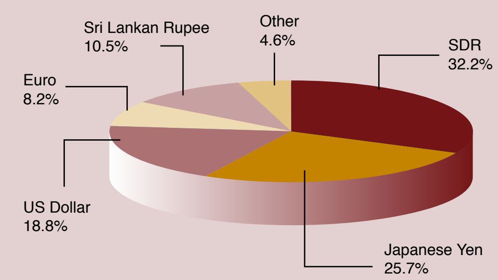


(SDR) (32 per cent), Japanese yen (26 per cent), US dollar (19 per cent), Sri Lankan rupees (11 per cent) and euro (8 per cent), which represents over 96 per cent of the external debt. The Sri Lankan rupee denominated external debt increased rapidly from 1.7 per cent in 2008 to 10.5 per cent in 2009, due to the increase in foreign investments in rupee denominated government securities.

The debt raised through external sources was used for the development of different economic, social and administrative services in the country. Out of the

Chart 13

CURRENCY COMPOSITION OF FOREIGN DEBT - 2009



total outstanding external debt, 63 per cent had been utilised for the development of economic services, 12 per cent for development of social services, 4 per cent for import of commodities and the balance 21 per cent for improvements of administrative and other unclassified activities in the economy. In the economic services, a considerable portion of funds were utilised to develop the industrial and construction sector, which stood at 25 per cent, out of which 13 per cent, was used for the development of the energy sector. Other major economic sectors

TABLE 6

CURRENCY COMPOSITION OF FOREIGN DEBT

Per cent

Currency	2007	2008	2009[(a)]
Special Drawing Rights	38.3	36.7	32.2
Japanese yen	25.5	30.8	25.7
US dollar	20.1	17.7	18.8
Euro	9.2	9.1	8.2
Sri Lankan Rupee	3.7	1.7	10.5
Other	3.2	4.0	4.6
Total	100.0	100.0	100.0
Memo: Total External Debt (Rs.billion)	1,326	1,449	1,760

(a) Provisional

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

TABLE 7

USE OF EXTERNAL DEBT BY MAJOR SECTORS 2009[a]

Rs. million

Economic Sector	Outstanding
1. Economic Services	**1,116,983**
1.1 Agricultural Development	**173,048**
Agriculture	44,682
Fishing	13,396
Forestry	7,598
Plantation	38,838
Irrigation & Related Activities	67,486
Livestock Development	1,048
1.2 Industrial/Construction	**441,686**
Energy	235,493
Water Supply	108,517
Industrial Development	30,863
Roads and Bridges	64,113
Other Construction	2,700
1.3 Service Sector	**364,456**
Telecommunications	40,766
Ports & Shipping	78,570
Ground Transport	138,852
Air Transport	17,075
Finance, Insurance, etc.	85,999
Trade	3,194
1.4 Other Economic Services	**137,793**
Land Development	574
Management & Institutional Development	1,034
Information Technology Development	4,975
Private Sector Development	73,488
Rural Development	55,106
Science & Technology	2,616
2. Social Services	**207,074**
Education & Training	50,872
Health & Social Welfare	19,611
Cultural	18
Environment	27,006
Housing & Urban Development	29,413
Labour & Vocational Training	4,407
Media	130
Rehabilitation	26,944
Sewerage	3,902
Tsunami Rehabilitation	44,771
3. Commodities & Food	**62,304**
Commodities	33,192
Food	29,112
4. Other Activities	**374,106**
Justice	2,109
Budget Support	2,860
Other	369,137
Total Outstanding Debt	**1,760,467**

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 2009. Sovereign bond issues in 2007 and 2009, and non-resident investments in Treasury bills and Treasury bonds are recorded under other activities.

to which foreign funds were allocated included ground transportation (8 per cent), water supply (6 per cent), private sector development (4 per cent) and irrigation related activities (4 per cent). In the social services sector, the major share was utilised for education and training (3 per cent), followed by Tsunami rehabilitation activities (3 per cent) and housing and urban development projects (2 per cent).

TABLE 8

FOREIGN LOAN AGREEMENTS SIGNED DURING THE YEAR 2009

Donor Category	Number of Loans	Amount (Rs mn)	Amount (USD mn)
Bi-lateral	1	3,895	34
Multi-lateral	10	59,135	515
Commercial	1	57,404	500
Export Credit	13	161,193	1,407
	25	**281,627**	**2,456**

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

In 2009, the government entered into 25 new external loan agreements with external counterparties compared to 38 agreements in the previous year. The value of these loans amounted to US dollars 2.5 billion in 2009 compared to US dollars 2.0 billion in 2008. However, there was only

TABLE 9

OUTSTANDING FOREIGN DEBT BY SOURCE 2009[a]

Donor Category	Number of Loans	Amount (Rs mn)
Bi-lateral	**342**	**656,680**
Japan	98	426,767
USA	74	46,952
Germany	46	58,279
Other	117	124,682
Multi-lateral	**261**	**665,040**
ADB	125	344,661
IDA	105	284,074
Other	29	36,305
Export Credit	**54**	**97,216**
Commercial	**13**	**341,532**
International Sovereign bonds	2	114,384
Non-resident investments in Treasury bills		40,410
Non-resident investments in Treasury bonds		145,124
Other	11	41,614
Total Loans	**670**	**1,760,467**

(a) Provisional

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

a marginal increase in non commercial loans which amounted to US dollars 1,956 million compared to US dollars 1,831 million in 2008. Furthermore, most of the new agreements were related to export credit and 13 new trade credit loan agreements, worth US dollars 1.4 billion were signed in the year 2009.

At end of 2009, there were 670 active foreign currency external loans, an increase of 14 loans during the year.

New Products and Policies Introduced in 2009

Opening of the Treasury bills and Treasury bonds market to Sri Lankan diaspora and migrant work force.

In order to broaden the investor base and attract Sri Lankan non-residents to the government securities market, Treasury bills and Treasury bonds market were opened to the Sri Lankan diaspora and migrant working community in January 2009. This programme provides an opportunity for Sri Lankan diaspora and migrant workers to invest in rupee denominated Treasury bills and Treasury bonds while staying abroad.

Issuance of Second International Sovereign Bond.

Sri Lanka's second international sovereign bond issue of US dollars 500 million was successfully launched in October 2009. The offer was priced at a coupon rate of 7.4 per cent per annum, which was significantly lower than the coupon rate of 8.25 per cent on Sri Lanka's debut sovereign bond issued in October 2007. The tenure of the bond was set at 5 year plus and a marked improvement was observed in the investor preference towards the second sovereign issue.

Activating the Long-Term Yield Curve for Government Securities.

The benchmark yield curve for government securities was extended up to 10 years by issuing a 10 year bond in 2009. Further, the secondary market yield curve was activated up to 6 years by issuing a benchmark series and improving the liquidity in the secondary market.

Introduction of a Master Repurchase Agreement Safeguarding the Interest of the Investors and Maintaining Uniformity in the Market.

A Master Repurchase Agreement (MRA) was introduced to the market on 01 January 2009, which could be commonly used by Licensed Commercial Banks and Primary Dealers when entering into repurchase and reverse repurchase agreements with their counterparties.

Strengthening of the Intermediary Base for Government Securities by Diversifying Activities of the Primary Dealers.

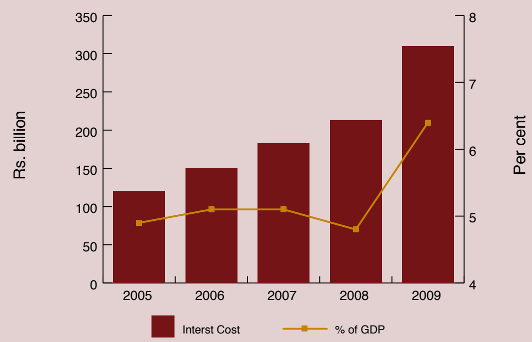
The existing dedicated PD system was permitted to diversify their activities and the first phase of diversification was implemented on 02 December 2009. Accordingly, in addition to the activities related to government securities, PDs are permitted to engage in services to earn a fee income and to invest in ordinary shares or debentures of its own group companies of banking and finance in nature which are regulated by a regulatory authority in Sri Lanka, subject to certain conditions imposed by PDD.

3. Interest Cost in 2009

Total Interest Cost

The total interest cost on government debt increased by 46 per cent to Rs. 310 billion in 2009 against Rs. 212 billion in 2008. As a percentage of GDP, this shows an increase by 1.6 percentage points to 6.4 per cent compared to 4.8 per cent in 2008. The main reasons for this sharp increase were, high cost borrowings from domestic sources in 2008 and early 2009, additional interest cost incurred on early retirement of Treasury bills, higher discount effect of Treasury bonds in 2009 and increase in loan floatation expenses paid on new external debt obligations for major development projects commenced in 2009. In 2009, the government spent 44 per cent of its total revenue to settle the interest obligations on the public debt, which is an increase of 11 percentage points over 2008.

Chart 14
TOTAL INTEREST COST



Interest cost of Domestic Debt

The interest cost of domestic debt amounted to Rs. 274 billion in 2009, reflecting an increase of 51 per cent compared with the 15 per cent increase in 2008. This was due mainly to the increase in high cost domestic borrowings, additional interest cost incurred on early retirement of Treasury bills and higher discount effect of Treasury bonds. In addition, the increase in new funding requirements of the government and shifting of funding sources to relatively high cost local sources too contributed to the high interest cost.

Reflecting the high interest cost, the average running cost for government securities increased substantially in 2009. Treasury bills recorded the highest average running cost as a large share of the Treasury bill stock was issued at a higher yield during 2008 and in the first half of 2009. Further, issuance of several Treasury bond series at a higher discount rate and the increase of coupon rates for Treasury bonds issued in the recent past contributed to the higher running cost of Treasury bonds.

TABLE 10
AVERAGE RUNNING COST[(a)]

Per cent

Instrument	2007	2008	2009
Treasury bills	14.44	16.72	18.15
Treasury bonds	10.63	9.85	12.96
Rupee loans	10.99	12.03	11.51

Source: Central Bank of Sri Lanka

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

The interest rates in the domestic market moved downward significantly during the year 2009. Relaxation of the monetary policy stance in line with the reduction of inflation and developments in the macroeconomy, lower inflation expectations of investors, foreign currency inflow through foreign investments in government securities, improved liquidity situation in the market and debt management strategies adopted by PDD were the key factors contributing to lower the interest rate structure in the government securities market.

TABLE 11
COST OF DOMESTIC BORROWING (a)

Per cent

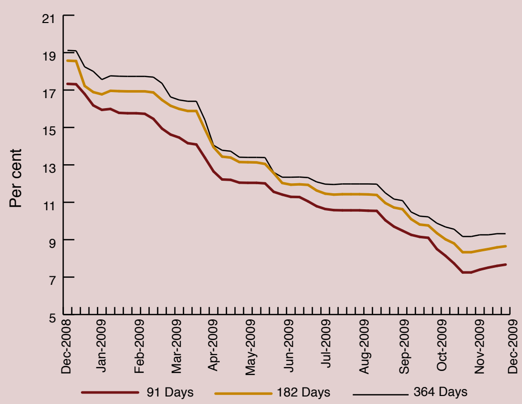
Instrument	2007	2008	2009
Treasury bills	16.57	18.59	12.25
Treasury bonds	15.15	18.59	14.69
Rupee loans(b)	15.72	-	12.60

Source: Central Bank of Sri Lanka

(a) Weighted average interest cost = Sum of amount issued*Yield/Total Amount issued
(b) No new Rupee loans were issued in 2008

The improvements in overall public debt management helped to bring down the cost of borrowing through Treasury bills and Treasury bonds significantly in 2009. It will also help to keep interest costs lower in the medium-term. The reduction in the borrowing cost for Treasury bills in 2009 was higher than that for Treasury bonds due to the sharp reduction of short-term Treasury bill interest rates in the year 2009.

Chart 15
INTEREST RATES OF TRESURY BILLS



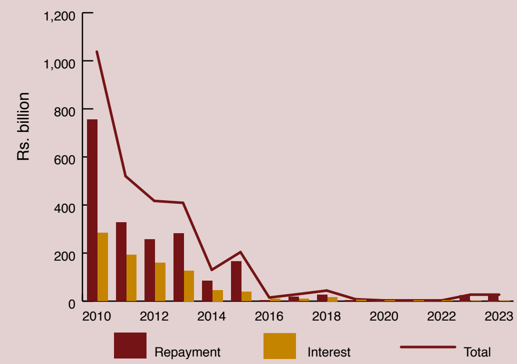
Interest Cost of Foreign Debt

Interest payments on external debt in 2009, amounted to Rs. 36 billion, an increase of Rs. 5 billion compared with interest payments in 2008. This was mainly due to loan floatation expenses of Rs. 6 billion paid on newly arranged project based foreign loans and increase in foreign investments in Treasury bills and Treasury bonds. However, the average running cost of foreign debt marginally declined to 2.1 per cent compared to 2.3 per cent in 2008.

Debt Service Obligations

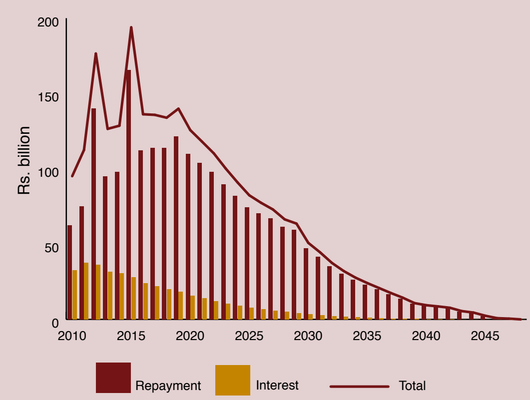
The debt service obligations of the government at the end of 2009 extended up to 39 years due to the long-term nature of foreign concessional borrowings arranged through multi-lateral and bi-lateral lenders. In the domestic debt, the debt service obligations extended up to 2023, with the issuance of a Treasury bond in 2003 with an original maturity of 20 years, and Rupee loans with an original maturity of 30 years in 1993.

Chart 16
DOMESTIC CURRENCY DEBT SERVICE OBLIGATIONS



The debt service obligations with respect to external multi-lateral and bi-lateral borrowing extended up to 2048, as 98 per cent of such debt as at end 2009 fell into the long-term category. Owing to sovereign bond issues in 2007 and 2009, two major payment obligations of US dollars 500 million are due in foreign debt servicing in 2012 and 2015, respectively.

Chart 17
EXTERNAL DEBT SERVICE OBLIGATIONS(a)



(a) Excludes debt service obligations of non-resident investments in Treasury bills and Treasury bonds.

Total Debt Service Cost

In 2009, total debt service cost increased due to the increase in both interest payments and amortisation payments. The total debt service payments on both domestic and foreign borrowing amounted to Rs. 828 billion, recording an increase of Rs. 235 billion or 40 per cent in 2009 compared with that of 2008. This consisted of amortisation payments of Rs. 518 billion (63 per cent) and interest payments of Rs. 310 billion (37 per cent). The total debt service payments as a percentage of government revenue was 118 per cent in 2009, showing a sharp increase compared to 92 per cent in 2008. This ratio is expected to be lower in the medium to long-term with the reduction in the government budget deficit, improvements in government revenue collection and better public debt management.

Box 3 - Collection of Withholding Tax on Government Securities

The Budget 2002 imposed a 10 per cent Withholding Tax (WHT) on the interest income on government securities with effect from May 2002. Accordingly, for Treasury bonds and Treasury bills, the WHT is charged on the interest income at the primary issuance and collected upfront at source. Meanwhile, for Rupee loans, WHT is collected at the time of making semi-annual interest payments.

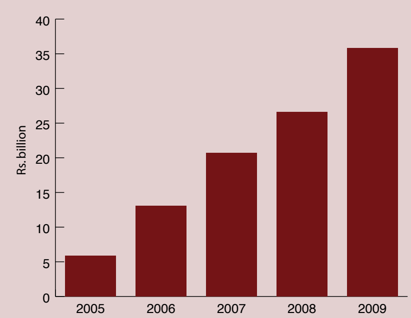
WHT collection on government securities have grown considerably over the last 5 years. Nominal tax collection grew at an annual rate of 60 per cent, recording a total collection of Rs. 35.8 billion in 2009 compared to Rs. 5.9 billion in 2005. This sharp increase has given it a significant prominence in the government tax base over the period. An analysis shows that the share of WHT collection on government securities to total withholding tax collection increased to 70 per cent by 2009 from 48 per cent in 2005, while its share to total income tax collection increased to 25 per cent from 11 per cent during the same period. With this improvement, WHT collection on government securities to the total tax revenue of the government increased to 6 per cent in 2009 from less than 2 per cent in 2005.

TABLE 3.1
WITHHOLDING TAX ON GOVERNMENT SECURITIES

	2005	2006	2007	2008	2009
WHT Income on Government Securities (Rs. billion)	5.9	13.1	20.7	26.6	35.8
As a % of Total WHT Income	48.4	63.6	58.6	67.3	69.8
As a % of Income Tax Revenue	11.2	16.4	19.3	21.0	25.0
As a % of Total Tax Revenue	1.8	3.1	4.1	4.5	5.8

Source: Central Bank of Sri Lanka

Chart 3.1
WITHHOLDING TAX ON GOVERNMENT SECURITIES



The increased government borrowings from local sources through marketable debt instruments, extension of the maturity structure of government securities and increase in the interest rates contributed to the growth in WHT collection on government securities over the years. This momentum of WHT collection is expected to continue in the medium-term due to the rise in government funding needs largely from domestic sources through marketable instruments and extending the maturity structure with the development of the government securities market.

4. Market Operations in 2009

Overview

The year 2009 started with the domestic financial market under considerable strain mainly due to spillover effects of the global financial crisis. Further, less than expected government revenue collection, limited flexibility in the government expenditure programme, low investor confidence and escalation of the war against terrorism were also witnessed during the first half of the year. To mitigate these effects, the government and CBSL undertook several measures to stimulate the economy. The CBSL relaxed its monetary policy stance by cutting the policy interest rate and Penal rate and reducing the Statutory Reserve Requirement (SRR) which injected liquidity to the market. Decline in commodity prices mainly oil prices and other contributory factors helped to bring down the inflation rate to 3.4 per cent in December, 2009 from a peak of 28.8 per cent in June, 2008 thereby lowering inflation expectations in the economy. Along with these developments, the improved investor confidence with the ending of the nearly 30 year long war against terrorism in May and the receipt of the IMF Stand-By Arrangement in July resulted in an inflow of foreign investments into the government securities market thereby increasing liquidity in the domestic rupee and foreign exchange markets. These new developments led to a significant decline in yield rates in the government securities market during the second half of 2009. Short-term interest rates in November 2009 were at their lowest level since November 2005.

Against this backdrop, the overall performance of the primary and secondary market operations of the government securities market showed a significant improvement in 2009. Treasury bill and Treasury bond markets experienced considerable buying pressure with domestic investors seeking a safe haven for their investments. In addition, increased investor confidence, favourable interest rate differentials, a stable exchange rate and general improvement in domestic financial market conditions increased foreign investment in the government securities market to record levels.

During the second half of the year, with positive outlook regained after the ending of the war against terrorism and the granting of the IMF Stand–By Arrangement set the stage to successfully launch the second sovereign bond in the international market. It was possible to raise US dollars 500 million at a fixed coupon rate of 7.4 per cent per annum for a period of 5 plus years. This issuance recorded one of the largest levels of over subscriptions for an emerging market sovereign bond issue in 2009.

Primary Market Operations

The PDD continued to conduct primary market operations by issuing government securities to raise funds required for budgetary operations. As in the previous year, issuance of Treasury bills and Treasury bonds was done through both auctions and private placements, adopting a dual fund raising approach. In the Treasury bill programme, PDD issued Rs. 821 billion worth of Treasury bills during 2009. Of this total, Rs. 749 billion were re-issues of maturing Treasury bills, while Rs. 72 billion were new issues. There were 52 Treasury bill auctions during the year through which Rs. 416 billion was mobilised, while Rs. 215 billion was raised through direct placements. The funds mobilised through direct placements decreased by 37 per cent, while funds mobilised through auctions increased by 64 per cent compared with the previous year. The CBSL purchases of Treasury bills in 2009 amounted to Rs. 190 billion, mainly for reserve and liquidity management purposes. However, during the year it was able to retire almost all the CBSL's holdings of Treasury bills from the funds received from foreign participation to the government securities programme.

