

**Public Debt Management
and
Debt Profile of Sri Lanka**

2004

Public Debt Department
Central Bank of Sri Lanka

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Any suggestions for the improvement of this publication would be most welcome.

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Introduction

Public debt is the sum of all external and internal obligations of the general government and public corporations. General government includes the central government and the provincial administration. International Monetary Fund (IMF) includes debt of both central government and provinces or similar political subdivisions and autonomous public bodies, such as state enterprises and subsidiaries, as public debt (Government Finance Statistics Manual, 2001, IMF). Government needs to borrow from the market in order to finance its cash flow requirements.

Sri Lanka's public debt mainly consists of central government debt. Public debt is raised from both domestic and foreign sources which can be short term or long term. Domestic short-term public debt is raised by issuing Treasury bills (T-bills) or borrowing from other short term instruments such as overdrafts from the banks. Medium to long-term public debt is raised by way of issuing Rupee Securities (RSs) (a non-tradable instrument) and/or Treasury bonds (T-bonds). RSs are issued based on an administratively determined interest rate while T-bonds and T-bills are issued through auctions and therefore, the interest rates of T-bills and T-bonds are determined by the market forces. RSs are transferable by registration with the Superintendent/Registrar of Public Debt who has the responsibility to issue and service the public debt. T-bills/T-bonds are tradable instruments and therefore, transferable by endorsement and delivery. Since February 2003, T-bills and T-bonds are issued in scripless form in which there are no paper certificates involved. Under the scripless system trading and transfer of securities are carried out electronically on a computer based system established between the Central Bank of Sri Lanka (CBSL) and the Primary Dealers (PDs) and Licensed Commercial Banks (LCBs) and among the PDs and LCBs. Table 1 presents main features of major public debt instruments issued by the Public Debt Department of the Central bank.

T-bills are issued in multiple maturities of 91 days, 182 days and 364 days. At present there are T-bonds which have been issued for a maturity periods ranging from 2 years to 20 years. RSs have been issued for maturity periods ranging from 2 years to 30 years.

In terms of section 113 of the Monetary Law Act (MLA) the CBSL is responsible for the management of the public debt. The CBSL handles public debt management through its Public Debt Department (PDD) that on behalf of the government issues and services the public debt through a network of primary dealers, appointed as dedicated entities for trading in government securities, and LCBs. In addition to debt issued and the serviced by the PDD, the General Treasury that engages in government cash management also raises debt mainly from LCBs. In addition to issuing and servicing of domestic debt, service payments for foreign debt are made by the PDD. Foreign loans are negotiated by the External Resources Department (ERD) of the Ministry of Finance. The most of those foreign loans are raised from multilateral and bilateral sources and are concessional. Foreign debt obtained from commercial sources are raised and serviced by the PDD. In addition to managing public debt, PDD is engaged in regulating the Primary Dealers, market development activities, maintaining a data base on public debt and promoting investor awareness on government securities.

The size of the outstanding debt in Sri Lanka has been rising. The debt stock to GDP ratio in 2003 was 105.9 per cent. The total cost of the borrowing has also been rising. The government needs funds more than its income to service debt (125% of income in 2003). The debt service

payments as a percentage of government expenditure was 83% in 2003. Therefore, prudent debt management is crucial in ensuring debt sustainability.

Apart from bridging the government's financial gap by way of borrowing, government debt plays a significant role in the money and capital markets. By establishing a yield curve for the securities market and providing a mechanism for interest rate determination, debt market facilitates money and capital market operations. Debt management also provides marketable and hedgable instruments to the market.

Since the debt management is becoming more and more important, a recent development in the institutional framework of debt management is to organize itself into an independent debt office. Countries across the world have introduced or in the process of introducing independent debt offices at present as part of introducing more prudence, transparency and efficiency.

The degree of development of debt securities market has a link to other developments in the money and capital markets in a country. Sri Lanka, other than introducing a mechanism for debt market by way of establishing a Primary Dealer System and introducing marketable debt instruments such as T-bonds has introduced a Scripless Securities Settlement (SSSS) system and a Central Depository System (CDS) thereby enhancing the infrastructure of the debt market. It is expected to further enhance these systems based on the state-of-the-art- technology.