In the Treasury bond programme, total funds mobilised in 2009 amounted to Rs. 701 billion. The PDD conducted 81 auctions during the year, and raised Rs. 52 billion through auctions, while Rs. 649 billion was raised through direct placements. Increased inflation expectations and political uncertainty ahead of elections discouraged market participants to invest in longer term maturities, towards end of 2009.

TABLE 12
PRIMARY ISSUE DETAILS (a)

Rs. billion

	2007	2008	2009
Treasury bills	**817**	**780**	**821**
Auction	388	253	416
CBSL purchases	223	184	190
Placements	206	343	215
Treasury bonds	**401**	**489**	**701**
Auction	19	33	52
Placements	383	456	649

(a) Amounts in face value Source: Central Bank of Sri Lanka

During the year, 12 new bond series with maturities ranging from 2 – 10 years were issued in line with the developments in the market where series with 2, 4, and 6 year maturities were more attractive in the market. Taking advantage of the positive market developments, the issuance of a new ten year bond series helped increase duration, reduce rollover risk of the bond portfolio, and extend the yield curve in the market. The balance issuance was into the existing bond series and the selection of those series was carefully made considering market conditions, liquidity enhancement and the need to prudently manage the maturity structure of the debt portfolio to limit the future refinancing risk.

The foreign investments in Treasury bills and Treasury bonds started to increase remarkably after the ending of the war against terrorism in May 2009. The expected improvements in the macro economy and stabilisation of the exchange rate significantly contributed to the increased investor confidence in attracting foreign investments into government securities, which increased from Rs. 3.2 billion in March to Rs. 185.1 billion as at end December 2009.

Treasury bill and Treasury bond yields declined significantly by a range of 960 bps to 1,145 bps during the year resulting in a downward shift in the yield curve in the primary market. This was in line with the monetary policy stance adopted by the CBSL in response to improving macroeconomic conditions in the economy. The shorter end of the yield curve, i.e. from 3 months to 1 year declined by 960 bps to 984 bps respectively. At the same time, 2 year yields dropped by 1,145 bps to 9.55 per cent, 4 year yields dropped by 1,032 bps to 9.78 per cent, 6 year yields dropped by 357 bps to 9.92 per cent and 10 year yields dropped by 38 bps to 13.09 per cent during the year. Renewed foreign investor participation could also be considered as one of the key contributory factors to this significant drop in market yield rates during the second half in 2009. However, during the latter part of the year, the yields at the shorter end (from 3 months to 1 year) increased marginally reversing the trend observed earlier in the year. However, this retracement in yield rates may be seen as a market correction of the short-term rates.

The PDD conducted four auctions with a view to rolling over the maturing Sri Lanka Development Bonds (SLDBs). The total funds mobilised through SLDBs amounted to US dollars 541 million. These funds were raised with a maturity ranging from two to three years at a rate of six months LIBOR plus a weighted average margin ranging from 425 to 540 bps. With improved investor confidence, the demand for SLDBs increased, thereby enabling the PDD to mobilise funds at an attractive rate and with a longer maturity.

TABLE 13
SLDBs ISSUED DURING 2009

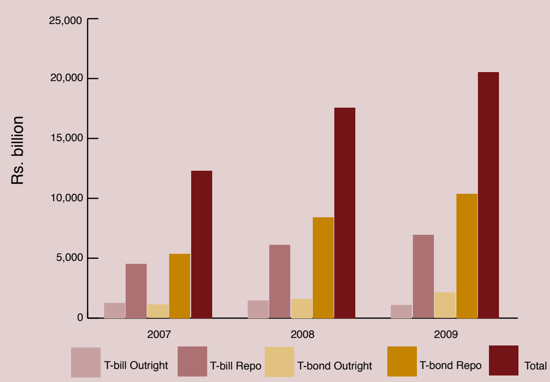
Date of Issue	Amount Accepted (US dollars)	Period (years)	Weighted Average Margin%
16/03/2009	184.3	2	5.4
28/06/2009	125.8	2	5.0
18/08/2009	190.0	2	4.5
20/09/2009	41.0	3	4.3

Source: Central Bank of Sri Lanka

Secondary Market Operations

Due to positive increases in both Treasury bill and Treasury bond transactions, overall performance of the secondary market operations improved significantly in 2009. The turnover ratio of government securities in the secondary market increased marginally to 16.1 times from 16 times in 2008, implying that the entire stock of securities had, on average, been traded 16.1 times in the secondary market during the year. A high volume of Treasury bond transactions was observed in the repo and reverse repo markets while Treasury bill transactions were high in the outright secondary market.

Chart 18
SECONDARY MARKET TRANSACTIONS RECORDED IN THE LANKASECURE

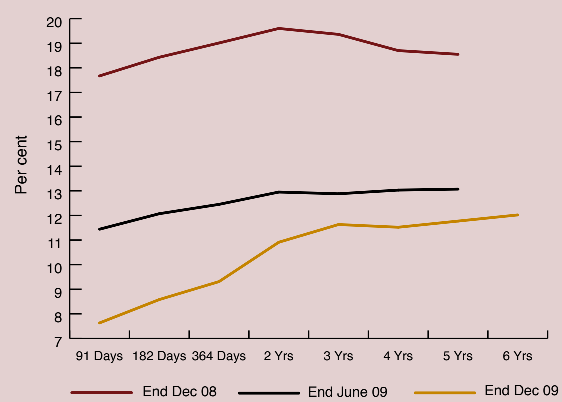


The trading operations in the Treasury bond market were significantly higher compared to that in the Treasury bill market. Secondary market trading volumes in Treasury bonds increased by 25 per cent, whereas Treasury bill transactions increased only by 6 per cent compared to that in 2008. A major reason for this development was the increased participation by foreign investors in the Treasury bond market. Outright transactions in Treasury bills decreased by 24 per cent and repo/reverse repo transactions in Treasury bonds increased by 23 per cent, resulting in an overall increase in operations compared to 2008. During the latter part of the year, market demand for short to medium-term Treasury bonds was high and the market was comparatively active with the investor base being widened with non-residents showing increased interest in investing in government securities.

Secondary Market Yield Rates

Secondary market yield rates of government securities recorded a declining trend throughout the year in line with the downward shift in interest rates in the primary market. This trend was disturbed during the latter part of the year due to the change of investor sentiments based on inflation expectations.

Chart 19
SECONDARY MARKET YIELD CURVE



The market yield structure, which was in the range of 17.67 per cent to 19.60 per cent at the beginning of the year, decreased significantly to a range of 7.63 per cent to 12.02 per cent by end 2009. This overall decline in the rate structure can largely be attributed to the relaxation of the monetary policy stance and to higher demand for government securities from foreign investors.

Box 4 - Geographical Distribution of Domestic Investors in Government Securities

The number of investors in government securities as recorded in the Central Depository System (CDS) is analysed to determine the geographical distribution of the investor base. The total number of active investor accounts registered with the CDS at the Public Debt Department (PDD) of Central Bank increased by 15 per cent to 64,680 in 2009, from 56,041 in 2008. Reflecting the concentration of economic activities, the number of investors in government securities is still high in the Western Province with a share of 84.5 per cent. Out of the total investor base, 67.3 per cent of investors are from the Colombo District. Although the total number of investors had continuously increased over the last 3 year period, it is observed that there is no significant change in the geographical distribution pattern of the investor base. This shows that there is a good potential to expand the investor base of government securities outside the Western Province and that could be tapped through effective awareness campaigns coupled with the establishment of efficient institutional and other necessary infrastructure facilities.

TABLE 4.1
GEOGRAPHICAL DISTRIBUTION OF INVESTORS IN GOVERNMENT SECURITIES

Province / District	Total No. of Investors			Percentage Share			% Increase	
	2007	2008	2009	2007	2008	2009	2008	2009
Western	35,415	47,238	54,680	84.4	84.3	84.5	33.4	15.8
Colombo	28,534	37,741	43,954	68.0	67.3	67.3	32.3	15.5
Gampaha	5,318	7,364	8,717	12.7	13.1	13.4	38.5	18.4
Kalutara	1,563	2,133	2,369	3.7	3.8	3.7	36.5	11.1
Sourthern	1,921	2,473	2,727	4.6	4.4	4.2	27.2	13.2
Galle	803	1,077	1,180	1.9	1.9	1.9	34.1	9.6
Matara	751	876	946	1.8	1.6	1.5	16.6	8.0
Hambantota	367	520	601	0.9	0.9	0.9	41.7	15.6
Central	1,541	2,063	2,390	3.6	3.7	3.7	33.9	15.9
Kandy	1,314	1,763	2,050	3.1	3.1	3.2	34.2	16.3
Matale	174	233	265	0.4	0.4	0.4	33.9	13.7
Nuwaraeliya	53	67	75	0.1	0.1	0.1	26.4	11.9
North Western	943	1,419	1,660	2.2	2.5	2.6	50.5	17.0
Kurunegala	687	1,047	1,213	1.6	1.9	1.9	52.4	15.9
Puttalam	256	372	447	0.6	0.7	0.7	45.3	20.2
Uva	797	1,018	1,181	1.9	1.8	1.8	27.7	16.0
Badulla	767	980	1,141	1.8	1.7	1.8	27.8	16.4
Monaragala	30	38	40	0.1	0.1	0.1	26.7	5.3
Sabaragamuwa	760	1,063	1,202	1.8	1.9	1.9	39.9	13.0
Kegalle	338	474	537	0.8	0.8	0.8	40.2	13.3
Ratnapura	422	589	665	1.0	1.1	1.0	39.6	12.9
Northern	242	328	353	0.6	0.6	0.5	35.5	7.6
Jaffna	152	222	239	0.4	0.4	0.4	46.1	7.7
Kilinochchi	0	0	0	0.0	0.0	0.0	0.0	0.0
Mannar	2	4	3	0.0	0.0	0.0	100.0	-25.0
Mullativu	3	3	3	0.0	0.0	0.0	0.0	0.0
Vavunia	85	99	108	0.2	0.2	0.2	16.5	9.1
North Central	205	282	312	0.5	0.5	0.5	37.6	10.6
Anuradhapura	171	241	264	0.4	0.4	0.4	40.9	9.5
Polonnaruwa	34	41	48	0.1	0.1	0.1	20.6	17.1
Eastern	129	157	175	0.2	0.3	0.3	21.7	11.5
Ampara	20	32	36	0.0	0.1	0.1	60.0	12.5
Batticaloa	47	54	60	0.1	0.1	0.1	14.9	11.1
Trincomalee	62	71	79	0.1	0.1	0.1	14.5	11.3
Grand Total	**41,953**	**56,041**	**64,680**	**100**	**100**	**100**	**33.6**	**15.4**

Source : CDS – PDD

Note: In addition to the above, foreign investors operating under the Diaspora Programme and non-residents investment programme recorded 191 investors and 207 investors, respectively.

5. Public Debt Management in 2010

The government budget for 2010 is expected to be presented after the Parliamentary elections in April 2010. Until such time, government budgetary operations and government borrowings are planned under a Vote on Account, where the government borrowings will be based on the borrowing limit approved for 2009. Accordingly, the debt management strategy for the year 2010 will be prepared after the approval of the budget 2010 by the Parliament. However, the overall debt management and the strategy for 2010 will be in line with the medium-term strategy and policy framework outlined below.

Public Debt Management Policy

The debt management policy for 2010 will be drawn in accordance with the CBSL's strategic plan where emphasis is placed on further improving and strengthening the overall public debt management policies. The PDD expects to continue the policies and procedures adopted in 2009 covering key functions of public debt management such as issuance of government securities maintaining records of public debt, servicing of debt and developing a well functioning debt securities market. Accordingly, the public debt management policy will be further strengthened in 2010 through:

- Introducing a comprehensive mobilisation approach to contain the rising overall debt service cost;
- Conducting awareness programmes to broaden the investor base;
- Strengthening the risk management framework to maintain risks at prudent levels;
- Ensuring the stability of the PD system by strengthening the regulatory framework and close supervision;
- Managing the maturity structure of the debt portfolio by limiting refinancing risk;
- Establishing benchmark securities and developing a benchmark yield curve;
- Ensuring the safety of investors in the government securities market; and,
- Making available a transparent and an accountable public debt management system.

The above activities would be carried out to maintain public debt at a sustainable level and to enhance the efficiency of the debt market. With the emerging issues in the domestic and international markets, diversification of the resource base is important to maintain stability of the domestic debt market, while meeting the government's borrowing requirement at the lowest possible cost with a prudent level of risk. In addition, the long-term fiscal strategy needs to be developed to lower debt financing of the public investment programme in line with the consolidation of overall macroeconomic developments in the economy.

Debt Management Strategy

In line with the CBSL's strategic plan, the medium-term debt management strategy will be prepared with the following objectives:

- Managing the public debt to ensure that the government's financial needs are met at the lowest possible cost, consistent with a prudent level of risk;

- Ensuring that the government debt is serviced on time with 100 per cent accuracy, preserving the default free status of the government;
- Broadening and deepening the government securities market.

Against this backdrop, the debt management strategy for 2010 will focus on:

- Effective implementation of risk management techniques and scenario models to operationalise the debt management strategy;
- Introduction of new debt instruments such as indexed-linked bonds;
- Further diversifying the PD system and strengthening the regulatory framework;
- Conducting public awareness campaigns through electronic and print media and island wide investor awareness programmes to promote government securities with special attention to newly liberated areas in the Northern and Eastern provinces;
- Establishing a benchmark yield curve, by issuing selected benchmark bond series;
- Expanding the benchmark yield curve beyond 10 years and improving secondary market operations in government securities by removing existing rigidities;
- Developing Sri Lanka's sovereign bond market in the international capital market on favourable terms on the back of improved investor confidence;
- Amending the existing laws and regulations (LTBO and RSSO) to overcome the hindrances in the government securities market;
- Encouraging more participation of inter-mediaries in the government securities market by allowing Licensed Commercial Banks (LCBs) to become Primary Dealers (PDs).

Government Borrowing Requirement during January to April 2010

Under the Vote on Account, the total government borrowing limit for January to April, 2010 amounts to Rs. 350 billion, which is one third of the Parliament approved borrowing target for 2009. Of this total, Rs. 270 billion is expected to be raised from domestic sources, while the balance is planned to be raised from external sources. In addition, maturing Treasury bills amounting to Rs. 142 billion will have to be rolled over during this period.

TABLE 14
GOVERNMENT'S GROSS BORROWING REQUIREMENT
JAN-APR 2010

Rs. billion

Item	
Total revenue (receipts)	240
Total expenditure (payments)	464
Borrowing limit approved for Jan-Apr 2010 by Parliament	350
Borrowing requirement	350
o/w Foreign	80
Domestic	270
Total debt repayments	126
o/w Foreign	20
Domestic	105
o/w Dollar denominated payment	-

Source: Ministry of Finance and Planning

Accordingly, the total net borrowing requirement for the first four months is estimated to be Rs. 224 billion. Of this total, Rs. 165 billion is expected to be raised from domestic sources and the balance Rs. 59 billion from external concessionary and commercial sources.

TABLE 15
NET BORROWING REQUIREMENT IN JAN-APR 2010

Rs. billion

Item	
Total net borrowing	224
Net foreign borrowing	59
Net domestic borrowing	165

Source: Ministry of Finance and Planning

Borrowing Strategy

The borrowing strategy in 2010 will be formulated taking into consideration two basic principles, i.e. (i) raising funds for the government at the lowest possible cost, and, (ii) maintaining risks of the public debt portfolio at a prudent level. Compared to the interest rates that prevailed in the recent past, the current interest rate structure is significantly low. A low interest rate regime would bring about huge interest cost savings to the government budget. Therefore, to maintain this current interest rate structure it is important to ensure that the government's total borrowing is kept at a reasonable level. To bring about some flexibility to the government borrowing programme, it is intended to raise funds from the international capital market.

However, the detailed borrowing programme, i.e. borrowing mix from domestic and foreign sources, type of debt instruments and maturity structure will have to be formulated once Budget 2010 is finalised.

TABLE 16

GOVERNMENT'S GROSS DOMESTIC BORROWING PROGRAMME: JAN-APR 2010

Rs. billion

Instrument	Book Value
Treasury bonds	208
New Treasury bills	38
Rupee loans	-
SLDBs	12
OBUs	-
CBSL Advances	12
Total	**270**

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

Maturity Pattern

The existing maturity structure of the outstanding government domestic debt portfolio shows considerable improvement as at end 2009. It shows that the domestic debt due to mature within one year declined to 39 per cent in 2010 from 42 per cent in 2009. However, smoothening of the maturity structure needs to be continued in the medium to long-term to minimise the rollover risk of the debt.

The debt management strategy planned for 2010 aims to issue medium to long-term debt in order to increase the maturity structure, thereby smoothening the debt portfolio. The issuance strategy for 2010 will introduce only limited new benchmark series with maturities of 2, 4, 6 and 10 years. This would improve liquidity in the debt market, reduce the borrowing cost to the government, lower the rollover risk and reduce fragmentation in the bond market.

Re-opening Policy of Treasury Bond Series

The PDD would continue to re-open Treasury bond series with a view to develop benchmark bond series and improve liquidity in the secondary market. It is planned to continue the current re-opening policy of Treasury bonds and limit the issuance of new bond series in 2010. This strategy aims to lower the number of bond series operating in the market, thereby reducing the fragmentation in the market, improving liquidity and developing a benchmark yield curve in the bond market.

Measures to Increase the Maturity Structure

Reducing the number of bond series may lead to a significant bunching of Treasury bond series. To reduce the risk of bunching (i.e. rollover risk and pressure on interest rates) PDD is planning to establish a special fund in 2010, which will lessen the fund requirements on heavily bunched dates. In addition, PDD will continue the strategy of pre-funding and forward funding on heavily bunched dates. Depending on the market conditions, it is also planned to issue long-term Treasury bonds to minimise the rollover risk and reduce the impact on the cost of borrowing. In addition, a plan is underway to introduce new market based techniques to address emerging issues relating to the bunching of debt with the reduction of fragmentation in the market.

TABLE 17

MATURITY PROFILE OF GOVERNMENT DOMESTIC DEBT (a)

Rs. billion

Maturity Year	Instrument					Total	% of Total
	Treasury bills(b)	Treasury bonds (c)	Rupee loans	SLDBs	OBUs(d)		Stock
2010	441.0	336.4	24.6	60.7	13.1	876	39
2011	-	373.3	6.9	57.2	-	437	19
2012	-	315.8	3.6	4.7	11.4	336	15
2013	-	301.9	2.9	45.5	-	350	16
Beyond 2013	-	186.0	74.3	-	-	260	12
Total	**441.0**	**1,513.5**	**112.3**	**168.1**	**24.5**	**2,259**	**100**

(a) Based on the existing debt stock as at end 2009. CBSL advances and other non-instrument debt such as O/D, CIPC, Import bills are excluded
(b) Excludes Treasury bills issued to non-residents
(c) Excludes Treasury bonds issued to non-residents & Rs. 4,397 million issued to CWE in 2003
(d) Includes US dollars 7.5 mn loans obtained from NSB in 2007 and 2008

Source: Central Bank of Sri Lanka

Box 5 - LankaSecure: Developments Over 5 Years: 2004 - 2009

Availability of an efficient payments and settlements system is a necessary condition for the financial system stability of a country and enhancement of efficiency in such a system would help to drive the economy at a faster rate. In Sri Lanka, the responsibility of maintaining a sound payments system has been entrusted to the Central Bank of Sri Lanka (CBSL) under the Payments and Settlement Systems Act and the Monetary Law Act. In fulfilling this responsibility, the Real Time Gross Settlement System (RTGS) and the Scripless Securities Settlement System (SSSS) and the Central Depository System (CDS) for government securities were established in 2003 and 2004 respectively.

LankaSecure which consists of the SSSS and the CDS[1] has reached a significant milestone in 2009 completing its fifth year of operations. As at end 2009, 21 Licensed Commercial Banks (LCBs), 8 Non Bank Primary Dealers (PDs), the Employees' Provident Fund (EPF) and the Central Depositary Systems (Pvt.) Ltd of the Colombo Stock Exchange (CSE) actively participated in the LankaSecure system.