This publication provides an insight into the Country's public debt management and composition of debt as well as the characteristics of debt instruments which will be useful to the government, market participants, analysts and the general public.

Statistics presented in this publication has been extracted from the records available in the Public Debt Department, Annual Reports of the Central Bank and other statistical publications of the Central Bank. This publication contains only data relating to debt serviced by the Public Debt Department unless otherwise stated.

Table 1
Main Features of Major Public Debt Instruments

<i>Feature</i>	<i>T-Bills</i>	<i>T-Bonds</i>	<i>Rupee Securities</i>
Method of Issue	Auction	Auction	Tap System
Bidding	Electronic	Electronic	By Application
Interest Rate Determination by	Market	Market	Government
Method of Interest Payment	Up front	Bi-annually	Bi-annually
Maturity Period	91, 182 & 364 days	2 years & more	2 years & more
Transferability	By Endorsement and Delivery	By Endorsement and Delivery	By Registration
Primary Market for	Primary Dealers and Institutional Investors	Primary Dealers and Institutional Investors	Any Individual

Part 1 – The Basis of Debt Management

Objective of Public Debt Management

The main objective of public debt management is to ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. Prudent risk management to avoid dangerous debt structures and strategies is crucial, given the severe macroeconomic consequences of sovereign debt default, and the magnitude of the ensuing output losses. These costs include business and banking insolvencies as well as the diminished long-term credibility and capability of the government to mobilize domestic and foreign savings.

Legal Framework

The following are the major legislation governing the management of public debt in Sri Lanka.

i. The Monetary Law Act (MLA) of 1949, 2002

Section 106(1) states that 'The Central Bank shall 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'.

Section 113 states that 'The Central Bank shall, as agent of the Government, be responsible for the management of the public debt'.

Section 114 states that 'No new loan shall be raised and no new issue of stock or debentures shall be made by the Government or by any agency or any institution referred to in subsection (1) of section 106, whether in pursuance of authority conferred by any written law or otherwise, unless the advice of the Monetary Board has first been obtained upon the monetary implication of the proposed loan or issue'.

ii. The Local Treasury bills Ordinance (LTBO) of 1923, 1953, 1992, 1995, 2004

Section 2 (1) - empowers the Minister in charge of the subject of Finance whenever authorised by the Parliament to direct the Deputy Secretary to the Treasury to borrow by the issue of Sri Lanka Treasury Bills an amount specified in such resolution.

Section 2 (2) - all acts or things necessary for the purpose of and in connection with the issue and repayment of Treasury Bills shall be done on behalf of the Deputy Secretary to the Treasury by the Central Bank.

iii. The Registered Stock and Securities Ordinance (RSSO) of 1937 as amended in 1949, 1983, 1985, 1995, 2004

Section 2 (1) - empowers the Minister in charge of the subject of Finance to raise any amount of money by any one or more of the following.

- a. the creation and issue of registered stock.
- b. the issue of promissory notes