All participants and investors are benefited in several ways with the introduction of new facilities to the LankaSecure by the CBSL. Currently, 99.9 per cent of the total value of Treasury bills and Treasury bonds outstanding are held in scripless form; all new issues are in scripless form. The main advantage of LankaSecure compared to the earlier paper-based system is, increased efficiency due to automation of the process which minimises errors, reduction of time lag and elimination of risks involved with holding and trading of paper based securities.

Participants of LankaSecure are further benefited as the system provides facilities to carry out Customer Repo repositioning transactions, a facility which was introduced in February 2007, with transactions of Rs. 2.0 million or below and subsequently increased up to Rs. 5.0 million in September 2008. This facility enables each participant to exchange securities within their internal accounts free of charge through CBSL wide area network (CBSL WAN) facility. Further, the LankaSecure system has provided easy access for open market operations (OMO) transactions without any delay to acquire liquidity to fulfill liquidity requirements of the participants, called Intra Day Liquidity Facility (ILF).

With the purpose of ensuring that investors are well informed of transactions in their accounts and their outstanding investor balances, three types of official statements, (Transaction Summary, Payment Statements and Statement of Holdings) are issued by LankaSecure to investors. LankaSecure has expanded its services to the participants and investors by providing another free service called "LankaSecureNet Facility" which gives an on - line access to view their accounts with the CDS. It would lead to increase the confidence of investors since they are in a position to monitor and ensure their investments at CDS accounts as soon as their investments are taken place. Since LankaSecure issues official statements and also the viewing facility is available under the LankaSecureNet to participants and their customers free of charge, there is a cost saving for LCBs and PDs in providing information to investors.

Information recorded in the LankaSecure is strictly confidential and not accessible by any outside authority or individual. Security features of the LankaSecure are also maintained at a high standard, including hot backups and physical access control. With effect from August 2008, a Personal Computer Based Payment and Securities Settlement System called Comprehensive Disaster Recovery Plan (CDRP) was made available as an alternative settlement system in the event of prolonged recoverable LankaSettle application system failure.

A new version of the operating system will be introduced for the LankaSecure during the first quarter of 2010. Under this new system, participants (LCBs and PDs) will be allowed ILF on their own, without requesting from the CBSL to manage their liquidity position.

[1]Box Article 5: "Scripless Securities Settlement System (SSSS) and Central Depository System(CDS)" Public Debt Management in Sri Lanka – 2007 pp30 -31, Public Debt Department, Central Bank of Sri Lanka.

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

Management of Risk

One of the important aspects of prudent public debt management is sound risk management, which is the process of analysing exposure to risks and planning how to best handle such risks. The risks associated with the public debt portfolio can be defined as the likelihood of unexpected variations in the level of the debt service payments. Such risks may range from refinancing risk, market risk, liquidity risk to operational risk.

The overall objective of public debt management is to ensure that the financing needs of the government are met at the lowest possible cost with a prudent degree of risk. Therefore, the PDD has the responsibility to minimise the risks associated with the public debt portfolio by implementing effective debt management strategies in order to reduce the country's exposure to various economic and financial shocks.

The positive developments experienced both in the domestic and global markets towards end of 2009 coupled with the effective debt management strategies adopted by PDD, improved the performance of debt management in 2009. Most of the indicators, which measure the performance in risk management arena were negatively affected in 2008 due to various domestic and foreign market disturbances, improved in 2009. Currently, the public debt portfolio of Sri Lanka faces refinancing and market (interest rate and exchange rate) risk more than other types of risk.

Types of Risks

Refinancing Risk

Refinancing or rollover risk is the risk of having to rollover the maturing debt at a higher unknown future interest rate or the likelihood of being unable to rollover the maturing debt altogether.

Healthy developments in the refinancing risk indicators were observed in 2009, largely due to the various strategies implemented by the PDD. Retirement of short-term high cost borrowings by replacing them with the long-term debt issued to non-resident investors mainly contributed to the developments of these indicators.

TABLE 18

RISK ASSESSMENT INDICATORS AND MEDIUM-TERM TARGETS FOR SRI LANKA

Indicator	2008	2009	2012
Refinancing Risk Indicators			
Average time to maturity (ATM) of domestic debt (yrs)	2.2	2.3	3.5
Short-term domestic debt/ total domestic debt	24%	23%	10%
Interest Risk Indicators			
Duration of domestic debt (yrs)	1.6	1.8	2.5
Average time to refixing (ATR) of domestic debt (yrs)	2.0	2.2	3.0
Floating debt / Total debt	8.4%	7.2%	20%
Foreign Exchange Risk Indicators			
Foreign investments in Treasury bonds /Total bond stock	1.4%	8.7%	15%
Foreign investments in Treasury bills /Total bill stock	1.6%	8.4%	15%
Share of foreign currency commercial debt / Official reserves	101%	51%	<50%
Share of foreign currency debt / Total debt	45%	42%	35%

Source: Central Bank of Sri Lanka

Refinancing risk is mainly measured by average-time-to-maturity (ATM) and the propotion of short-term domestic debt to total domestic debt. ATM is the weighted average time to maturity of the domestic debt. The indicator marked 2.3 years in 2009 compared to 2.2 years in 2008 reflecting an improvement. Meanwhile, short-term domestic debt to total domestic debt ratio decreased marginally to 23 per cent in 2009 compared to 24 per cent in 2008. These healthy developments were mainly due to the early retirement of Rs. 126 billion short-term Treasury bills by issuing medium to long-term Treasury bonds to non-resident investors in the second half of 2009. ATM of retired Treasury bills was 0.4 years compared to ATM of 4.7 years of Treasury bonds.

Interest Rate Risk

Volatility in market interest rates affects the debt servicing cost when maturing debt is re - issued or interest rates are reset for floating rate debt. This is more risky for floating rate debt and short-term fixed rate debt compared to medium to long-term fixed rate debt.

Interest rate risk in the debt portfolio is assessed mainly using three indicators, namely, the duration of the debt stock, average-time-to-refixing (ATR) and ratio of floating interest rate debt to total debt. As per most of the other risk indicators, interest rate risk indicators improved during the period under review.

Duration of the domestic debt stock, which measures the price volatility of the debt stock with respect to interest rates showed a significant improvement in 2009 over 2008. Duration of the Treasury bond portfolio increased significantly to 2.0 years from 1.7 years recorded in 2008, which was the maximum duration for Treasury bonds since 2004, when the duration on record was 2.2 years. This was largely due to the issuance of long-term bonds in 2009. The composition of the issuance of Treasury bonds maturing above 4 years in 2009 was 34 per cent compared to that of 10 per cent in 2008. The duration of the Treasury bill portfolio remained unchanged at 0.4 years, while the duration of the Rupee loan portfolio increased marginally due to the retirement of Rupee loans in the period under review.

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 the ATR is the residual life of the bond. For floating rate bonds the ATR is the time left until fixing of the next coupon. The ATR of the domestic debt portfolio marked a healthy increase to 2.2 years in 2009 compared to 2.0 years in 2008, due mainly to relatively higher long-term issuances of Treasury bonds.

The ratio of floating interest rate debt to total debt decreased to 7.2 per cent in 2009 compared to 8.4 per cent in 2008. The decrease in this ratio in 2009 can be largely attributed to the limited issuance of floating debt, retirement of several floating rate debt and relying largely on fixed interest rate debt issued to non-resident investors in 2009.

Exchange Rate Risk

Exchange rate risk reflects the risk of volatility in debt service payments in terms of local currency due to the changes in cross currency exchange rates. The depreciation of the value of the rupee against the currencies, in which the external debt is denominated, led to an increase in the local currency equivalent of foreign debt, thereby increasing the debt service payments, in terms of local currency.

Exchange rate risk is mainly measured by the ratios of Treasury bill and Treasury bond investments by non-resident investors to the total Treasury bill and Treasury bond stock, the share of foreign currency commercial debt to official reserves and the share of foreign currency debt to total debt.

Both the ratios, share of Treasury bill and Treasury bond investments by non-residents to total stock of Treasury bills and Treasury bonds increased substantially. This was due to large investments made by non-residents in government securities in the second half of the year 2009. However, these investments were well within the approved limit of 10 per cent of outstanding Treasury bill and Treasury bond stock.

The ratio of foreign currency commercial debt to official reserves marked a healthy decline of 51 percentage points, mainly due to the significant increase in the official reserves in 2009. Official reserves increased by 124 per cent in 2009 from the previous year.

The share of foreign currency debt to total debt decreased marginally by 3 percentage points to 42 per cent. This was mainly due to the increase in non-resident investments in rupee denominated Treasury bills and Treasury bonds in 2009.

Liquidity Risk

The risk that a financial instrument cannot be purchased or sold without a significant deviation in price is called the liquidity risk. To mitigate the liquidity risk in the government securities market several measures were taken in the past. Securities issuances were mainly confined to the identified benchmark maturities of 2, 4, 6 and 10 years, thereby increasing the liquidity of those bond series in the market. Further, public awareness campaigns were continued to educate investors on government securities with a view to widening the investor base.

Operational Risk

The risk of loss from failure in internal systems and procedures or events completely beyond the control of the organisation is refered to as operational risk. To minimise the operational risk, several measures have been taken in the recent past. Risk of system failures have been minimised by introducing and maintaining an advanced payments and settlements system including RTGS and SSSS and a comprehensive and regularly tested Business Continuity Plan (BCP) including a Disaster Recovery Site (DRS). Further, each participant of the payment and settlement system is required to maintain and regularly test their BCP and DRS, in order to maintain undisrupted operations in the market.

Sustainability of External Debt

Debt Sustainability

Sustainable debt can be defined as the level of debt, which allows a debtor country to meet its debt service obligations in full without renegotiating and avoiding accumulation of arrears, while allowing an acceptable level of economic growth. Sustainability of external debt is vital, since the sovereign has limited options to settle financial obligations in foreign currencies.

External Debt Sustainability Indicators

External debt sustainability can be measured using various types of debt indicators. Each indicator has its advantages and disadvantages. In this review, sustainability of external debt is measured using mainly five groups of indicators[1], namely, liquidity monitoring, debt burden, debt structure, net present value (NPV) and dynamic indicators.

External debt indicators discussed here are mainly based on the country's exports of goods and non-factor services including workers' remittances and compensation of employees (XGS) and gross official reserves. Largely, due to the deceleration in the world economy, which started during the second half of 2008 and also experienced in 2009, XGS contracted by 5.6 per cent in 2009 and gross official reserves declined by US dollars 1,106 million to US dollars 2,402 million by end 2008. These two negative developments directly affected the outcome of external debt sustainability indicators of the country, in 2009.

However, except for one debt burden indicator i.e., the outstanding external debt to GNP ratio, according to the performance of other indicators shows the country continues to be classified as a less indebted country.

Liquidity Monitoring Indicators

The capacity of a country to settle its liabilities as they fall due is measured by liquidity monitoring

1 A description of these indicators is available in Box 3 of the "Public Debt Management in Sri Lanka in 2007" publication.

TABLE 19

EXTERNAL DEBT SUSTAINABILITY INDICATORS[a]

Per cent

Description	2007	2008	2009[b]
Liquidity Monitoring Indicators[c]			
Interest Service Ratio (INT/XGS)	1.8	2.1	2.5
Medium & Long-term Debt Service Ratio (MLDS/XGS)	6.8	10.7	10.5
Total Debt Service Ratio (TDS/XGS)	6.8	10.8	10.6
Short-term Debt Ratio (Short-term debt/XGS)	-	-	0.4
Debt Burden Indicators			
DOD/GNP	37.5	33.6	36.9
DOD/XGS	100.6	102.6	124.5
Debt Structure Indicators			
Rollover Ratio (Principal Payments/ Disbursements)[c]	36.0	93.8	32.2
Short-term Debt / Total DOD	-	0.4	2.3
NPV Indicators [d]			
NPV of Debt Service/GNP	40.2	33.7	36.4
NPV of Debt Service/XGS	104.2	94.3	110.7
Dynamic Indicators[c]			
Avg. rate of Interest/rate of growth of export	18.6	24.4	(37.3)
Avg. rate of Interest/rate of growth of GNP	30.6	49.6	43.3

(a) Based on central government debt
(b) Provisional
(c) Including Treasury bill & Treasury bond payments to non-residents
(d) NPV calculation is based on CIRR rates

Source: Central Bank of Sri Lanka

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 net present value of external debt portfolio.

Box 6 – Critical Values of Debt Sustainability Indicators

Critical Values of Indicators

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

CRITICAL VALUES OF EXTERNAL DEBT INDICATORS

Per cent

Indicator	Highly Indebted	Moderately Indebted	Less Indebted	Sri Lanka 2009
DOD/GNI	>50	>30 and < 50	<30	36.9
DOD/XGS	>275	>165 and <275	<165	124.5
TDS/XGS	>30	>18 and <30	<18	10.6
INT/XGS	>20	>12 and <20	<12	2.5
NPV/GNI	>80	>48 and <80	<48	36.4
NPV/XGS	>220	>132 and <220	<132	110.7

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

indicators. Four liquidity monitoring indicators, namely, interest service ratio, medium and long-term debt service ratio, total debt service ratio and short-term debt ratio are used for this purpose.

The interest service ratio (INT/XGS), which is measured as the country's cost of external debt as a percentage of XGS, increased marginally to 2.5 per cent in 2009 compared to 2.1 per cent in 2008 largely due to the negative growth recorded in XGS in 2009.

The total external debt service payments and medium and long-term debt service payments absorbed by XGS recorded 10.6 per cent and 10.5 per cent respectively in 2009, compared to 10.8 per cent and 10.7 per cent recorded in 2008. Despite the reduction of XGS in the year, the main reason contributed to maintain these two indicators at the same level as in 2008 was the decrease in payments to non-resident investors in Treasury bills and Treasury bonds in 2009. Payments to non-resident investors in Treasury bills and Treasury bonds declined by 77.2 per cent in 2009 compared to large pre-mature withdrawals in 2008. With the entry of non-resident investors to the Treasury bills market in 2008, short-term debt was introduced to the external debt portfolio. The ratio of short-term debt to XGS was 0.4 per cent at the end of 2009.

Debt Burden Indicators

The country's outstanding external debt to the size of its economy (DOD/GNP) and the country's ability to repay its outstanding external debt obligations from the earnings of XGS in a single year (DOD/XGS) are measured by debt burden indicators. Both these indicators recorded a deterioration in 2009. The negative growth recorded by XGS and deterioration of growth momentum in the economy in 2009, could be cited as the main factors for this outcome in addition to the increase in the external debt stock. The ratio of DOD/GNP was 36.9 per cent as at the end 2009 compared to 33.6 per cent in 2008, while DOD/XGS was 124.5 per cent in 2009 compared to 102.6 in 2008.

Debt Structure Indicators

The risk exposure of a country due to the structure of the external debt portfolio is measured by debt structure indicators. The ability to repay the debt by external disbursements in a single year is measured by the rollover ratio (principal payments/disbursements). The rollover ratio improved significantly in 2009 recording 32.2 per cent compared to 93.8 per cent recorded in 2008, mainly due to the increase in mobilising funds from external sources. Total external disbursements realised in 2009 was Rs. 355.8 billion, which was around 175 per cent increase over the previous year. This high growth was largely due to the significant increase in non-resident investments in Treasury bills and Treasury bonds and the second international sovereign bond issue of US dollars 500 million in 2009.

The other indicator used to determine the structure of the external debt portfolio is short-term debt to total disbursed outstanding debt (short-term debt/total DOD). This ratio stood at 2.3 per cent by end 2009 in comparison to 0.4 per cent in 2008, reflecting the increase in Treasury bill holdings of foreign investors over the period.

Net Present Value Indicators

Net present value (NPV) indicators compare the current cost of future debt service obligations to the overall activities of the economy (NPV/GNP) and foreign exchange receipts (NPV/XGS). These indicators were negatively impacted in the period under review, due to increase in the NPV owing to the increase in the external debt stock, the contraction of XGS and reduction of the rate of growth of the economy in 2009. NPV/GNP and NPV/XGS ratios stood at 36.4 per cent and 110.7 per cent respectively, in 2009.

Dynamic Indicators

Dynamic indicators measure whether the cost of external debt grows faster than economic growth. The ratio of the average rate of interest of the external debt portfolio to the rate of growth of exports was negative, due to the contraction of exports in 2009. The ratio of average interest rate to the rate of GNP growth indicated a positive improvement, due to comparatively high GNP growth and lower average interest cost recorded in 2009 compared to 2008.

Overall Debt Sustainability

Overall debt sustainability is broadly measured using two aggregate indicators, i.e. the total debt to GDP ratio and the share of foreign debt service payments to official reserves.

The total debt to GDP ratio increased to 86.2 per cent in 2009 compared to that of 81.4 per cent in 2008. This negative movement was largely due to the deceleration of the growth of the economy, as GDP growth was around 3.5 per cent in 2009 compared to 6.0 per cent in 2008. In nominal terms, the total debt stock increased by 16.0 per cent compared to 18.0 per cent in 2008.The other indicator, i.e., the share of foreign debt service payments to official reserves, which is calculated by dividing debt service payments in a particular year by the official reserve position at the end of the previous year also increased to 55.4 per cent in 2009. This ratio was 39.8 per cent in end 2008. Official reserves in 2008 recorded a significant drop due to the financial turmoil experienced worldwide. This had a negative impact on the external debt service payments to official reserves ratio.

TABLE 20
OVERALL DEBT SUSTAINABILITY

Indicator	2007	2008	2009 (a)
Overall Debt Sustainability			
Debt/GDP	85.0	81.4	86.2
Share of foreign debt service payments /Official reserves	29.4	39.8	55.4

(a) Provisional

Source: Central Bank of Sri Lanka

Overall debt sustainability indicators were impacted negatively in 2009, largely due to the slowdown in the world economy in the second half of 2008. These indicators would be positively impacted by the high volume of official reserves at end 2009 coupled with the expected improvements in economic growth in 2010.

Comparing the debt sustainability indicators with their critical values, Sri Lanka can be classified as a less indebted country as suggested by the majority of indicators. Looking forward, Sri Lanka has the potential to improve these indicators further, by attaining sustainable and high economic growth and maintaining a high level of official reserves, while managing the public debt portfolio prudently.

Box 7 - Debt Indicators of Selected Countries (a)

Per cent

Indicator	Sri Lanka	India	Pakistan	Bangladesh	Nepal	Malaysia	Thailand	Philippines	Indonesia
EDT / XGS	113.0	n.a.	139.2	105.5	110.2	24.9	33.7	85.8	100.6
EDT / GNI	43.8	18.9	28.0	30.0	35.0	29.4	26.5	41.9	33.9
TDS / XGS	6.7	n.a.	8.9	3.9	4.5	4.6	8.1	13.7	10.5

(a) Latest available data in 2007.

Source: Global Development Finance, The World Bank, 2009.

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

7. Performance of Primary Dealers

The Primary Dealers (PDs) are specialised intermediaries in the government securities market and form a part of the financial system of the economy. They had been operating as dedicated dealers engaging exclusively in the government securities business since 2000. A policy decision was taken to allow the PDs to diversify their activities and the first phase of diversification was implemented during the latter part of 2009.

Financial Performance

In 2009, the PD industry performed remarkably well in terms of financial performance against the declining yield rates in government securities. All key financial indicators including capital base, securities portfolio, income, Return on Equity (ROE) and Return on Assets (ROA) reached unprecedented levels.

Capital Base

The total capital base of the industry stood at Rs. 11.2 billion as at end of 2009 which is an 82 per cent growth compared to the previous year. The high level of capital accumulation is attributed mainly to the high level of income and profits earned by the PDs during the year. Further, as a measure to promote safety, soundness and stability of the PD system and to build up the PD capital base, a direction was issued to PDs restricting the dividends distribution to a maximum of 50 per cent of the realised profits for the year. Meanwhile, the risk weighted capital adequacy ratio of the industry stood at 22.4 per cent as against the minimum regulatory requirement of 8 per cent.