- c. the issue of bearer bonds
 - d. the issue of treasury bonds
 - iv. Foreign Loans Act of 1957, 1962, 1963, 1980, 1984
 - Section 2 - The President or any person specially authorised by him in that behalf may, in the name and on behalf of the Government of Sri Lanka, sign
 - a. an agreement relating to a foreign loan to the Government of Sri Lanka
 - b. a guarantee by the Government of Sri Lanka relating to a foreign loan
 - c. any contract, bond, promissory note or other document required by such agreement or guarantee
 - Section 4 – The Minister in charge of the subject of Finance may, by Order published in the *Gazette*, make such provision as may be necessary to give effect to an agreement relating to a foreign loan.
 - v. Treasury Certificates of Deposit Act (TCDA) of 1989
 - Section 2 (1) - empowers the Minister, whenever authorised by the Parliament, to direct the Deputy Secretary to the Treasury to borrow by the issue of Sri Lanka Treasury Certificates of Deposits an amount specified in such resolution.
 - Section 2 (2) - All acts or things necessary for the purpose of and in connection with the issue and repayment of Treasury Bills shall be done on behalf of the Deputy Secretary to the Treasury by an officer of the Central Bank authorised in that behalf by the Monetary Board.
 - vi. Tax Reserve Certificates Act of 1957, 1961, 1966, 1981
 - Section 2 (1) – The Central Bank is authorised to issue Tax Reserve Certificates up to such amount and of such denomination(s) as the Minister in charge of the subject of Finance may from time to time specify by order published in the *Gazette*.
 - Section 2 (2) – The Superintendent of the Public Debt in the Central Bank of Ceylon shall be responsible for the issue of certificates, the maintenance of books of issue, the redemption or cancellation of certificates, and all other matters pertaining to the issue of, and repayment in respect of certificates.
 - vii. Fiscal Management (Responsibility) Act of 2003
 - The followings are the medium term fiscal strategy targets stipulated under the act.
 - Section 3(a) - The budget deficit has to be reduced to 5% of GDP by 2006 and maintained at that level thereafter.
 - Section 3(e) - The Government guarantees for current year and the proceeding 2 years should not in aggregate exceed 4.5% of GDP.
 - Section 3(f) - Total liabilities of the Government should not exceed 85% of GDP at the end of 2006 and 60% at the end of 2013.
 - The Act specifies the following reports to be presented to Parliament and to general public by the Finance Minister, within a given time frame.
 - Section 4 - Fiscal Strategy Statement (submitted by Minister of Finance for the second reading of the Appropriation Bill in Parliament).
 - Section 7 – Budget Economic and Fiscal Position report (submitted by Minister of Finance for the second reading of the Appropriation Bill in Parliament).
 - Section 10 - Mid Year Fiscal Position report- End June or lapse of 6 months from the date of the passing of the Appropriation Act.

Section 13 - Final Budget Position Report- End May of the year following the budget.

Section 16 - Pre-election Budgetary Position Report (submitted by the Secretary to the Ministry of Finance) – Within 3 months of the announcement of a general election.

Section 19 - Statements of Responsibility – With the Pre-election Budgetary Position Report.

viii. Annual Appropriation Act

The annual Appropriation Act authorises raising of loans “in or outside” Sri Lanka, on behalf of the Government to provide for the annual expenditure of the Government. It stipulates the aggregate amount of borrowing to be made during the year.

Borrowing Programme - 2005

The responsibility of the PDD as the agent of the government is to raise funds from the market to meet the requirement indicated in it, especially from the domestic part. The monthly borrowing plan is prepared by the PDD considering factors such as resource availability, maturing debts by instruments, government borrowing needs, interest rate movements in the market and other market developments.

The following is the borrowing plan as approved by the Appropriation Act for the year 2005. The annual gross borrowing requirement as stated in the Government Budget includes both domestic and foreign borrowings. The approved amount of gross borrowing for 2005 is Rs. 436 bn. This includes new borrowings to cover the budget deficit and rollover

Table 2
Total Borrowing Plan - 2005

	Rs. Bn
Total net Domestic Borrowing	105
Total Gross Borrowing	436
(a) Domestic	331
(b) Foreign	105
Borrowing by Instruments	436
Domestic	
(a) Rupee Securities	70
(b) T-bonds	250
(c) T-bills	5
(d) CBSL Advances	6
Foreign	105

Table 3
Monthly Domestic Borrowing Programme - 2005

	(Rs. Millions)			
<i>Month</i>	<i>T.Bills</i>	<i>T-Bonds</i>	<i>Rupee Loans</i>	<i>Total</i>
January	1,500	29,000	–	30,500
February	500	15,500	–	16,000
March	750	26,000	–	26,750
April	750	42,000	39,000	81,750
May	500	11,500	2,500	14,500
June	500	9,500	5,000	15,000
July	250	28,500	6,000	34,750
August	250	13,000	–	13,250
September	–	21,000	2,500	23,500
October	–	21,000	7,000	28,000
November	–	13,500	5,000	18,500
December	–	19,500	3,000	22,500
Total	5,000	250,000	70,000	325,000

This borrowing plan is based on the latest available information with the Public Debt Department.

debt covering the principal repayments of Treasury Bonds, Rupee Securities, and Foreign Loans. Also excluded from this borrowing requirement is the reissue of Treasury Bills. The net domestic borrowing for 2005 is Rs. 105 bn as shown below.