TABLE 21
PRIMARY DEALER PERFORMANCE

Rs. million

Financial Indicator	2007	2008	2009 (a)
Capital Base	5,608	6,151	11,217
Total Portfolio	52,196	80,559	94,327
Repo	42,084	62,985	71,285
Total Income	8,204	11,960	18,583
Profit Before Tax	996	1,696	7,058
Risk Weighted Capital Adequacy (per cent)	35.2	16.5	22.4
Repo/Assets Ratio (per cent)	78.0	74.6	72.9
Capital Leveraging Times	7.8	10.5	6.4
Return on Equity (per cent)	18.4	28.2	79.4
No.of Loss Making PDs	1	1	-
Gap Analysis (upto 7 Days)	(3,445)	(9,489)	(6,185)
Capital Erosion % (100 bps Increase in Int. Rate) –Stress Test	(2.9)	(6.2)	(7.6)
Secondary Market Transactions	4,801,608	5,667,093	5,903,268
Treasury bills, Total	2,637,197	2,862,312	1,783,677
Treasury bonds, Total	2,164,411	2,804,781	4,119,591

(a) Provisional — Source: Central Bank of Sri Lanka

Portfolio

The portfolio of the PD industry consists of trading portfolio, investment portfolio and reverse repo portfolio. The total portfolio of the industry increased to a record level surpassing Rs. 100 billion during the year and settled at Rs. 94.3 billion at the end of the year. Accordingly, it was an increase of 17 per cent compared to Rs. 80.6 billion recorded at end 2008. The trading portfolio of the PD industry stood at Rs. 59.7 billion at end 2009 compared to Rs. 45.5 billion at the end of the preceding year, which accounted for an increase of 31 per cent. Similarly, the reverse repo portfolio increased by 6 per cent. In contrast, the investment portfolio decreased by 8 per cent over the previous year.

Profitability

Total income earned by the PDs during the year was Rs. 18.6 billion as against Rs. 12.0 billion earned in 2008. The unaudited pre-tax profits recorded for 2009, amounted to Rs. 7.1 billion. This is more than a four fold increase compared to the Rs. 1.7 billion of pre-tax profits earned during 2008. The high income levels leading to high profits were earned by way of interest income, capital gains and revaluation gains. This remarkable achievement can be attributed to the significant decline in the yield rates for government securities. Three state owned PDs along with a non bank PD contributed to more than 77 per cent of the industry pre-tax profits with their individual profits exceeding Rs. 1 billion.

The profitability of the PDs as measured by ROA and ROE ratios increased considerably during 2009 and sustained at very high levels. ROA was at 7.3 per cent and ROE was at 79.4 per cent compared to the corresponding figures of 2.0 per cent and 28.2 per cent respectively in the previous year.

Review of External Operating Environment

The PDs are mainly exposed to the market risk and liquidity risk. Therefore, in order to maintain the PD system stability, those risks are specifically and continuously monitored under off site surveillance. The market risk for PDs were minimal due to the decreasing trend in yield rates that prevailed in the market during 2009. Further, the high liquidity risk experienced by several PDs during 2008, declined with the improved liquidity position in the market during the second half of the year and by the end of 2009.

Stress Testing

Stress testing, which is used as a risk assessment tool to assess the resilience of the PDs portfolio to a change in interest rates, revealed that there was no imminent threat to the stability of the PD system during 2009. The modified duration of the trading portfolio of the PD industry had increased to 1.4 years as at end 2009 compared to 0.9 years recorded at the end of the previous year implying the market preference for longer maturities. According to the stress test results, a 100 bps upward movement in the interest rate structure would erode only 7.6 per cent of the capital base, while its impact on the industry trading portfolio would be a loss of Rs. 853.2 million amounting to 1.4 per cent of the trading portfolio.

Gap Analysis

In order to identify the liquidity risk of PDs, i.e., the ability to cover the assets and liabilities mismatch position, the maturity structure analysis is used. The mismatch position is defined as the difference between assets and liabilities of a particular maturity period which could pose a liquidity risk to PDs, depending on the alternative funding arrangements available from different sources. In order to get the best of the downward movement of interest rates in the market, most of the PDs adopted a more prudent approach by avoiding positive mismatches towards the shorter end of the market. This situation enabled the PD industry to operate as a net borrower in the market, at the shorter end.

The PD industry reported a negative mismatch of Rs. 2.7 billion as at end of 2009 compared to the negative mismatch of Rs. 3.9 billion as at end of 2008 on an overnight basis. Similarly, during the period 2008 to 2009, the cumulative mismatch up to one week decreased from negative Rs. 9.5 billion to negative Rs. 6.2 billion. However, the PD industry reported a high cumulative negative mismatch up to one month maturity of Rs. 26.3 billion at end of 2009 compared to the negative mismatch of Rs. 18.5 billion, which prevailed at the end of 2008. Meanwhile, the share of the cumulative mismatch up to one month to the portfolio, which constitutes trading and reverse repurchase portfolios, increased to 31.5 per cent as at end 2009 from 27.8 per cent as at end 2008.

Regulatory Measures

The dedicated PD system commenced in 2000 and since then PDs were permitted only to engage in government securities business. Owing to the nature of the market, PDs are exposed to a high market risk with the fluctuations in the interest rates in the government securities market. In an increasing interest rate environment PDs incur heavy revaluation and capital losses leading to capital erosion. This in turn could have an impact on system stability. Considering these factors, a policy decision was taken to allow PDs to diversify their activities on a staggered basis, subject to certain conditions imposed by the PDD. Accordingly, the first phase of diversification was implemented in the latter part of 2009 after relevant regulations were amended to enable this process. With this, PDs are now permitted to engage in services to earn a fee income such as portfolio management services, project appraisal services, loan syndication services, merger and acquisition advisory services, consultancy services and also to invest in ordinary shares or debentures of its own group companies of banking and finance in nature which are regulated by a regulatory authority in Sri Lanka.

During 2009, a direction was issued to PDs restricting the dividend distribution to a maximum of 50 per cent of the realised profits for the year, strengthening the stability of the PD system. Access to the term reverse repo facility under the standing facility at a Penal rate was made available to PDs in early 2009, by the Domestic Operations Department, with a view to supporting them to overcome the liquidity shortages that prevailed at that time.

Primary and Secondary Market Participation of Primary Dealers

The overall secondary market transactions in the government securities market had increased during 2009 mainly due to increased Treasury bond transactions. Reversing the trend prevailing in 2008, the contribution of the state sector at primary auctions increased both at Treasury bill and Treasury bond auctions compared to their counterparts in the non state sector.

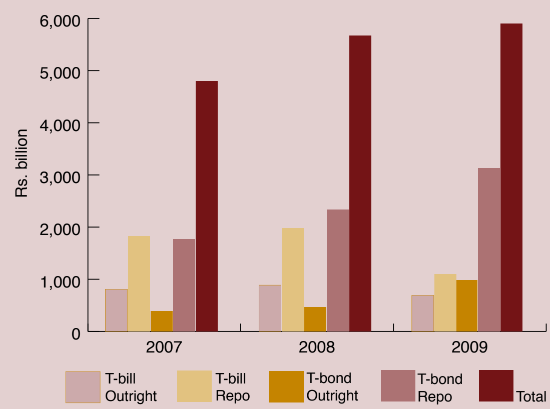
Primary Market Participation

Primary auctions for both Treasury bills and Treasury bonds were dominated by the three state owned PDs during 2009. They contributed 51 per cent and 60 per cent to the primary auctions for Treasury bills and Treasury bonds, respectively. Compared to 2008, there was a decline in contribution of non state owned PDs from 53 per cent to 49 per cent at Treasury bill auctions and from 42 per cent to 40 per cent at Treasury bond auctions.

Secondary Market Participation

The most notable feature in the secondary market was the shift in market preference from short-term Treasury bills to long-term Treasury bonds in 2009. This is evident by the increase in Treasury bond transactions by 47 per cent, while recording a drop of 38 per cent in Treasury bill transactions. The change in investor preference can be attributed to the declining interest rate. The value of total secondary market transactions reported by PDs amounted to Rs. 5.9 trillion compared to Rs. 5.7 trillion recorded in 2008.

Chart 20
SECONDARY MARKET TRANSACTIONS AS REPORTED BY PRIMARY DEALERS



The contribution of three state owned PDs in the secondary market transactions had significantly increased in 2009 recording 51 per cent of the total secondary market transactions whereas the corresponding figure for the previous year was only 30 per cent.

Box 8 - Diversification of Primary Dealer System

In Sri Lanka, the primary dealer system was first introduced in 1992 by appointing eighteen Accredited Primary Dealers (APDs). This consisted of thirteen commercial banks, four money brokers and one unit trust company. These APDs were given exclusive access to the primary auctions conducted by the Public Debt Department (PDD) and were permitted to submit tenders at Treasury bill auctions. The main objective of this system was to broaden the Treasury bill market allowing investors and members of the public to buy and sell Treasury bills at competitive prices through APDs, who were expected to function as intermediaries.

The primary dealer system was reorganised with the adoption of the statement for privileges and responsibilites for primary dealers and redesignating the APDs as Primary Dealers (PDs) in 1994.

With a view to further developing the government securities market and to make the PD supervision more meaningful by strengthening the institutional framework, a dedicated PD System was established with eight PDs effective from 01 March 2000. This dedicated PD system was expanded in 2002 by allowing Licensed Commercial Banks (LCBs) to become PDs with an objective of infusing more competition and liquidity into the market. This new system was expected to develop the government debt securities market, facilitate better management of government debt and make the primary dealer surveillance more convenient and meaningful. However, as PDs were allowed to engage only in activities related to government securities, they were exposed to a high market risk.

Paying due consideration to the risks faced by PDs by operating in a single product market and considering the importance of maintaining the stability of the PD system, a policy decision was taken to diversify the PD system in 2009. Accordingly, the PDs were allowed to diversify their activities since 02 December 2009 after effecting necessary amendments to the regulations. The diversification programme is scheduled to be implemented in stages. In the first stage which is already implemented, PDs are permitted to:

1. engage in fee based activities to earn an income, which have no adverse impact on capital, such as portfolio management services, project appraisal services, loan syndication services, merger and acquisition advisory services and consultancy services; and,
2. invest in ordinary shares or debentures of its own group companies of banking and finance in nature which are regulated by a regulatory authority in Sri Lanka.

The other areas into which PDs are permitted to diversify their activities are :

1. to invest in quoted shares/quoted debentures or bonds and commercial papers according to the limits imposed by the Monetary Board from time to time;
2. to act as a broker in quoted corporate bonds/debentures;
3. to manage and invest in mutual funds up to a maximum amount determined by the Monetary Board from time to time; and,
4. to borrow through debt instruments in accordance with the directions or guidelines issued by the Monetary Board from time to time.

The PDs shall engage in diversified activities only with capital over and above the minimum required capital under the existing directions and the capital which is utilised for the diversified activities should be limited to 25 per cent of the total capital of the PD.

In order to minimise the impact on the capital by diversifying the activities and also to ensure the commitment of the PDs to its main business activity, i.e., engaging in government securities business, the PDs who are engaging in activities that utilise its capital are required to maintain the following ratios:

1. Risk weighted capital adequacy ratio at 10 per cent;
2. Minimum annual turnover ratio of 10 times for Treasury bonds and 20 times for Treasury bills; and,
3. Minimum average effective participation ratio of 5 per cent separately for Treasury bond and Treasury bill auctions, as monitored on a half yearly basis for the periods, January – June and July – December.

Over the past 18 years, the PD system had changed in its size and structure in several instances. First, it was introduced as an accredited system where a few financial institutions were permitted to act as specilaised intermediaries in the government securities market. Thereafter, the PD system was made a dedicated system and later it was expanded to include LCBs as well. At present, the PDs are permitted to diversify their activities subject to certain limitations to keep them focused to the government securities market as their main line of business.

8. Annex

1. Debt Market Development

1923 - Introduction of Treasury bills for the first time.

1941 - Commencement of Treasury bill issues under parliamentary approval.

1981 - Commencement of issuance of six month Treasury bills.

- Introduction of secondary market operations for Treasury bills.

1986 - Commencement of weekly issues of Treasury bills.

- Introduction of tap system.

1989 - Issuance of Treasury bills with multiple maturities.

1992 - Introduction of accredited PD system.

1993 - Introduction of repurchase agreement system for Treasury bills.

1994 - Reforming the PD system.

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

- Introduction of reverse repos for Treasury bills.

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

- Amendment of laws relating to government securities.

1997 - Commencement of issuing Treasury bonds.

1998 - Introduction of an electronic bidding system.

2000 - Introduction of dedicated PD system.

- Issuance of callable bonds.

2001 - Issuance of SLDBs.

2002 - Expansion of PD system.

2003 - Introduction of Fiscal Management (Responsibility) Act.

- Introduction of a Code of Conduct for PDs.

2004 - Introduction of Scripless Securities Settlement System and Central Depository System.

2005 - Issuance of an index linked bond.

2006 - Introduction of a Risk Weighted Capital Adequacy Framework for PDs.

- Opening up the rupee denominated Treasury bond market for foreign investors.
- Introduction of Sri Lanka Nation Building Bonds.

2007 - Opening of retail outlets to sell government securities.
- Introducing a Wide Area Network to record small value transactions in the Central Depository System.
- Re allowed PDs to access CBSL repo window.
- Increased share of foreign investments in Treasury bonds up to 10 per cent.
- Issuance of Sovereign Bond to international capital market.

2008 - Authorized LCBs to invest in the international sovereign bond issued by the Government of Sri Lanka in 2007, in the secondary market.
- Opening up of the Treasury bill market to foreign investors in May 2008.
- Introduction of PC based payment and securities settlement system.

2009 - Introduction of a Master Repo Agreement (MRA), which can be commonly used by the PDs and LCBs in their repurchase transactions, was finalized and introduced to the market with effect from January 1, 2009.
- Issuance of the second international Sovereign Bond for US dollars 500 million in October 2009.
- Opening up of the rupee denominated Treasury bill and Treasury bond market for Sri Lankan Diaspora and Migrant workforce with effect from January 6, 2009.
- Provided the facility of Dual Citizenship status for ex-Sri Lankans holding foreign citizenship who have invested in Treasury bonds with effect from June 15, 2009.
- Extending the yield curve for government securities up to 10 years by issuing a 10 year bond in 2009.
- Increased the maximum number of days accepted by the LankaSecure system for future value dated transactions from 31 calendar days to 364 calendar days.
- Implementation of the first stage of the PD diversification programme.
- Upgrading of the rating outlook by the two Rating Agencies i.e, Fitch Ratings and Standard and Poors to Stable and Positive respectively.

2. *Institutional Framework for Public Debt Management*

Government Institutions Responsible for Public Debt Management

Several government institutions are responsible for public debt management and debt services. The overall annual borrowing limit is determined by the Parliament as part of the annual Appropriation Act. Within the set borrowing limit, the Ministry of Finance is delegated with the authority to raise debt. The CBSL functions as the agent of the government in managing debt. The PDD of the CBSL is responsible for raising, sevicing and managing the central government debt.

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

FIGURE 1: CENTRAL GOVERNMENT DEBT MANAGEMENT – RESPONSIBLE INSTITUTIONS

Parliament

Responsible for setting annual borrowing limit as part of annual Appropriation Act

Central Bank

Public Debt Department (PDD)

- Mobilisation of funds from domestic sources and external non–concessionary commercial sources for government budget
- Servicing of public debt
- Issue government securities through auctions and on tap basis
- Maintenance of domestic debt database
- Maintenance of CDS
- Regulate and supervise the Primary Dealer System (PDS)
- Developing the Government Security market
- Dissemination of information

Economic Research Department (ERD)

- Analysis of debt statistics and conduct of debt sustainability analysis

Government Treasury

External Resources Department (ExRD)

- Mobilisation and management of external concessionary funds
- Coordination with donors
- Maintenance of external debt database

Treasury Operations Department (TOD)

- Treasury cash flow management
- Provision of funds for debt service

Fiscal Policy Department (FPD)

Advise on:

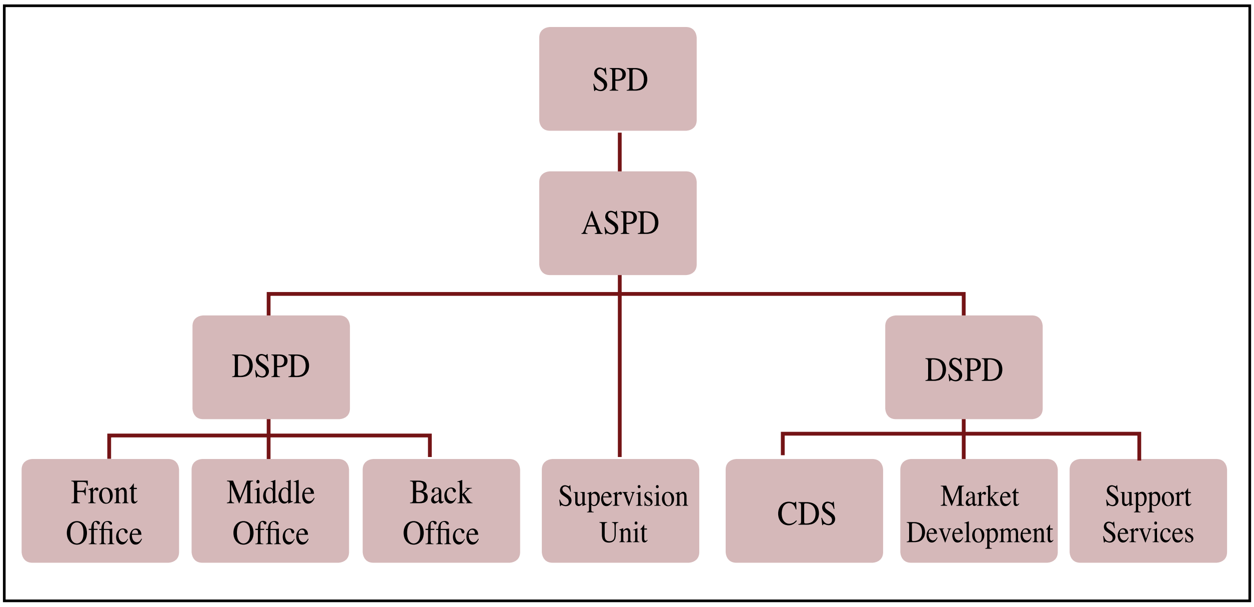
- Fixing of total borrowing limits
- Loan composition
- External commercial borrowings

State Accounts Department (SAD)

- Accounting for fiscal operations.

The PDD is structured into seven divisions that undertake market operations, risk analysis and management, debt servicing, supervision of PDs, recording of investor information, market development and support services. Roles and responsibilities within the department are structured so as to ensure an appropriate segregation of duties. During 2009, the structure of the PDD was organised as set out in figure 2.

FIGURE 2: STRUCTURE OF THE PUBLIC DEBT DEPARTMENT



Governance

The regulatory framework governing government debt operations in Sri Lanka constitutes the following legislations, which have been amended from time to time since they were first enacted.

(a) Monetary Law Act (MLA) of 1949 amended in 2002 – *Debt management as a function of the CBSL*

(b) Annual Appropriation Acts for each year – *Authority for annual gross borrowing limit*

(c) The Local Treasury Bills Ordinance (LTBO) of 1923 as amended in 1953, 1992, 1995, 2004 – *Issuance of Treasury bills*

(d) The Registered Stock and Securities Ordinance (RSSO) of 1937 as amended in 1949, 1983, 1985, 1995, 2004 – *Issuance of Treasury bonds and Rupee loans*

(e) Foreign Loans Act (FLA) of 1957 as amended in 1962, 1963, 1980, 1984 – *Borrowing from foreign sources*

(f) Fiscal Management (Responsibility) Act (FMRA) of 2003 – *Fiscal consolidation strategy and medium-term debt targets*

(g) Treasury Certificates of Deposit Act (TCDA) of 1989

(h) Tax Reserves Certificates Act (TRCA) of 1957 as amended in 1961 and 1981

(i) Loans (Special Provisions) Act No 40 of 1982 – *Applicable law for government borrowing in the absence of an Appropriation Act*

A number of directions had been issued to PDs, under the LTBO and RSSO. Further, the PDD issued a Code of Conduct (COC) in 2003 for PDs, giving guidelines for their operations. This COC is a legally binding document and is the first of its kind issued in the financial sector in the country.