Public Debt Operational Network

The approval for the quantum of public debt to be borrowed within a given year is obtained from the Parliament by the Minister of Finance at the time of his presentation of the country's annual budget. The Parliament approval is published in the Appropriation Act. Several government entities engage in raising the approved amount of debt during the period in reference. The following are the entities responsible for raising public debt.

- ◆ the debt based on the Government Securities Programme, *i.e.* Treasury Bills, Treasury Bonds, Rupee Loans are raised and managed by the Public Debt Department of the Central Bank of Sri Lanka.
- ◆ special debt such as Sri Lanka Development Bonds and Floating Rate Notes are also raised by the Public Debt Department of the Central Bank of Sri Lanka.
- ◆ foreign concessional debt is negotiated and raised by the External Resources Department of the Ministry of Finance.
- ◆ other loans such as loans from Foreign Currency Banking Units (FCBUs) are raised by the State Accounts Department of the Treasury,
- ◆ debt in the form of overdrafts is obtained from commercial banks by the State Accounts Department of the Treasury.

The Public Debt Department relies upon primary dealers in raising funds under the government securities program. Primary dealers have to bid competitively at primary auctions conducted by the PDD for issue of T-bills and T-bonds. Two auctions are held in a week, usually a T-bill auction on Wednesday and a T-bond action on Thursday.

Primary Dealer Network

In Sri Lanka the primary issue of marketable domestic debt is open only to a group of dedicated primary dealers. At present the number of primary dealers is twelve. These primary dealers are supervised by the PDD of the Central Bank.

Table 4
Primary Dealers

<i>Primary Dealers</i>	<i>Telephone</i>
1. BANK OF CEYLON 7 th Floor, Bank of Ceylon Head Office, Bank of Ceylon Mawatha, Colombo 1	CEO: 2448830 General: 2386862
2. CAPITAL ALLIANCE LIMITED Level 5, 'Millennium House', 46/58, Navam Mawatha, Colombo 2	CEO: 2317700 / 01 General: 2314703
3. CEYLINCO SHRIRAM SECURITIES LTD 281, R. A. de Mel Mawatha, Colombo 3	CEO: 4713813 General: 2564936
4. COMMERCIAL BANK PRIMARY DEALER LTD 21, Bristol Street, Colombo 1	CEO: 2447516 General: 2330406

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5. FIRST CAPITAL TREASURIES LTD 34, Sir Mohamad Macan Marker Mawatha, Colombo 3	CEO: 2308900 General: 2304430		7
6. HNB SECURITIES LTD HNB Towers, 479, T. B. Jayah Mawatha, Colombo 10	CEO: 2661184 General: 2661186		
7. HONGKONG & SHANGHAI BANKING CORPORATION 24, Sir Baron Jayatilake Mawatha, Colombo 1	CEO: 2421697 General: 2430204		
8. NATWEALTH SECURITIES LTD Level 6 , 'Millenium House', 46/58, Nawam Mawatha, Colombo 2	CEO: 4703001 General: 4703000 Ext: 215		
9. NSB FUND MANAGEMENT CO. LTD 255, Galle Road, Colombo 3	CEO: 2564601 General: 2564706		
10. PEOPLE'S BANK Treasury House, 1 st Floor, 34, Sir Mohamad Macan Marker Mw., Col. 3	CEO: 2308782 General: 2304485		
11. SAMPATH SURAKUM LTD 110, Sir James Peiris Mawatha, Colombo 2	CEO: 4730185 / 9 General: 2305842		
12. SEYLAN BANK ASSET MANAGEMENT LTD Level 3, Ceylinco Seylan Tower, Galle Road, Colombo 3	CEO: 2456901 General: 2456347		

Primary Dealers are entitled to a series of privileges and they abide by several obligations to ensure that they fulfill prudential norms. The followings are the privileges and obligations of PDs.

- ◆ To deal with the CBSL as a counterparty in the primary and secondary markets for securities.
- ◆ To participate in the primary market in the manner and at levels determined by the Central Bank from time to time.
- ◆ To be responsible for creating and maintaining a secondary market in securities.
- ◆ To comply with levels for maintenance of stocks of securities and for participation in the secondary market as determined by the CBSL from time.
- ◆ To engage in transactions relating to securities for its own account and for the account of customers.
- ◆ To produce all information pertaining to their activities according to the formats required by the CBSL.
- ◆ To maintain standards of competence and infrastructural facilities as may be determined by the CBSL from time to time.
- ◆ To act in a fiduciary capacity in respect of its customers in the holding of and in the collection and payment of maturity proceeds and interest on securities and to segregate the assets of its customers from its own assets for this purpose. The assets of customers shall not form a part of the assets of the Primary Dealer in a winding up.
- ◆ To maintain strict confidentiality in respect of its dealings with its customers.
- ◆ To conduct their business and activities in accordance with the operations manual, code of conduct and any other guidelines for Primary Dealers formulated by the CBSL from time to time.
- ◆ To maintain accounts on behalf of the customers and on their own behalf in the SSSS and settlement accounts in the RTGS system.

Prudential Issues

Supervision of Primary Dealers (PDs) is carried out to ensure an efficient, sound and safe Primary Dealer System (PDS). In order to achieve these objectives, it is necessary to promote financial soundness of PDs and to adopt best practices in trading government securities. The PDD has issued several directions and guidelines to PDs to ensure that best practices are adopted and to strengthen the prudential requirements and the supervisory framework. The following gives a brief description of major directions issued as at end June 2004.

1. Direction on Segregation of Proprietary Accounts into Trading and Investment Securities Accounts & the Revaluation of Trading Securities at Market Prices.

Government securities acquired for trading purposes on a regular basis to make profit from short term changes in market prices have to be held in Trading Account and should be marked to market using the secondary market weighted average yields compiled by the CBSL. Government securities acquired to hold to maturity should be held in the Investment Account and should be recorded at amortized value (cost + accretion of discount or depletion of premium).
2. Direction on Financial Statements.

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

PDs should maintain a separate register specified by the PDD for scrip securities held with them on behalf of customers, physically segregate from their own securities, and hold in safe and secure custody.
4. Direction on Effective Two Way Quotes.

PDs should post firm two-way quotes on the screen provided by the PDD by at least 10.00 a.m. daily.
5. Direction on New Products.

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

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.
7. Direction on Repurchase (Repo) Agreements.

Repo and Reverse Repo transactions should be fully covered by taking Government securities as collateral.
8. Direction on Capital Adequacy.

Ratio of total capital to total assets is considered as capital adequacy ratio. PDs should maintain minimum capital adequacy ratio of 5%. Returns on the Capital Adequacy position should be submitted to the PDD monthly. Minimum capital maintained by a PD was increased to Rs.200 million with effect from April 1, 2003.
9. Direction on Forward Rate Agreements (FRAs) and Interest Rate Swaps (IRSs).

This was issued to safeguard the PD system in hedging on FRAs/IRSs.