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

In addition to the MLA, the annual Appropriation Act authorises the raising of loans "in or outside" Sri Lanka, on behalf of the government, to provide for the annual expenditure of the government. The annual Appropriation Act determines the aggregate amount of such borrowing, although this may be revised during the year, pursuant to supplementary legislation. However when the annual Appropriation Act is not available, Loans (Special Provisions) Act provides provisions to raise loans in or outside Sri Lanka for the service of the government and to provide for the payment from such loans of moneys required during that period for expenditure on such service.

The RSSO and the LTBO empower the PDD to act as the agent of the government for domestic borrowing through Treasury bonds, Rupee loans and Treasury bills. The PDD services both domestic and foreign debt. SLDBs are issued under the FLA. During last few years no Treasury Certificates of Deposit (TCDs) or Tax Reserve Certificates (TRCs) have been issued by the PDD. Foreign concessional debt is raised by the Treasury's External Resources Department, under the FLA.

3. Primary Dealer System

3.1 Introduction

A primary dealer is a specialised intermediary in the government securities market. The main purpose of a primary dealer system includes strengthening the primary market by:
(a) helping to build a stable, dependable source of demand for securities,
(b) providing liquidity in the secondary market,
(c) building distribution channels (to act as intermediaries) and,
(d) providing market information, including prices, volumes and spreads between bids and offers.

3.2 Primary Dealer System (PDS) in Sri Lanka

The Monetary Board of the Central Bank of Sri Lanka appoints PDs, in terms of regulations issued under the LTBO and the RSSO for the purpose of dealing with the CBSL as a counter-party in the primary and secondary markets for government securities and to transact in government securities on their own account and for the account of their customers.

3.3 Key objectives of the PDS in Sri Lanka

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

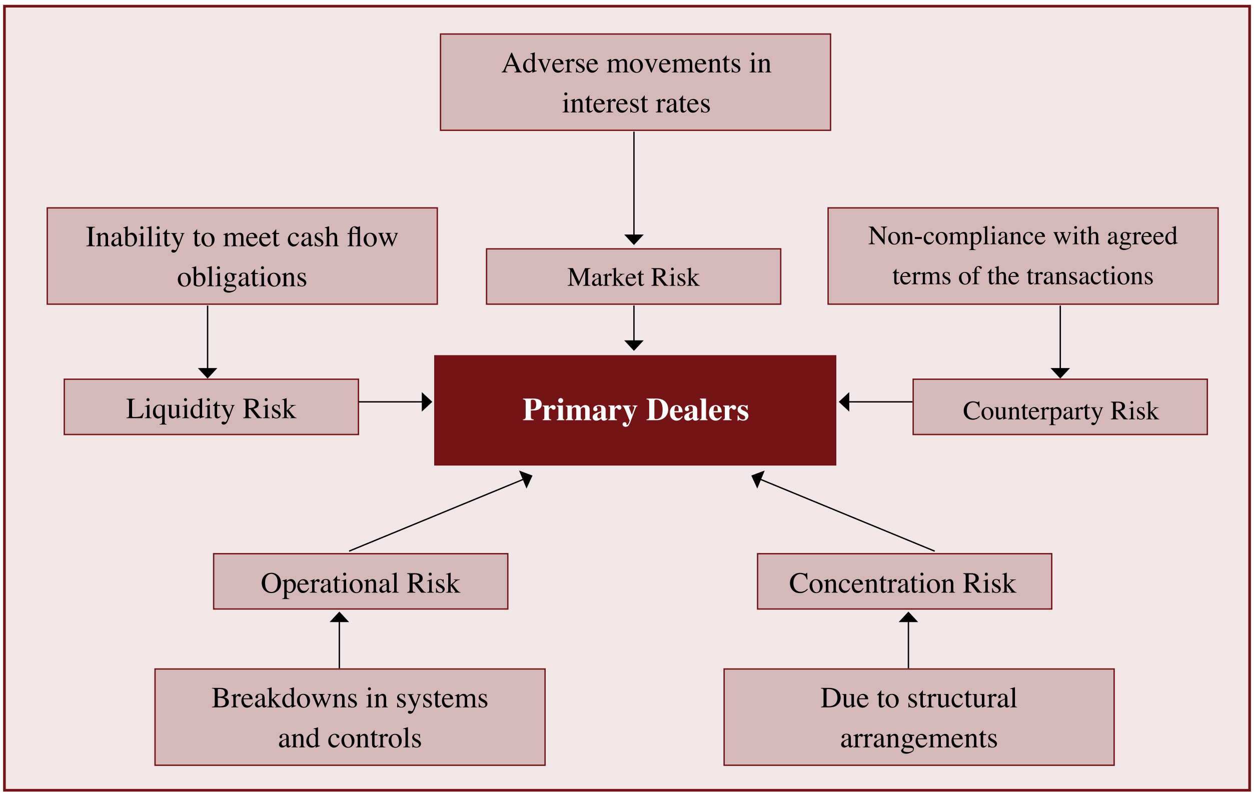
3.4 Risks Encountered by PDs

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

The PDS, which was known as an accredited PDS, first came in to operation on July 24, 1992 with 18 PDs being appointed. While the accredited PDS was in operation, the need for a dedicated PDS was felt, as market participants, especially the commercial banks engaged in the government securities activities, were more interested in other banking activities than developing the government securities market. Accordingly, a dedicated primary dealer system was first introduced in 2000, with the appointment of 8 limited liability companies. In 2002, the PDS was expanded giving the opportunity to LCBs to join the system. This was aimed at enhancing greater competition and liquidity to the market. Further, LCBs were also expected to use their financial resources and branch network to market government securities to a wider investor base, thereby increasing investor access to the market. At present 11 primary dealers are operating in the market.

The figure 3 below explains the main risks encountered by PDs

FIGURE 3: RISKS ENCOUNTERED BY PDs



4. Directives issued to Primary Dealers

The PDD had issued several directions to PDs to ensure that best practices are adopted and to strengthen the prudential requirements and the supervisory framework. The following are the major directions issued to PDs up to end December 2009.

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

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

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

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

4.3 Direction on Custodial and Trust Holdings of Scrip Securities – Effective Date 01/01/2002

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

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

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

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

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

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

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

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

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

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

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

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

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

4.10 *Direction on Minimum Subscription levels for Treasury Bill and Bond Auctions – Effective Date 15/08/20*03

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

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

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

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

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

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

PDs are required to refrain from having adjusted trading or using away prices for recording transactions.

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

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

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

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

4.16 Direction on Restriction on Dividend Declaration – Effective date 22/06/2009

With a view to promote safety, soundness and stability of the Primary Dealer (PD) System and to build up the PD capital base, the PDs are hereby required to restrict dividends declaration to a maximum of 50 per cent of the realised profits earned between 01/01/2009 to 31/12/2009. This Direction is issued in terms of Section 12 of the Regulations dated February 01, 2002 issued by the Minister of Finance under the Registered Stocks and Securities Ordinance and the Local Treasury Bills Ordinance.

4.17 Direction on Diversification of Primary Dealer Activities – Effective date 02/12/2009

This direction was issued under Section 11 of the regulations dated June 24, 2009, issued by the Minister of Finance under the Registered Stocks and Securities Ordinance and the Local Treasury Bills Ordinance in order to enable the Diversification of PD activities with effect from December 02, 2009.

5. Regulations Issued by the Minister of Finance under RSSO and LTBO

The Registered Stock and Securities (Primary Dealers) Regulations No 1 of 2002 and Local Treasury Bills (Primary Dealers) Regulations No 1 of 2002 have been rescinded and Registered Stock and Securities (Primary Dealers) Regulations No 1 of 2009 and Local Treasury Bills (Primary Dealers) Regulations No 1 of 2009 have been issued.

6. Circulars Issued to the System Participants of LankaSettle during 2009

Four Circulars were issued by PDD in 2009

6.1 Amendment to LankaSettle System Rules. Circular No: SSSS/01/2009 - Effective date: 06 Jan 2009 - Issued to: LankaSettle System Participants

The Section 4.2 in the Volume 3 of LankaSettle System Rules issued in August 2003, was amended by inserting the “EPF”account, which holds securities owned by retired members of Employees’ Provident Fund and “CFD” account, which holds securities, issued under the special scheme for Sri Lankan Diaspora and Migrant Workforce.

6.2 Amendment to LankaSettle System Rules. Circular No: SSSS/02/2009 - Effective date: 15 Jun 2009 - Issued to: LankaSettle System Participants

The Rule 4.2 in Volume 3 of LankaSettle System Rules issued in August 2003, was amended by inserting the "CDA" account which holds securities owned by Dual Citizenship applicants under TIERA and TIERA – D schemes.

6.3 Amendment to LankaSettle System Rules. Circular No: SSSS/03/2009 - Effective date: 24 Nov 2009 - Issued to: LankaSettle System Participants

The first paragraph of Clause 5.8 of Volume 3 of Version 2.0 of LankaSettle System Rules issued in May 2009 was amended.

6.4 Amendment to LankaSettle System Rules. Circular No: SSSS/04/2009 - Effective date: 17 Dec 2009 - Issued to: LankaSettle System Participants

The Rule 4.2 in Volume 3 of LankaSettle System Rules issued in May 2009, was amended by inserting the "DOB" account, which holds securities borrowed by the Central Bank under the government securities borrowing programme to be used in the Central Bank repurchase transactions and that are to be returned to the lender on a future date.

7. Guidelines Issued to PDs and Licensed Banks in respect of the Government Securities, in 2009

7.1 Guidelines / Procedures to Sri Lankan Diaspora and Migrant Workforce – Effective date 06/01/2009

These Guidelines are based on Treasury bills/Treasury bonds issued by the Government of Sri Lanka to Sri Lankan Diaspora and Migrant Workforce.

7.2 Guidelines / Procedures to Lead Managers – Effective date 06/01/2009

The Guidelines and Procedures applicable for the sale and purchase of Treasury bills/Treasury bonds issued by the Government of Sri Lanka to Sri Lankan Diaspora and Migrant Workforce.

7.3 Dual Citizenship for investors in Government Treasury bonds – Effective date 15/06/2009

It has been decided to extend the facility of Dual Citizenship status for ex-Sri Lankans holding foreign citizenship who have invested / are willing to invest in Government Treasury bonds. In addition ex-Sri Lankans who have opened /are willing to open foreign currency accounts (NRFC, RFC, SFIDA) and Foreign Currency Fixed Deposits are also eligible for Dual Citizenship.

8. Operating Instructions Issued to Participants of LankaSettle System

8.1 Operating Instructions – CBSLNet based application - Effective date 04/08/2009

These operating instructions are based on Central Bank of Sri Lanka Wide Area Network (CBSLNet) based application to record Customer Repositioning transactions involving government securities.

9. Glossary

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

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

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

Bunching of Debt Stock - An excessive amount of debt getting matured within a given period of time.

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

Concessionary External Loan – A loan for which the grant element is 35 per cent or above when actual discount rates of currencies being considered.

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

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

Duration – The weighted average maturity of the security's cash flows.

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 rate that remains constant.

Grace Period – Period of time from agreement date to first principal date.

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 the business day, usually to enable financial institutions to make payments in real time.

LIBOR – The London Inter Bank Offer 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.

Monetization -The process of converting or establishing something into legal tender. It usually refers to the printing of bank notes by Central Banks.

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

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

Pre-mature Liquidation / Withdrawals – Unloading investments in government securities at the secondary market prior to its maturity.

Primary Dealers - A group of intermediaries appointed by the CBSL to deal exclusively with government securities.

Primary Market - The place where securities are first issued to buyers. In the primary market securities are issued to primary dealers based on the accepted bids at the weekly auctions conducted by the CBSL.

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 in a future date.

Risk weighted capital adequacy ratio - The ratio computed by dividing available capital by the risk weighted assets.

Rupee Loan - A medium to long-term debt instrument issued for maturities more than two years on tap basis or as private placements by the CBSL on behalf of the government under the Registered Stocks 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 the investors after the securities are issued from the primary market. The CBSL is also involved in secondary market operations.

Special Drawing Rights – The unit of account of the IMF and some other international organizations where the value is based on a basket of key international currencies.

Statutory Reserve Ratio - Percentage of deposits, which the commercial banks should keep with the Central Bank, thereby 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 through auctions by the CBSL on behalf of the government under the Local Treasury Bills Ordinance.

Treasury Bond - A medium to long-term debt instrument issued through auctions by the CBSL on behalf of the government under the Registered Stocks and Securities Ordinance. The maximum original maturity of Treasury bonds issued up to now is for twenty years.

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 is known as the yield curve.

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 from their face value, which is the amount a bond will be worth when it “matures” or comes due.

10. Statistical Appendix

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

CENTRAL GOVERNMENT DEBT

Rs. million

Year[a]	Domestic Debt					Foreign Debt [c]	Total Debt	As a % of GDP [d]		
	Treasury bills[b]	Rupee loans	Treasury bonds [b]	Other	Total			Domestic	Foreign	Total
1950	79	436	-	14	529	125	654	13.7	3.2	16.9
1951	30	582	-	14	626	125	751	13.6	2.7	16.3
1952	93	684	-	75	852	192	1,044	18.9	4.3	23.2
1953	184	731	-	129	1,044	205	1,249	23.2	4.6	27.8
1954	105	782	-	66	953	211	1,164	20.1	4.4	24.5
1955	60	829	-	-	889	232	1,121	17.0	4.4	21.4
1956	68	882	-	-	950	258	1,208	18.6	5.1	23.7
1957	65	962	-	105	1,132	278	1,410	21.8	5.3	27.1
1958	140	1,007	-	91	1,238	293	1,531	22.5	5.3	27.9
1959	320	1,102	-	138	1,560	307	1,867	24.3	4.8	29.1
1960	550	1,217	-	170	1,937	345	2,282	28.9	5.1	34.0
1961	750	1,397	-	198	2,345	407	2,752	34.1	5.9	40.0
1962	1,000	1,515	-	179	2,694	412	3,106	38.7	5.9	44.6
1963	1,125	1,684	-	222	3,031	489	3,520	41.1	6.6	47.7
1964	1,250	1,909	-	216	3,375	549	3,924	43.3	7.0	50.3
1965	1,300	2,150	-	246	3,696	739	4,435	45.7	9.1	54.9
1966	1,425	2,475	-	295	4,195	1,074	5,269	50.3	12.9	63.2
1967	1,500	2,785	-	298	4,583	1,376	5,959	50.7	15.2	65.9
1968	1,750	3,118	-	329	5,197	1,578	6,775	48.5	14.7	63.2
1969	1,750	3,409	-	354	5,513	1,800	7,313	47.1	15.4	62.5
1970	1,950	3,925	-	420	6,295	2,394	8,689	46.1	17.5	63.6
1971	2,025	4,512	-	446	6,983	2,795	9,778	49.7	19.9	69.6
1972	2,325	5,103	-	498	7,926	2,936	10,862	52.0	19.3	71.2
1973	2,250	5,812	-	522	8,584	3,705	12,289	46.6	20.1	66.8
1974	2,250	6,591	-	604	9,445	2,859	12,304	39.7	12.0	51.8
1975	2,350	7,560	-	949	10,859	3,705	14,564	40.9	13.9	54.8
1976	2,700	9,001	-	990	12,691	4,968	17,659	42.0	16.4	58.5
1977	2,500	10,391	-	1,501	14,392	10,593	24,985	39.5	29.1	68.6
1978	2,635	12,049	-	1,684	16,368	14,583	30,951	38.4	34.2	72.5
1979	3,000	14,929	-	1,705	19,634	15,840	35,474	37.5	30.2	67.7
1980	9,800	17,611	-	1,659	29,070	22,276	51,346	43.7	33.5	77.2
1981	13,920	20,025	-	1,573	35,518	29,172	64,690	41.8	34.3	76.1
1982	17,320	25,800	-	2,147	45,267	35,267	80,534	45.6	35.5	81.1
1983	17,400	31,953	-	2,416	51,769	46,688	98,457	42.6	38.4	81.0
1984	14,860	33,228	-	3,564	51,652	53,681	105,333	33.6	34.9	68.5
1985	22,280	36,570	-	3,761	62,611	67,673	130,284	38.6	41.7	80.3
1986	26,173	39,130	-	4,196	69,499	86,208	155,707	38.7	48.0	86.8
1987	29,850	44,957	-	4,190	78,997	111,812	190,809	40.2	56.8	97.0
1988	43,700	49,797	-	5,099	98,596	125,657	224,253	44.4	56.6	101.0
1989	57,246	54,217	-	6,099	117,562	156,298	273,860	46.7	62.0	108.7
1990	67,968	54,677	-	11,251	133,896	176,883	310,779	41.6	55.0	96.6
1991	72,968	66,823	-	12,328	152,119	214,579	366,698	40.9	57.6	98.5
1992	87,096	69,180	-	13,744	170,020	235,539	405,559	40.0	55.4	95.4
1993	97,196	105,707	-	10,782	213,685	270,224	483,909	42.8	54.1	96.9
1994	98,896	137,554	-	12,669	249,119	301,812	550,931	43.0	52.1	95.1
1995	113,771	157,928	-	17,711	289,410	346,286	635,696	43.3	51.9	95.2
1996	124,996	205,975	-	25,731	356,702	359,685	716,387	46.4	46.8	93.2
1997	114,996	239,475	10,000	23,269	387,740	376,331	764,071	43.5	42.3	85.8
1998	119,996	250,570	48,915	43,945	463,426	461,273	924,699	45.5	45.3	90.8
1999	124,996	262,056	104,867	51,546	543,465	507,866	1,051,331	49.1	45.9	95.0
2000	134,996	263,888	204,124	73,652	676,660	542,040	1,218,700	53.8	43.1	96.9
2001	170,995	292,813	229,174	122,983	815,965	636,741	1,452,706	58.0	45.3	103.3
2002	210,995	287,701	347,128	102,562	948,386	721,956	1,670,343	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 [e]	441,032	112,292	1,513,512	334,120	2,400,955	1,760,467	4,161,422	49.8	36.5	86.2

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) Excludes Treasury bonds and Treasury bills issued to non-residents and Treasury bonds of Rs. 4,397 issued to CWE in 2003.
(c) Includes Treasury bonds and Treasury bills issued to non-residents and the outstanding defence loans.
(d) From 2003, based on GDP estimates by the Department of Census and Statistics.
(e) Provisional

CENTRAL GOVERNMENT DEBT

TABLE 2

OUTSTANDING CENTRAL GOVERNMENT DEBT AS AT END YEAR [a]

Rs. million

Item	2005	2006	2007	2008	2009 [b]
Total Domestic Debt	**1,265,722**	**1,479,230**	**1,715,198**	**2,140,228**	**2,400,955**
By Maturity					
Short-term	262,154	313,218	363,199	516,364	560,646
Treasury bills [c]	234,174	257,732	307,012	402,600	441,032
Provisional advances from the Central Bank	39,746	49,015	60,679	76,308	73,881
Import bills held by commercial banks	222	366	376	12,748	11,994
Other liabilities to the banking sector net of bank deposits	(15,856)	2,887	(8,747)	20,458	24,188
Other (Administrative Borrowing)	3,868	3,218	3,879	4,251	9,551
Medium and Long-term	1,003,568	1,166,012	1,351,999	1,623,863	1,840,309
Rupee loans [d]	140,563	116,713	131,509	130,009	112,292
Treasury bonds [e]	751,569	885,972	1,018,852	1,281,978	1,513,512
Treasury certificates of deposit	11	11	-	-	-
Sri Lanka Development Bonds	25,519	62,469	86,459	158,805	168,079
Other [f]	85,906	100,847	115,179	53,071	46,427
By Debt Instrument	**1,265,722**	**1,479,230**	**1,715,198**	**2,140,228**	**2,400,955**
Rupee loans	140,562	116,713	131,509	130,009	112,292
Treasury bills [c]	234,174	257,732	307,012	402,600	441,032
Treasury bonds [e]	751,569	885,972	1,018,852	1,281,978	1,513,512
Sri Lanka Development Bonds	25,519	62,469	86,459	158,805	168,079
Provisional advances	39,746	49,015	60,679	76,308	73,881
Other	74,151	107,329	110,686	90,528	92,160
By Institution	**1,265,722**	**1,479,230**	**1,715,198**	**2,140,228**	**2,400,955**
Banks	298,412	395,470	415,318	657,424	705,765
Central Bank					
By debt instrument	78,364	117,624	104,817	239,248	109,593
Treasury bills [c]	38,951	69,370	44,964	163,584	37,451
Treasury bonds [e]	-	-	-	-	-
Provisional advances	39,746	49,015	60,679	76,308	73,881
Other	(333)	(761)	(826)	(644)	(1,739)
Commercial Banks					
By debt instrument	220,047	277,846	310,501	418,177	596,172
Rupee loans	41,481	22,088	15,870	15,870	17,252
Treasury bills [c]	39,151	52,805	68,818	87,869	160,081
Treasury bonds [e]	55,118	46,595	58,416	90,081	188,576
Sri Lanka Development Bonds	25,519	62,469	86,459	158,805	168,079
Other	58,778	93,889	80,938	65,550	62,186
Sinking fund	100	100	100	100	100
Rupee loans	100	100	100	100	100
Non bank sector					
By debt instrument	967,211	1,083,660	1,299,779	1,482,704	1,695,089
Rupee loans	98,982	94,525	115,539	114,039	94,941
Treasury bills [c]	156,072	135,557	193,230	151,146	243,499
Treasury bonds [e]	696,451	839,377	960,436	1,191,897	1,324,936
Other	15,706	14,201	30,574	25,622	31,713
By institution	967,211	1,083,660	1,299,779	1,482,704	1,695,089
National Savings Bank	169,590	166,457	192,413	204,067	257,084
Employees' Provident Fund	406,557	469,618	575,460	676,310	806,192
Other	391,064	447,586	531,906	602,327	631,814
Total Foreign Debt	**956,620**	**1,103,418**	**1,326,487**	**1,448,734**	**1,760,467**
By Type	**956,620**	**1,103,418**	**1,326,487**	**1,448,734**	**1,760,467**
Project Loans	865,494	978,356	1,087,359	1,261,304	1,362,806
Non-Project Loans	91,126	125,062	239,128	187,430	397,661
Commodity	69,116	69,021	68,665	66,499	62,304
Other [g]	22,010	56,041	170,463	120,931	335,357
By Institution	**956,620**	**1,103,418**	**1,326,487**	**1,448,734**	**1,760,467**
Concessional Loans	919,430	1,023,077	1,099,911	1,227,222	1,271,142
Multi-lateral	486,854	564,256	565,320	590,776	623,174
Bi-lateral	432,576	458,822	534,591	636,446	647,967
Non-Concessional Loans	1,148	31,894	45,308	57,491	78,649
Multi-lateral	343	4,185	15,399	27,405	41,866
Bi-lateral	805	27,708	29,909	30,087	36,783
Commercial Loans	36,042	48,448	181,268	164,020	410,677
International Sovereign bonds	-	-	54,360	56,570	114,384
Non-resident investments in Treasury bills	-	-	-	6,358	40,410
Non-resident investments in Treasury bonds	-	-	49,647	17,647	145,124
Other [g]	36,042	48,448	77,261	83,445	110,759
Total Outstanding Government Debt	2,222,342	2,582,648	3,041,685	3,588,962	4,161,422

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 Treasury bills issued to non-residents.
(d) Include long-term loans of Rs.24,088 million issued in 1993.
(e) Excludes government Treasury bonds of Rs. 4,397 million issued to CWE in November 2003 and Treasury bonds issued to non-residents.
(f) Includes the outstanding balance to OBUs.
(g) Includes outstanding defence loans.

CENTRAL GOVERNMENT DEBT

TABLE 3

COMPOSITION OF OUTSTANDING CENTRAL GOVERNMENT DEBT AS AT END YEAR

Rs. million

Source	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009(a)
1. Foreign Debt	542,040	636,741	721,957	843,882	996,138	956,620	1,103,418	1,326,487	1,448,734	1,760,467
1.1 Project Loans (b)	477,845	542,942	640,354	769,559	914,232	865,494	978,356	1,087,359	1,261,304	1,362,806
1.2 Non-Project Loans	64,195	93,799	81,603	74,323	81,906	91,126	125,062	239,128	187,430	397,661
Commodity (c)	63,009	67,000	68,050	68,891	73,835	69,116	69,021	68,665	66,499	62,304
Other (d)	1,186	26,799	13,553	5,431	8,071	22,010	56,041	170,463	120,931	335,357
2. Domestic Debt	676,660	815,965	948,386	1,019,969	1,143,389	1,265,722	1,479,230	1,715,198	2,140,228	2,400,955
2.1 Rupee Loans	263,888	292,813	287,701	248,414	164,758	140,563	116,713	131,509	130,009	112,292
2.2 Treasury Bills (e)	134,996	170,995	210,995	219,295	243,886	234,174	257,732	307,012	402,600	441,032
2.3 Treasury Bonds (e)	204,124	229,174	347,128	483,107	643,349	751,569	885,972	1,018,852	1,281,978	1,513,512
2.4 Sri Lank Development Bonds	-	14,749	24,177	8,816	26,083	25,519	62,469	86,459	158,805	168,079
2.5 Central Bank Advances (f)	27,169	30,127	31,033	31,204	34,791	39,746	49,015	60,679	76,308	73,881
2.6 Other (g)	46,483	78,107	47,352	29,133	30,522	74,151	107,329	110,687	90,528	92,160
Total	1,218,700	1,452,706	1,670,343	1,863,851	2,139,527	2,222,342	2,582,648	3,041,685	3,588,962	4,161,422

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, Solomon Brothers Incorporated-New York, Bank of 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, outstanding defence deffered loans, non-resident investment in Treasury bonds and Treasury bills and sovereign bond issues.

(e) Excludes outstanding Treasury bonds and Treasury bills issued to non-residents from 2007 and 2008 respectively.

(f) Excludes contributions to international financial organizations.

(g) Includes administrative borrowings arising from foreign loans channeled through government or semi-government agencies and outstanding balance of borrowing from Offshore Banking Units (OBUs).

CENTRAL GOVERNMENT DEBT

TABLE 4

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

Rs.million

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 (b)
1. Domestic Debt	676,660	815,965	948,386	1,019,969	1,143,389	1,265,722	1,479,230	1,715,198	2,140,228	2,400,955
1.1 Banking sector	199,030	256,808	248,243	228,411	272,982	298,412	395,470	415,318	657,425	705,765
Central Bank	97,778	92,871	76,342	44,587	113,017	78,364	117,624	104,817	239,248	109,593
Commercial Banks	101,252	163,937	171,901	183,824	159,965	220,047	277,846	310,501	418,177	596,172
1.2 Non Bank Sector	477,630	559,157	700,143	791,558	870,409	967,311	1,083,760	1,299,879	1,482,804	1,695,189
Market Borrowings	469,703	550,783	692,520	784,104	858,321	951,547	1,069,577	1,289,688	1,478,553	1,685,638
Savings Institutions	87,263	94,976	116,632	138,939	151,158	169,590	166,457	192,413	204,067	257,084
Sinking Funds (c)	100	100	100	100	100	100	100	100	100	100
Insurance Funds	18,969	21,449	26,853	24,828	27,398	20,704	13,234	21,012	25,976	34,490
Provident and Pension Funds (d)	218,615	245,028	292,081	333,289	369,205	423,283	480,731	595,807	698,192	835,402
Official Funds (e)	24,640	27,052	32,612	40,739	46,341	65,825	95,988	107,480	107,234	132,485
Private Business and Individuals (f)	120,116	162,178	224,242	246,209	264,119	272,045	313,066	372,876	442,984	426,077
Non Market Borrowings	7,927	8,374	7,623	7,453	12,088	15,764	14,183	10,191	4,251	9,551
2. Foreign Debt	542,040	636,741	721,957	843,882	996,138	956,620	1,103,418	1,326,487	1,448,734	1,760,467
Total	1,218,700	1,452,706	1,670,343	1,863,851	2,139,527	2,222,342	2,582,648	3,041,685	3,588,962	4,161,422

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) The Public Debt Sinking Funds (the investment Fund w.e.f. September 1971) and the National Housing Sinking Fund.

(d) Trusts, Benevolent , Pension and Provident Funds and Emplyees Provident Fund.

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

(f) Includes the value of Treasury Certificates of Deposits.

DOMESTIC DEBT

TABLE 5

DETAILS OF OUTSTANDING TREASURY BONDS AS AT END 2009 (a)

Maturity Date	Issue Date	Series	ISIN	Face Value (Rs. mn.)
Fixed Rate Bonds				
15/01/2010	15/01/2008	15.50%2010A	LKB00210A150	26,230
01/02/2010	01/02/2006	07.20%2010A	LKB00410B014	45,683
01/04/2010	01/04/2004	07.60%2010A	LKB00610D015	42,293
15/05/2010	15/05/2008	15.50%2010F	LKB00210E152	3,100
01/07/2010	01/07/2008	15.50%2010B	LKB00210G017	40,531
01/08/2010	01/08/2008	15.50%2010C	LKB00210H015	43,494
15/09/2010	15/09/2008	15.50%2010D	LKB00210I153	46,474
01/11/2010	01/11/2006	07.20%2010B	LKB00410K015	44,831
15/12/2010	15/12/2008	15.50%2010E	LKB00210L157	44,151
15/01/2011	15/01/2009	15.50%2011A	LKB00211A158	43,021
01/02/2011	01/02/2006	07.00%2011A	LKB00511B019	44,922
15/02/2011	15/02/2008	14.50%2011A	LKB00311B154	46,014
01/03/2011	01/03/2009	15.50%2011B	LKB00211C014	45,679
15/06/2011	15/06/2008	14.50%2011B	LKB00311F155	46,355
15/07/2011	15/07/2009	12.00%2011A	LKB00211G155	15,351
01/08/2011	01/08/2006	07.00%2011B	LKB00511H016	44,148
15/09/2011	15/09/2008	14.50%2011C	LKB00311I159	44,033
15/10/2011	15/10/2006	07.00%2011C	LKB00511J152	44,908
15/01/2012	15/01/2009	14.50%2012A	LKB00312A154	46,063
15/02/2012	15/02/2009	14.50%2012B	LKB00312B152	44,366
01/03/2012	01/03/2007	06.85%2012C	LKB00512C015	47,906
01/04/2012	01/04/2008	13.50%2012A	LKB00412D016	44,292
15/04/2012	15/04/2006	06.85%2012A	LKB00612D151	42,386
01/07/2012	01/07/2008	13.50%2012B	LKB00412G019	46,331
15/10/2012	15/10/2006	06.85%2012B	LKB00612J158	45,903
15/01/2013	15/01/2003	08.50%2013A	LKB01013A157	65,151
01/02/2013	01/02/2009	13.50%2013A	LKB00413B018	64,759
01/04/2013	01/04/2007	10.50%2013A	LKB00613D019	46,137
15/06/2013	15/06/2009	11.50%2013A	LKB00413F159	21,578
15/07/2013	15/07/2003	08.50%2013B	LKB01013G154	48,997
01/08/2013	01/08/2003	07.50%2013A	LKB01013H012	49,825
01/11/2013	01/11/2003	07.50%2013B	LKB01013K016	46,928
01/04/2014	01/04/2008	11.75%2014B	LKB00614D017	37,005
15/07/2014	15/07/2009	11.25%2014A	LKB00514G152	55,135
15/03/2015	15/03/2009	11.75%2015A	LKB00615C156	49,611
01/08/2015	01/08/2009	11.00%2015A	LKB00615H015	50,433
01/09/2015	01/09/2009	11.00%2015B	LKB00615I013	47,185
01/02/2018	01/02/2003	08.50%2018A	LKB01518B013	34,071
15/07/2018	15/07/2003	08.50%2018B	LKB01518G152	400
15/08/2018	15/08/2003	07.50%2018A	LKB01518H150	3,867
01/05/2019	01/05/2009	08.50%2019A	LKB01019E016	5,089
01/10/2023	01/10/2003	07.00%2023A	LKB02023J016	1,000
Index Linked Bonds				
30/06/2010	30/06/2006	01.00%2010A	LKE00410F301	3,000
Total		43		1,658,636

Sources: Central Bank of Sri Lanka

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

DOMESTIC DEBT

TABLE 6

DETAILS OF OUTSTANDING SRI LANKA DEVELOPMENT BONDS AS AT END 2009

Maturity Date	Issue Date	Series	ISIN	Face Value (US dollar mn.)
30/06/2010	30/06/2008	SLDB2010A	LKG00210F303	275.3
15/07/2010	15/07/2008	SLDB2010B	LKG00210G152	195.0
22/09/2010	22/09/2008	SLDB2010C	LKG00210I224	60.0
16/03/2011	16/03/2009	SLDB2011B	LKG00211C167	184.3
29/06/2011	29/06/2009	SLDB2011C	LKG00211F293	125.8
18/08/2011	18/08/2009	SLDB2011D	LKG00211H182	190.0
22/09/2012	22/09/2009	SLDB2012A	LKG00312I228	41.0
15/07/2013	15/07/2008	SLDB2013B	LKG00513G159	398.1
Total		8		1,469.4

Source: Central Bank of Sri Lanka

TABLE 7

DETAILS OF OUTSTANDING RUPEE LOANS AS AT END 2009

Maturity Date	Issue Date	Series	Interest Rate	Face Value (Rs. mn.)
01/01/2010	01/01/2000	12.00%2008-2010	12.00	5,000
01/01/2010	01/01/2005	08.90%2007-2011A	8.90	500
01/04/2010	01/04/2000	12.00%2008-2010 "A"	12.00	1,000
01/05/2010	01/05/2000	12.00%2008-2010 "B"	12.00	1,000
01/06/2010	01/06/2000	12.00%2008-2010 "C"	12.00	1,000
01/07/2010	01/07/2000	12.00%2008-2010 "D"	12.00	8,000
01/08/2010	01/08/2000	12.00%2008-2010 "E"	12.00	1,000
01/09/2010	01/09/2000	12.00%2008-2010 "F"	12.00	2,500
01/10/2010	01/10/2000	12.00%2008-2010 "G"	12.00	2,000
01/11/2010	01/11/2000	12.00%2008-2010 "H"	12.00	711
01/11/2010	01/11/2004	08.90%2006-2010	8.90	872
15/11/2010	15/11/2000	12.00%2008-2010 "I"	12.00	1,000
30/03/2011	30/03/2009	14.00%2011	14.00	1,904
01/04/2011	01/04/2005	09.15%2009-2011	9.15	4,634
01/07/2011	01/07/2005	10.60%2009-2011	10.60	378
01/10/2011	01/10/2007	18.40%2010-2011	18.40	1
01/04/2012	01/04/2005	09.30%2009-2012	9.30	3,575
01/04/2013	01/04/2005	09.40%2009-2013	9.40	2,868
01/10/2013	01/10/2007	18.60%2010-2013	18.60	6
01/10/2014	01/10/2007	18.70%2010-2014	18.70	2
01/04/2015	01/04/2005	09.50%2009-2015	9.50	26,000
01/05/2015	01/05/2005	09.50%2009-2015A	9.50	1,366
01/07/2015	01/07/2005	11.00%2009-2015	11.00	4,063
01/10/2017	01/10/2007	19.00%2010-2017	19.00	18,824
01/02/2023	01/02/1993	12.00%2023	12.00	24,088
Total		25		112,292

Source: Central Bank of Sri Lanka

TABLE 8

CHANGES IN RELATIVE COMPOSITION OF GOVERNMENT SECURITIES (a)

	2005	2006	2007	2008	2009
1. Maturity (%)					
Short-term	21	20	20	22	20
Medium and long-term	79	80	80	78	80
2. Marketability (%)					
Marketable	88	91	91	93	95
Non-marketable	12	9	9	7	5
3. Investor base (%)					
Central Bank	3	6	3	9	2
Commercial banks	12	10	10	11	16
Captive sources	57	59	59	55	49
Others	27	26	28	25	33
4. Maximum maturity in the yield curve (yrs)					
Primary market	8	6	10	10	10
Secondary market	6	6	6	6	6

(a) Total Treasury bills, Treasury bonds, Rupee loans only.

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

TABLE 9

MATURITY PROFILE OF DOMESTIC DEBT AS AT END 2009 (a)

Rs. million

Maturity Year	Instrument					Total
	Treasury bill (b)	Treasury bond (b)(c)	Rupee loan	SLDB (d)	OBU (d)(e)	
2010	441,032	336,444	24,583	60,658	13,097	875,813
2011	-	373,332	6,917	57,198	-	437,447
2012	-	315,846	3,575	4,690	11,438	335,549
2013	-	301,883	2,874	45,533	-	350,289
2014	-	55,764	2	-	-	55,767
2015	-	86,355	31,430	-	-	117,784
2016	-	-	-	-	-	-
2017	-	-	18,824	-	-	18,824
2018	-	37,799	-	-	-	37,799
2019	-	5,089	-	-	-	5,089
2023	-	1,000	24,088	-	-	25,088
Total	441,032	1,513,512	112,292	168,079	24,535	2,259,450

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) Includes Inflation Linked bond. Excludes Treasury bonds of Rs. 4,397 issues to CWE in 2003.
(d) Exchange rate used for conversion is 1 US dollar=Rs.114.3844 (End 2009 rate).
(e) Includes the loans worth US dollar 7.5 mn raised from NSB in 2007 and 2008.

DOMESTIC DEBT

TABLE 10

FUTURE DOMESTIC CURRENCY DEBT OBLIGATIONS AS AT END 2009 [(a)]

Rs. million

Year	Capital	Interest	Grand Total
2010	755,242	283,235	1,038,477
2011	326,601	193,399	519,999
2012	257,190	159,488	416,678
2013	281,468	127,495	408,963
2014	83,879	46,443	130,322
2015	165,006	39,242	204,248
2016	4,397	10,190	14,587
2017	18,824	10,190	29,013
2018	26,343	17,161	43,503
2019	3,448	4,818	8,266
2020	-	2,961	2,961
2021	-	2,961	2,961
2022	-	2,961	2,961
2023	25,088	1,515	26,603
Grand Total	1,947,486	902,056	2,849,542

Source : Central Bank of Sri Lanka

(a) Represents interest and capital payments due on Treasury bonds, Treasury bills and Rupee loans as at end 2009. Capital payments are in book values and interest payments include coupon payments and discounts on Treasury bills, Treasury bonds and Rupee loans.

TABLE 11

OWNERSHIP OF TREASURY BILLS [(a)(b)]

Rs. million

Ownership	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009[(c)]
1.Bank Sector	50,606	75,934	73,818	58,002	118,843	78,102	122,175	113,782	251,453	197,532
1.1 Central Bank	42,238	64,842	44,923	13,365	78,162	38,951	69,370	44,964	163,584	37,451
1.2 Commercial Banks	8,368	11,092	28,895	44,637	40,681	39,151	52,805	68,818	87,869	160,081
2. Non Bank Sector	84,390	95,061	137,177	161,293	125,043	156,072	135,558	193,231	151,146	243,499
2.1 Employees' Provident Fund	5,430	3,112	2,953	5,198	5,000	5,659	4,793	5,208	1	420
2.2 Other Provident Funds	418	-	816	906	805	-	42	166	55	-
2.3 Savings Institutions	15,417	13,889	22,645	36,534	31,513	39,938	33,456	32,046	20,791	42,677
2.4 Insurance and Finance Companies	9,641	7,576	9,179	7,742	562	18,034	5,963	8,623	10,988	7,192
2.5 Departmental and Other Official Funds	1,480	547	3,040	6,898	9,957	19,574	28,173	29,481	16,431	21,452
2.6 Private and Other	52,004	69,937	98,544	104,016	77,206	72,867	63,131	117,707	102,882	171,757
Total Assets	134,996	170,995	210,995	219,295	243,886	234,174	257,732	307,012	402,600	441,032

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

(a) Adjusted for secondary market transactions.
(b) Excludes outstanding Treasury bills of Rs. 6,358 million and Rs. 40,410 million issued to non-resident investors in 2008 and 2009 respectively.
(c) Provisional.

TABLE 12

OWNERSHIP OF TREASURY BONDS [a][b]

Rs million

Ownership	2000	2001	2002	2003[c]	2004[c]	2005[c]	2006[c]	2007[c][d]	2008[c][d]	2009 [c][d][e]
1. Bank Sector	38,648	22,214	35,523	65,246	33,350	55,118	46,595	58,416	90,082	188,576
1.1 Central Bank	30,936	1,616	-	-	-	-	-	-	-	-
1.2 Commercial Banks	7,712	20,598	35,523	65,246	33,350	55,118	46,595	58,416	90,082	188,576
2. Non Bank Sector	165,476	206,960	311,605	417,861	609,999	696,452	839,377	960,436	1,191,897	1,324,936
2.1 Employee's Provident Fund	50,003	64,758	109,093	187,665	283,428	344,830	408,757	501,331	607,770	718,717
2.2 Other Provident Funds	449	-	591	287	240	-	4,940	7,862	9,507	10,624
2.3 Savings Institutions	25,472	28,964	42,292	54,499	92,227	104,235	112,062	134,994	164,457	195,588
2.4 Insurance and Finance Companies	10,940	16,258	21,159	20,740	26,551	8,214	13,632	21,215	26,410	33,194
2.5 Departmental and Other Official Funds	13,176	16,061	17,010	17,375	23,641	34,922	58,061	69,588	90,778	21,949
2.6 Private and Other	65,436	80,919	121,460	137,294	183,912	204,251	241,925	225,446	292,975	344,865
Total Assets	204,124	229,174	347,128	483,107	643,349	751,569	885,972	1,018,852	1,281,978	1,513,512

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

(a) Issuance of Treasury bonds was commenced from 1997.
(b) Adjusted for secondary market transactions.
(c) Excludes government Treasury bonds of Rs. 4,397 million issued to CWE in November 2003.
(d) Excludes outstanding Treasury bonds issued to non-resident investors: Rs.49,646 million in 2007, Rs. 17,647 million in 2008 and Rs 145,124 million in 2009.
(e) Provisional.

TABLE 13

OWNERSHIP OF RUPEE LOANS

Rs. million

Ownership	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
1. Bank Sector	44,068	44,068	43,981	43,481	41,481	41,481	22,088	15,870	15,870	17,252
1.1 Central Bank	-	-	-	-	-	-	-	-	-	-
1.2 Commercial Banks[b]	44,068	44,068	43,981	43,481	41,481	41,481	22,088	15,870	15,870	17,252
2. Non Bank Sector	219,820	248,745	243,720	204,933	123,277	99,081	94,625	115,639	114,139	95,040
2.1 Savings Institutions[c]	46,374	53,123	51,695	47,906	27,418	25,418	20,938	19,938	18,820	18,820
2.2 Sinking Funds	100	100	100	100	100	100	100	100	100	100
2.3 Departmental and Other Official Funds	9,238	10,444	11,732	17,550	12,742	9,754	9,755	8,410	8,400	6,111
2.4 Employees' Provident Fund	156,309	177,157	171,609	130,319	74,308	56,068	56,068	68,921	68,539	56,583
2.5 Other Provident Funds	6,006	6,351	7,019	7,144	5,425	6,105	6,132	12,320	12,327	11,417
2.6 Insurance Corporations	993	285	285	285	285	-	-	-	-	-
2.7 Insurance Companies	-	408	408	-	-	-	-	-	-	-
2.8 Other State Corporations	746	831	831	1,575	-	1,575	1,575	1,575	1,575	1,575
2.9 Other[d]	54	46	41	54	2,999	61	58	4,375	4,377	435
Total Assets	263,888	292,813	287,701	248,414	164,758	140,562	116,713	131,509	130,009	112,292

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

(a) Provisional.
(b) Includes long-term loans issued by the government in connection with the restructuring of the two state banks in 1993 and 1996 respectively.
(c)Includes the value of long-term loans of Rs.4,480 million issued by the governmnet to re-capitalise the liabilities of the NSB in 1996.
(d) Comprises Co-operative Banks, other companies, clubs, institutions and individuals.

TABLE 14

COMPOSITION OF OUTSTANDING FOREIGN DEBT AS AT END 2009 (a)

Rs. million

Creditor Category/ Use of Funds	Bi-lateral	Multi-lateral	Commercial	Export Credit	Total Debt	% of Total
Cash	525	104	-	-	629	0.0
Commodity	15,638	-	-	113	15,752	0.9
Food	29,112	-	-	-	29,112	1.7
Goods & Services	12,280	-	-	5,161	17,441	1.0
Programme	14,026	92,089	-	-	106,115	6.0
Project	584,175	572,848	7,727	91,941	1,256,691	71.4
Other	923	-	333,805	-	334,728	19.0
Total Debt	656,680	665,040	341,532	97,215	1,760,467	100.0
%	37.3	37.8	19.4	5.5	100.0	

(a) Provisional

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

TABLE 15

OWNERSHIP OF OUTSTANDING FOREIGN DEBT

Rs. million

Source	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 (a)
1. Multi-lateral	**250,096**	**289,686**	**341,326**	**405,156**	**477,079**	**459,837**	**534,356**	**580,719**	**618,181**	**665,040**
ADB	115,353	136,064	164,017	195,895	235,741	230,510	269,211	292,151	317,763	344,661
EIB	-	-	-	599	3,545	4,838	9,345	15,326	18,010	20,463
IBRD	89	521	379	204	221	220	228	231	240	-
IDA	129,403	146,853	169,336	199,782	226,926	213,916	242,940	258,748	267,475	284,074
IFAD	4,678	5,532	6,381	7,116	7,886	7,109	7,997	8,719	9,052	10,309
OPEC	91	136	464	538	1,329	1,582	2,098	2,357	2,355	2,173
Nordic Development Fund	482	580	749	1,023	1,431	1,662	2,537	3,188	3,285	3,360
2. Bi-lateral	**277,317**	**305,511**	**349,007**	**398,925**	**465,513**	**433,382**	**486,530**	**564,500**	**666,533**	**684,750**
Canada	6,219	6,582	6,626	7,746	8,521	8,635	8,753	9,852	7,718	8,488
France(b)	5,907	6,439	7,596	8,735	10,177	8,726	9,714	10,255	12,424	15,021
Germany	28,338	32,953	39,545	46,657	56,301	49,374	61,644	65,977	61,528	58,279
India	1,146	1,855	2,786	6,702	10,311	10,118	12,382	14,843	15,294	17,902
Japan	172,932	185,081	217,151	255,277	301,434	277,882	305,897	327,711	426,936	426,767
Kuwait	2,180	2,497	2,884	2,939	3,388	3,573	3,794	3,855	4,649	5,103
Netherlands	2,505	2,453	2,610	2,645	2,574	2,196	2,080	1,455	751	291
People's Republic of China	2,088	3,219	3,373	3,115	3,342	3,604	5,121	22,668	29,688	46,641
Saudi Arabian Fund	38	63	-	-	-	43	327	749	1,217	2,328
USA	51,053	58,064	57,937	55,229	57,078	55,341	57,310	52,797	50,708	46,952
Other	4,911	6,305	8,499	9,881	12,387	13,892	19,508	54,339	55,619	56,978
3. Financial Markets	**14,627**	**41,544**	**31,624**	**39,801**	**53,579**	**63,401**	**82,533**	**181,268**	**164,020**	**410,677**
Riggs National Bank	965	3,754	3,831	3,746	3,980	3,769	3,843	3,746	3,674	3,476
Indo-Suez Bank (France & Stockholm)	178	179	144	129	108	82	48	16	-	-
Bankers Trust Co.	896	977	948	877	876	786	754	685	634	560
France	979	837	158	-	-	-	-	-	-	-
Solomon Bros. Inc. - New York	869	923	868	774	739	627	560	462	374	270
Citi Bank/NEXI	-	-	-	9,635	10,433	18,082	27,122	24,637	11,314	-
Other	10,740	34,874	25,676	24,640	37,411	40,055	50,206	151,722	148,024	406,370
International Sovereign bonds	-	-	-	-	-	-	-	54,360	56,570	114,384
Non-resident investments in Treasury bills	-	-	-	-	-	-	-	-	6,358	40,410
Non-resident investments in Treasury bonds	-	-	-	-	-	-	-	49,647	17,647	145,124
Other (c)	10,740	34,874	25,676	24,640	37,411	40,055	50,206	47,715	67,449	106,452
Total	**542,040**	**636,741**	**721,956**	**843,882**	**996,138**	**956,620**	**1,103,418**	**1,326,487**	**1,448,734**	**1,760,467**

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

(a) Provisional.
(b) Includes loans from Financial Institutions.
(c) Includes outstanding defence loans since 2001.

FOREIGN DEBT

TABLE 16

FOREIGN LOANS - 2009

Rs. million

Type and Source	Gross Receipts	Repayments	Net Change in the Liability[(a)]	Liability as at end December
1. Project Loans	**146,717**	**66,059**	**101,501**	**1,362,806**
ADB	27,986	11,021	26,898	344,557
Australia	-	1,099	(369)	5,095
Austria	1,750	-	(712)	10,150
Canada	-	278	629	5,885
China	33,495	930	34,021	67,845
Denmark	4,664	566	4,553	18,202
EIB	2,440	420	2,453	20,463
Finland	-	-	112	4,297
France	2,231	852	2,863	14,835
Germany	169	4,124	(2,535)	51,093
Hong Kong	-	458	(529)	6,725
India	3,136	258	2,909	4,924
IDA	16,925	6,441	16,599	284,074
Japan	33,918	20,377	9,966	421,843
Korea	835	529	1,639	16,692
Kuwait	870	439	454	5,103
Netherlands	1,000	708	464	5,507
Opec Fund for International Development	35	267	(182)	2,173
Saudi Arabian Fund	970	182	1,110	2,328
Spain	1,256	-	1,410	5,568
Sweden	2,614	197	2,636	6,370
UK	11,261	14,732	(2,476)	21,210
USA	-	1,514	(1,250)	22,395
Other	1,161	667	836	15,473
2. Non-Project Loans	**209,068**	**49,410**	**210,232**	**397,661**
2.1 Commodity Loans	314	5,871	(4,195)	62,304
Canada	-	149	254	2,603
France	-	50	(42)	247
India	314	866	(301)	12,978
Pakistan	-	14	43	5,274
Germany	-	290	(110)	6,662
Netherlands	-	101	(89)	194
USA [(b)]	-	2,169	(1,816)	29,350
Japan	-	2,232	(2,134)	4,996
2.2 Other Loans	208,755	43,539	214,427	335,357
ADB	-	2	(0)	104
China	-	43	(32)	923
USA	-	1,131	(1,116)	-
Germany	-	642	(603)	525
Japan	-	7,334	(8,032)	-
Other [(c)]	208,755	33,634	224,210	333,805
Memo: Liability due to variations in exchange rates			23,114	
Grand Total	**355,786**	**114,716**	**311,733**	**1,760,467**

(a) Includes the impact of exchange rate variation.
(b) Comprises P.L.480 loans and loans from the Agency for International Development.
(c) Include Treasury bonds and Treasury bills issued to non-residents and defence loan.

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

FOREIGN DEBT

TABLE 17

FOREIGN LOAN DISBURSEMENTS BY SOURCE

Rs. million

Category	Disbursements									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 (a)
1. Lender	27,370	47,316	47,170	87,638	78,299	75,180	92,296	183,046	129,628	355,786
Bi-lateral	17,208	26,455	18,382	29,888	35,110	25,552	38,614	50,102	42,248	60,131
Multi-lateral	9,490	12,500	23,787	41,119	29,219	35,014	33,942	29,126	39,981	48,547
Commercial(b)	-	6,382	-	10,082	5,268	10,208	10,756	95,147	31,127	208,755
Export Credits	672	1,979	5,001	6,549	8,702	4,406	8,984	8,671	16,272	38,353
2. Use of Funds	27,370	47,316	47,170	87,638	78,299	75,180	92,296	183,046	129,628	355,786
Cash	-	-	-	-	-	10,209	9,138	-	-	-
Commodity	6	871	317	-	11	-	-	-	-	-
Food	385	701	-	-	-	-	-	-	-	-
Goods & Services	-	-	905	2,321	3,196	280	3,227	2,515	58	314
Programme	-	2,252	6,389	33,012	3,091	1,987	5,362	270	1,791	593
Project	26,979	36,557	39,559	52,220	66,331	62,472	73,052	84,830	112,560	145,850
Technical Assistance	-	-	-	85	401	232	127	288	249	275
Other(b)	-	6,935	-	-	5,268	-	1,390	95,143	14,970	208,755

(a) Provisional.
(b) Includes Treasury bonds and Treasury bills (net) issued to non-residents in 2007, 2008 and 2009.

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

DEBT SERVICE PAYMENTS

TABLE 18

GOVERNMENT DEBT REPAYMENTS AND INTEREST PAYMENTS

Rs. million

Year	Principal 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 (e)	403,723	114,716	518,439	273,977	35,698	309,675

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 2008 AND 2009(a)

Rs. million

	Maturity	2008 Issues	2008 Repayments	2008 Net Issues	2009 Issues	2009 Repayments	2009 Net Issues
Treasury bills	91 day	172,696	239,187	(66,491)	117,258	102,473	14,784
	182 day	147,654	128,036	19,618	188,886	154,518	34,368
	364 day	156,519	97,427	59,092	247,117	142,519	104,598
	Other	302,707	212,980	89,727	267,950	349,218	(81,267)
Total		779,576	677,630	101,946	821,211	748,728	72,483
Treasury bonds							
	1 year	45,549	39,154	6,395	3,100	46,778	(43,678)
	2 year	179,192	2,700	176,492	159,506	72,340	87,166
	3 year	123,690	119,457	4,233	185,589	113,061	72,528
	4 year	93,423	9,100	84,323	118,449	19,348	99,101
	5 year	26,072	43,700	(17,628)	86,032	15,000	71,032
	6 year	2,550	43,500	(40,950)	143,172	75,900	67,272
	9 year	-	-	-	500	-	500
	10 year	18,261	-	18,261	5,089	-	5,089
Total		488,737	257,611	231,126	701,438	342,427	359,011
Rupee loans	2 year	-	-	-	1,904	4,461	(2,557)
	4/6 year	-	-	-	-	3,750	(3,750)
	6/8 year	-	-	-	-	4,410	(4,410)
	9/10 year	-	1,500	(1,500)	-	7,000	(7,000)
Total		-	1,500	(1,500)	1,904	19,621	(17,717)
Sri Lanka Dev. Bonds (b)	2 year	36,121	34,474	1,647	57,319	24,590	32,730
	3 year	-	-	-	4,707	29,872	(25,165)
Total		36,121	34,474	1,647	62,026	54,462	7,564
Loans from OBUs (b) (c)	<= 1 year	8,078	5,400	2,678	-	-	-
	2 year	215	1,663	(1,448)	-	19,289	(19,289)
	3 year	-	-	-	11,443	-	11,443
Total		8,293	7,063	1,230	11,443	19,289	(7,847)
Grand Total		1,312,727	978,279	334,448	1,598,022	1,184,526	413,495

Source : Central Bank of Sri Lanka

(a) Face Value.
(b) Excludes the conversion of OBU loans worth US dollar 593.1 mn to Sri Lanka Development Bonds in July 2008.
(c) Includes the payment of US dollar 50 mn loan taken from NSB in October 2007.

TABLE 20

AUCTION AND PRIMARY ISSUE DETAILS IN 2008 AND 2009(a)

Rs. million

	2008 Treasury bills	2008 Treasury bonds	2008 Rupee loans	2009 Treasury bills	2009 Treasury bonds	2009 Rupee loans
Auctions						
Number of Auctions	52	76	-	52	81	-
Amount Offered	456,089	67,250	-	446,500	71,500	-
Amount Received	905,440	129,595	-	1,004,039	159,192	-
Amount Accepted	252,596	32,808	-	416,157	52,231	-
CBSL Purchases	183,727	-	-	190,326	-	-
Placements	343,253	455,929	-	214,728	649,207	1,904
Total Issues	779,576	488,737	-	821,211	701,438	1,904

(a) Face Value.

Source: Central Bank of Sri Lanka

TABLE 21

GOVERNMENT BORROWING LIMITS AND USAGE IN 2008 AND 2009

Rs. million

	2008		2009	
	Approved Limit [a]	Usage	Approved Limit [b]	Usage
1. Gross Borrowing	708,000	689,043	815,000	999,082
1.1. Domestic	477,450	559,415	574,000	643,296
1.2. Foreign	230,550	129,628	241,000	355,786
2. Sources of Financing				
2.1. Domestic Financing	477,450	559,415	574,000	643,296
2.1.1. Rupee loans	-	-	-	1,904
2.1.2. Treasury bonds[c]	361,850	406,541	464,000	509,860
2.1.3. Treasury bills (net)[c]	10,000	61,917	40,000	49,009
2.1.4. CBSL Advances	15,100	15,629	9,000	-
2.1.5. SLDBs	37,600	36,121	55,000	62,026
2.1.6. OBUs	33,900	8,293	6,000	11,442
2.1.7. Other	19,000	30,913	-	9,054
2.2. Foreign Financing	230,550	129,628	241,000	355,786
2.2.1. Project/Programme Loans	163,100	98,501	129,000	146,718
2.2.2.Other[d]	67,450	31,127	112,000	209,068
Total Financing	708,000	689,043	815,000	999,082

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

Memo: Based on the parliamentary approval, annual gross borrowing limit for 2009 was increased to Rs. 1,050 billion in October 2009.

(a) Including Rs. 19 billion reserved for unforeseen contingencies.
(b) Gross limit revised from initial Plan of Rs. 815 billion (excluding Rs. 25 billion reserved for unforeseen coningencies) to Rs. 1,050 billion .
(c) Excludes Treasury bonds and Treasury bills issued to non-residents.
(d) Includes Treasury bonds, Treasury bills(net) issued to non-residents, Syndicate Loan and International Sovereign bonds.

GOVERNMENT BORROWINGS

TABLE 22

FINANCING OF THE GOVERNMENT NET CASH DEFICIT

Rs. million

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009[(a)]
1. NET CASH SURPLUS (+) / DEFICIT (-)	(122,589)	(142,991)	(136,464)	(133,123)	(162,501)	(177,424)	(215,516)	(262,252)	(322,329)	(483,625)
1.1 Revenue and grants	226,467	258,321	284,510	308,717	341,116	428,643	527,435	614,329	708,596	749,359
1.2 Expenditure[(b)]	(349,056)	(401,312)	(420,973)	(441,839)	(503,618)	(606,067)	(742,951)	(876,581)	(1,030,925)	(1,232,984)
2. FINANCING OF THE DEFICIT	122,589	142,991	136,464	133,123	162,501	177,424	215,516	262,252	322,329	483,625
2.1 Domestic Financing	118,502	123,594	126,351	79,910	117,243	123,603	163,808	145,136	314,312	242,554
2.1.1 Domestic Market Borrowings	115,327	122,876	127,167	79,830	112,563	119,303	164,458	127,076	309,694	234,274
Rupee loans	42,210	50,910	38,419	48,113	564	43,679	23	18,833	-	1,904
Less: Direct Repayments	40,378	21,986	43,532	87,400	84,219	67,875	23,873	8,500	1,500	19,621
Net	1,832	28,924	(5,112)	(39,287)	(83,656)	(24,196)	(23,850)	10,333	(1,500)	(17,717)
Treasury bills	6,147	30,032	39,835	14,917	25,026	(9,402)	20,300	37,092	69,766	49,008
Treasury bonds	90,555	21,014	109,039	137,093	156,669	108,113	97,429	52,807	192,356	201,935
Sri Lanka Development Bonds (SLDBs)	-	14,605	8,799	(15,179)	16,361	-	34,254	23,592	65,497	7,564
Central Bank Advances	4,200	2,958	906	171	3,587	4,955	9,269	11,664	15,629	(2,428)
Treasury Certificates of Deposits	11	-	-	-	-	-	-	-	-	-
Other Borrowings from Banks [(c)]	13,760	39,639	(42,196)	(15,617)	(2,109)	47,492	33,874	(3,025)	(43,598)	(2,920)
Use of Cash Balances	(1,179)	(14,296)	15,896	(2,268)	(3,316)	(7,659)	(6,818)	(5,386)	11,544	(1,170)
2.1.2 Domestic Other Borrowings [(d)]	3,175	719	(816)	80	4,680	4,300	(650)	18,060	4,618	8,280
2.2 Foreign Financing	4,088	19,396	10,113	53,213	45,256	53,821	51,708	117,115	8,018	241,070
2.2.1 Project Loans	26,984	33,375	45,877	85,317	69,600	64,691	78,254	72,871	114,600	146,717
Less: Repayments	11,774	14,398	17,737	20,422	24,472	17,274	33,715	39,108	47,762	66,059
Net	15,210	18,977	28,140	64,895	45,128	47,417	44,539	33,763	66,838	80,658
2.2.2 Non-project Loans	(11,122)	419	(18,027)	(11,682)	128	6,404	7,169	83,352	(58,820)	160,412
Commodity Loans	386	190	1,293	2,321	3,196	280	3,227	2,510	58	314
Less: Repayments	5,526	4,789	5,328	4,783	5,493	390	5,163	5,417	5,771	5,871
Net	(5,140)	(4,599)	(4,035)	(2,462)	(2,297)	(110)	(1,936)	(2,907)	(5,713)	(5,557)
Other loans [(e)]	-	13,752	-	-	5,501	10,209	16,216	105,848	14,970	208,755
Less: Repayments	5,982	8,734	13,992	9,220	3,076	3,695	7,111	19,589	68,077	42,786
Net	(5,982)	5,018	(13,992)	(9,220)	2,425	6,514	9,105	86,259	(53,107)	165,969

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.

(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	2003	2004	2005	2006	2007	2008	2009
Treasury bills (Days) [b]							
91	9.13	8.46	10.07	10.65	16.61	18.54	11.43
182	9.04	8.44	9.40	10.68	16.81	18.45	12.18
364	9.02	8.55	9.88	10.89	16.23	18.89	12.76
Overall average	9.07	8.49	9.96	10.69	16.57	18.59	12.25
Treasury bonds (Years)							
2	10.75	9.78	10.62	12.47	15.21	18.95	16.32
3	9.69	9.83	11.19	10.96	15.36	18.44	17.01
4	9.97	9.61	11.08	11.01	13.88	17.87	14.29
5	10.97	10.31	10.83	11.05	15.28	17.00	11.20
6	9.56	9.30	-	10.90	15.44	-	12.09
10	8.72	11.11	11.63	-	-	-	13.39
13	-	-	-	-	-	-	-
15	9.01	-	-	-	-	-	-
Overall average	9.59	9.82	10.91	11.05	15.15	18.59	14.69
Rupee loans (Years) [c]							
2	-	-	-	-	9.90	-	12.60
4	-	-	-	-	16.56	-	-
5	11.93	-	8.90	-	-	-	-
6	8.40	8.00	9.23	9.54	16.74	-	-
7	-	-	9.30	-	16.83	-	-
8	-	-	9.40	-	-	-	-
10	-	-	-	-	17.10	-	-
Overall average	11.66	8.00	9.58	9.54	15.72	-	12.60

Source : Central Bank of Sri Lanka

(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.

TABLE 24

TREASURY BOND AUCTIONS IN 2009

Series	Settlement Date	Maturity Date	Maturity Period (Years)	Amount Offered (Rs. mn.)	Bid Received (Rs. mn.)	Bid Accepted (Rs. mn.)	Coupon Rate	Weighed Average Yield (a)
15.50%2010E	01/01/2009	15/12/2010	2	2,000	2,005	-	15.50	-
14.50%2011C	01/01/2009	15/09/2011	3	2,000	2,000	-	14.50	-
07.00%2011C	01/01/2009	15/10/2011	3	2,000	2,000	-	7.00	-
15.50%2010E	05/01/2009	15/12/2010	2	500	650	200	15.50	21.00
13.50%2012A	05/01/2009	01/04/2012	3	500	1,200	700	13.50	20.10
15.50%2010E	09/01/2009	15/12/2010	2	500	1,106	500	15.50	20.99
13.50%2012A	09/01/2009	01/04/2012	3	500	1,590	1,200	13.50	20.02
15.50%2011A	15/01/2009	15/01/2011	2	500	3,550	500	15.50	19.50
14.50%2012A	15/01/2009	15/01/2012	3	500	2,480	500	14.50	19.00
14.50%2012A	23/01/2009	15/01/2012	3	500	1,505	500	14.50	18.25
10.50%2013A	23/01/2009	01/04/2013	4	500	1,561	500	10.50	18.10
15.50%2011A	02/02/2009	15/01/2011	2	2,000	3,815	2,000	15.50	18.34
14.50%2012A	02/02/2009	15/01/2012	3	2,000	3,723	1,713	14.50	18.25
13.50%2013A	02/02/2009	01/02/2013	4	1,000	2,110	545	13.50	18.10
15.50%2011A	06/02/2009	15/01/2011	2	1,500	2,505	1,075	15.50	18.40
14.50%2012A	06/02/2009	15/01/2012	3	1,500	1,650	-	14.50	-
13.50%2013A	06/02/2009	01/02/2013	4	1,000	1,155	-	13.50	-
15.50%2011A	20/02/2009	15/01/2011	2	1,000	2,513	1,150	15.50	18.07
14.50%2012A	20/02/2009	15/01/2012	3	750	1,345	770	14.50	18.08
13.50%2013A	20/02/2009	01/02/2013	4	750	1,450	800	13.50	18.03
14.50%2012A	27/02/2009	15/01/2012	3	500	720	-	14.50	-
13.50%2013A	27/02/2009	01/02/2013	4	500	680	-	13.50	-
15.50%2011B	16/03/2009	01/03/2011	2	2,500	4,518	2,768	15.50	18.06
14.50%2012A	16/03/2009	15/01/2012	3	1,500	3,118	1,568	14.50	18.10
13.50%2013A	16/03/2009	01/02/2013	4	1,000	2,250	850	13.50	18.03
15.50%2011B	03/04/2009	01/03/2011	2	750	1,675	1,125	15.50	16.92
14.50%2012B	03/04/2009	15/02/2012	3	750	1,325	550	14.50	16.99
13.50%2013A	03/04/2009	01/02/2013	4	500	1,300	900	13.50	16.91
15.50%2011B	23/04/2009	01/03/2011	2	500	2,970	500	15.50	16.78
13.50%2013A	23/04/2009	01/02/2013	4	500	1,780	220	13.50	16.86
11.75%2015A	23/04/2009	15/03/2015	6	500	1,860	510	11.75	16.50
15.50%2011B	04/05/2009	01/03/2011	2	750	2,000	750	15.50	13.32
14.50%2012B	04/05/2009	15/02/2012	3	750	1,860	910	14.50	13.73
13.50%2013A	04/05/2009	01/02/2013	4	500	1,700	545	13.50	13.63
11.75%2015A	04/05/2009	15/03/2015	6	500	1,990	700	11.75	13.49
14.50%2012B	07/05/2009	15/02/2012	3	750	1,550	-	14.50	-
13.50%2013A	07/05/2009	01/02/2013	4	750	2,150	-	13.50	-
08.50%2019A	07/05/2009	01/05/2019	10	500	1,375	150	8.50	13.74
14.50%2012B	15/05/2009	15/02/2012	3	750	1,000	-	14.50	-
13.50%2013A	15/05/2009	01/02/2013	4	750	1,350	-	13.50	-
11.75%2015A	15/05/2009	15/03/2015	6	500	1,000	-	11.75	-
10.50%2013A	01/06/2009	01/04/2013	4	1,500	3,300	1,050	10.50	13.60
11.75%2015A	01/06/2009	15/03/2015	6	1,000	2,625	1,000	11.75	13.47
15.50%2011B	01/06/2009	01/03/2011	2	1,500	3,950	1,000	15.50	13.31
15.50%2011B	15/06/2009	01/03/2011	2	1,250	3,060	1,340	15.50	13.31
10.50%2013A	15/06/2009	01/04/2013	4	1,000	3,500	1,000	10.50	13.60
11.75%2015A	15/06/2009	15/03/2015	6	750	1,800	750	11.75	13.47
13.50%2013A	26/06/2009	01/02/2013	4	500	2,100	850	13.50	12.96
11.75%2015A	26/06/2009	15/03/2015	6	500	1,050	450	11.75	13.07
08.50%2019A	26/06/2009	01/05/2019	10	500	800	150	8.50	13.47
11.50%2013A	03/07/2009	15/06/2013	4	500	750	-	11.50	-
11.75%2015A	03/07/2009	15/03/2015	6	500	1,800	1,000	11.75	13.07
14.50%2012B	15/07/2009	15/02/2012	3	750	1,417	472	14.50	12.90
11.50%2013A	15/07/2009	15/06/2013	4	750	1,100	250	11.50	12.96
11.75%2014B	15/07/2009	01/04/2014	5	500	825	200	11.75	13.00
14.50%2012B	03/08/2009	15/02/2012	3	2,000	2,900	1,700	14.50	12.83
11.50%2013A	03/08/2009	15/06/2013	4	1,500	2,450	1,350	11.50	12.88
11.75%2014B	03/08/2009	01/04/2014	5	1,000	1,450	750	11.75	12.94
08.50%2019A	03/08/2009	01/05/2019	10	500	670	220	8.50	13.09
14.50%2012B	07/08/2009	15/02/2012	3	1,000	1,100	-	14.50	-
11.50%2013A	07/08/2009	15/06/2013	4	1,000	1,100	-	11.50	-
12.00%2011A	17/08/2009	15/07/2011	2	750	1,950	750	12.00	12.50
08.50%2013B	17/08/2009	15/07/2013	4	750	1,800	750	8.50	12.88
11.00%2015A	17/08/2009	01/08/2015	6	500	1,760	500	11.00	13.00
08.50%2013B	11/09/2009	15/07/2013	4	500	1,006	500	8.50	12.53
11.25%2014A	11/09/2009	15/07/2014	5	500	750	500	11.25	12.65
11.00%2015A	11/09/2009	01/08/2015	6	500	1,950	500	11.00	12.48
08.50%2013B	25/09/2009	15/07/2013	4	500	2,525	500	8.50	11.35
11.25%2014A	25/09/2009	15/07/2014	5	500	1,500	500	11.25	11.44
11.00%2015A	25/09/2009	01/08/2015	6	500	1,800	500	11.00	11.35
11.25%2014A	01/10/2009	15/07/2014	5	750	1,175	-	11.25	-
11.00%2015B	01/10/2009	01/09/2015	6	750	1,725	-	11.00	-
11.25%2014A	09/10/2009	15/07/2014	5	1,000	3,250	1,000	11.25	10.44
11.00%2015B	09/10/2009	01/09/2015	6	1,000	3,800	1,000	11.00	10.42
11.25%2014A	15/10/2009	15/07/2014	5	1,000	2,670	1,000	11.25	10.36
11.00%2015B	15/10/2009	01/09/2015	6	1,000	2,300	1,000	11.00	10.35
11.25%2014A	23/10/2009	15/07/2014	5	1,000	3,050	1,000	11.25	10.32
11.00%2015B	23/10/2009	01/09/2015	6	1,000	2,200	1,000	11.00	10.32
06.85%2012C	03/11/2009	01/03/2012	2	1,000	3,150	1,000	6.85	9.55
07.50%2013B	03/11/2009	01/11/2013	4	1,000	2,650	1,000	7.50	9.78
11.00%2015B	03/11/2009	01/09/2015	6	1,000	2,350	1,000	11.00	9.92

Source: Central Bank of Sri Lanka

(a) Effect 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 2009

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
02/01/2009	1,000	1,500	2,500	1,295	2,922	3,827	-	1,397	1,552	-	18.57	19.12
09/01/2009	2,000	3,000	3,000	2,705	6,042	4,512	489	841	1,129	17.31	18.55	19.10
16/01/2009	750	1,250	2,000	5,822	8,144	13,084	750	1,250	2,000	16.79	17.22	18.24
23/01/2009	1,000	2,000	2,000	3,532	3,536	4,219	1,500	1,756	1,517	16.18	16.89	18.00
30/01/2009	1,000	2,000	2,000	2,201	2,691	5,341	1,000	1,246	2,000	15.94	16.77	17.56
06/02/2009	1,500	2,500	3,500	2,948	4,238	4,915	2,078	2,098	2,245	15.99	16.96	17.76
13/02/2009	1,000	2,500	2,500	3,095	3,904	5,864	1,595	804	2,834	15.78	16.94	17.74
20/02/2009	1,500	2,500	3,000	3,697	3,843	3,812	2,026	1,303	933	15.76	16.93	17.73
27/02/2009	1,500	2,500	3,000	3,244	3,431	3,787	1,879	527	497	15.76	16.93	17.73
06/03/2009	1,500	2,500	3,000	4,022	4,088	3,972	1,442	213	1,092	15.73	16.93	17.73
13/03/2009	1,500	2,500	3,000	4,292	5,652	5,802	1,500	2,500	3,000	15.46	16.87	17.69
20/03/2009	1,500	2,500	3,000	4,893	4,665	10,842	1,925	2,930	5,000	14.94	16.47	17.36
27/03/2009	1,000	1,500	2,500	3,045	4,622	10,279	1,500	3,500	5,000	14.62	16.16	16.63
03/04/2009	1,500	2,000	2,500	4,245	6,090	6,597	1,765	2,060	2,660	14.46	15.99	16.47
10/04/2009	1,000	1,500	2,500	2,915	3,388	4,994	1,855	2,348	2,704	14.16	15.88	16.40
17/04/2009	1,000	1,500	2,000	3,447	2,337	2,953	2,741	1,235	1,314	14.09	15.88	16.40
24/04/2009	2,000	2,500	3,500	5,509	11,195	12,316	2,000	2,500	3,500	13.38	14.90	15.40
01/05/2009	1,500	2,000	3,500	5,810	11,482	13,168	1,500	2,000	3,500	12.65	13.95	14.05
08/05/2009	2,000	4,000	4,000	6,141	10,283	6,667	2,870	5,857	4,977	12.22	13.44	13.78
15/05/2009	2,250	3,250	4,500	4,775	6,047	7,977	3,175	4,107	5,637	12.20	13.39	13.73
22/05/2009	2,000	3,000	4,500	3,413	4,360	9,754	2,000	2,485	5,015	12.05	13.15	13.41
29/05/2009	1,500	2,500	4,000	3,155	4,001	5,679	1,295	1,300	1,508	12.04	13.14	13.40
05/06/2009	1,500	2,000	2,500	3,647	5,520	3,983	2,347	3,570	1,465	12.04	13.13	13.40
12/06/2009	1,000	1,500	2,000	3,999	6,378	4,264	1,000	1,500	2,000	12.01	13.05	13.39
19/06/2009	2,000	3,000	3,000	4,839	8,284	16,300	2,015	525	6,400	11.56	12.56	12.60
26/06/2009	2,000	2,500	4,500	4,348	9,208	9,592	2,263	3,410	5,997	11.41	12.03	12.34
03/07/2009	2,500	3,000	5,000	4,671	5,938	6,251	3,266	3,978	3,256	11.29	11.94	12.34
10/07/2009	2,500	3,000	5,000	3,985	6,915	8,700	2,035	3,575	4,900	11.28	11.96	12.35
17/07/2009	2,500	3,000	5,000	6,726	10,955	8,019	2,503	3,100	4,839	11.05	11.93	12.32
24/07/2009	2,500	3,000	5,000	6,923	9,122	11,116	2,718	4,231	5,256	10.79	11.63	12.09
31/07/2009	2,500	3,000	5,000	5,654	10,214	9,726	2,580	4,030	4,851	10.64	11.46	11.97
07/08/2009	2,500	3,500	5,500	4,223	7,678	7,950	2,323	3,578	5,095	10.58	11.41	11.95
14/08/2009	2,500	3,500	5,500	3,709	7,287	9,682	1,554	3,357	5,445	10.57	11.43	11.98
21/08/2009	3,000	3,500	5,500	4,325	6,995	7,727	2,476	2,825	1,393	10.57	11.43	11.98
28/08/2009	3,000	3,500	5,500	4,514	7,926	8,202	1,179	5,381	3,582	10.57	11.43	11.98
04/09/2009	3,000	3,500	5,500	4,908	5,670	7,621	2,684	3,070	3,116	10.55	11.42	11.98
11/09/2009	3,000	3,500	5,500	5,834	7,405	7,682	2,709	2,555	3,622	10.54	11.39	11.97
18/09/2009	3,000	3,500	5,500	5,417	8,622	9,810	1,065	3,025	3,566	10.04	10.96	11.50
25/09/2009	1,000	3,500	5,000	3,362	6,888	9,075	1,000	3,500	5,000	9.70	10.72	11.17
02/10/2009	1,000	4,500	5,500	2,610	9,913	6,946	1,000	2,900	4,296	9.48	10.63	11.09
09/10/2009	2,000	3,500	5,500	4,107	10,343	16,161	2,000	3,500	4,100	9.26	10.10	10.48
16/10/2009	1,500	2,500	6,000	2,892	8,508	14,916	1,500	2,500	6,000	9.15	9.81	10.26
23/10/2009	1,500	2,000	4,000	4,232	7,427	5,917	2,242	3,867	2,207	9.10	9.76	10.22
30/10/2009	1,500	3,000	4,500	7,395	16,370	12,065	1,500	3,000	4,500	8.50	9.35	9.88
06/11/2009	2,000	4,000	5,000	5,122	12,380	11,323	2,747	3,864	5,608	8.14	9.02	9.68
13/11/2009	1,000	3,000	6,000	3,425	12,140	10,847	1,365	3,265	6,000	7.73	8.80	9.56
20/11/2009	1,500	3,000	4,500	5,185	8,376	17,806	1,683	3,076	5,973	7.25	8.33	9.17
27/11/2009	1,500	3,500	6,500	3,808	6,005	11,265	3,001	3,910	4,830	7.25	8.33	9.17
04/12/2009	2,000	3,500	6,500	2,573	5,567	7,409	1,543	3,500	1,213	7.40	8.42	9.26
11/12/2009	1,750	2,750	4,000	3,024	4,309	6,901	1,837	2,039	2,071	7.51	8.50	9.26
18/12/2009	1,500	2,500	3,000	3,839	3,310	4,884	1,447	886	2,813	7.60	8.59	9.32
25/12/2009	1,750	2,750	3,500	5,780	4,435	5,212	4,260	1,790	858	7.67	8.65	9.32

Source: Central Bank of Sri Lanka

(a) Effect 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

	2003	2004	2005	2006	2007	2008	2009
1. Outright Transactions	1,076,831	774,133	742,461	787,672	1,200,537	1,356,110	1,677,503
1.1. Treasury bills							
Purchased	37,408	71,048	66,591	72,636	257,216	284,304	200,173
Sold	265,757	311,537	367,635	414,549	551,905	603,114	490,703
Total	303,166	382,585	434,226	487,185	809,121	887,418	690,876
1.2. Treasury bonds							
Purchased	346,801	171,282	135,859	130,176	193,836	245,722	455,762
Sold	426,865	220,266	172,376	170,311	197,580	222,970	530,865
Total	773,665	391,548	308,235	300,487	391,416	468,692	986,627
2. Repurchase Transactions	3,542,947	3,859,202	3,144,504	2,882,902	3,601,070	4,310,982	4,225,765
2.1. Treasury bills							
Repo	1,058,459	264,909	488,518	575,982	842,003	1,359,014	944,154
Reverse repo	240,911	557,742	324,338	328,961	986,072	615,879	148,647
Total	1,299,371	822,651	812,856	904,943	1,828,075	1,974,893	1,092,801
2.2. Treasury bonds							
Repo	1,938,581	2,176,654	1,257,020	1,194,443	886,251	1,442,266	2,462,826
Reverse repo	304,995	859,897	1,074,628	783,516	886,744	893,823	670,138
Total	2,243,576	3,036,551	2,331,648	1,977,959	1,772,995	2,336,089	3,132,964
3. Total Transactions	4,619,778	4,633,335	3,886,965	3,670,574	4,801,607	5,667,093	5,903,268

Source: Central Bank of Sri Lanka

TABLE 27

SECONDARY MARKET TRANSACTIONS RECORDED IN THE LANKASECURE [(a)]

Rs. million

	2006	2007	2008	2009
1. Treasury bills				
1.1. Outright Purchases / Sales	552,716	1,268,064	1,465,848	1,116,481
1.2. Repo / Rev. Repo	4,082,292	4,545,078	6,100,115	6,932,150
Total	4,635,009	5,813,143	7,565,962	8,048,631
2. Treasury bonds				
2.1. Outright Purchases / Sales	823,768	1,124,076	1,592,460	2,125,035
2.2. Repo / Rev. Repo	3,431,585	5,371,166	8,404,308	10,368,869
Total	4,255,353	6,495,242	9,996,768	12,493,904
3. Total Transactions	8,890,362	12,308,384	17,562,730	20,542,535

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.