10. Direction on Firm Two Way Quotes (Bid and Offer Prices) for Benchmark Maturities.
Two way quotes for 3-12 month T-bills and 2-5 year T-bonds should be sent to PDD daily through e-mail and display on the Bloomberg screen.
11. Direction on Accounting for Repo Transactions.
To record all Repo and reverse Repo transactions to reflect their true commercial effect of the transaction.
12. Direction on Minimum Subscription Levels for T-bills and T-bond Auctions.
Each PD should subscribe to a minimum of 10% of the amount offered for each maturity at each T-bill and T-bond auction.
13. Direction on Minimum Capital Requirement.
 - ◆ To increase Tier-1 capital to Rs.350 million with effect from 31st December, 2004.
 - ◆ To increase the minimum capital to Rs.400 million with effect from 1st July, 2005.
14. Direction on Special Risk Reserve.
With effect from 1st July, 2004, if capital is less than 400 million, transfer 50% of net profit after tax (NPAT) annually, and if above Rs.400 million, transfer 35% of NPAT annually to special risk reserve.
15. Direction on Short Selling of Securities.
PDs are prohibited to sell securities without actually holding relevant securities in the portfolio. Securities obtained as collateral on reverse repo transactions are not considered as PDs own securities and they cannot be sold.
16. Direction on Adjusted Trading.
PDs are required to refrain from using away prices for recording of transactions.
17. Risk Management Measures of PDs.
PDs are requested to submit their risk management measures together with risk measurement, monitoring and control functions adopted by them to evaluate the adequacy of effectiveness of the systems.
18. Mark to Market valuation of T-bills, T-bonds and off Balance Sheet Transactions.
PDs are required to submit on monthly basis above details to PDD to identify the true exposure of the PDs.

There is an on-site surveillance and off-site supervision conducted by the PDD to ensure that the PDs run prudently and with comfortable risk levels.

The Organisation of Public Debt Department

Public Debt Department is organized into the following divisions in order to perform its responsibilities.

- (1) Front Office
- (2) Middle Office
- (3) Back Office
- (4) Supervision Division
- (5) LankaSecure and SSSS Division
- (6) Support Services Division

The following are the activities carried out by these divisions.

- (1) **Front Office** – This office is responsible for issuance of debt instruments according to a predetermined plan. Activities of this office include conducting auctions, processing tender information, communicating results of auctions to primary dealers and to public and transmitting auction results to Central Depository.
- (2) **Middle Office** – This office is responsible for debt analysis and risk management. It maintains databases and disseminates information to external and internal users, develop systems and procedures to facilitate the activities of other divisions, keeps track on the government borrowing programme and engages in research activities relating to public debt. It also maintains Commonwealth Secretariat Debt Recording and Management System (CS-DRMS), a computer package to maintain and report information and data on foreign loans.
- (3) **Back Office** – This office makes service payments on domestic and foreign debt raised by the PDD and foreign loans raised by the Government. The services include payment of interest and capital. It also submits payment instructions relating to these payments to Central Depository System (LankaSecure) and maintains a sub ledger system to record information and data relating to debt issuances and payments.
- (4) **Supervision Division** – This division carries out off-site surveillance and on-site examination of Primary Dealer activities to ensure that Pd system operates in an efficient, transparent, safe and sound manner. It carries out off-site surveillance, on-site examination.
- (5) **LankaSecure and SSSS Division** – This division maintains the Central Depository System (CDS), records secondary market transactions and effects settlements relating to scripless securities. Printing and delivering of statements from the CDS to beneficial owners are also done by this division.
- (6) **Support Services Division** – This division provides support services to carry out functions of other divisions and handles the activities that are generally falling within the definition of conventional Administrative Divisions.

Risk Management in Debt

One of the key objectives of debt management is to minimize the risk. There is a variety of risks that could be faced by the issuer and/or PDs. The following are the major risks associated with debt.

Market Risk

Refers to the risks associated with changes in market prices, such as interest rates, exchange rates, commodity prices, on the cost of the government's debt servicing. For both domestic and foreign currency debt, changes in interest rates affect debt servicing costs on new issues when fixed-rate debt is refinanced, and on floating-rate debt at the rate reset dates. Hence, short-duration debt (short-term or floating-rate) is usually considered to be more risky than long-term, fixed rate debt. (Excessive concentration in very long-term, fixed rate debt also can be risky as future financing requirements are uncertain.) Debt denominated in or indexed to foreign currencies also adds volatility to debt servicing costs as measured in domestic currency owing to exchange rate movements. Bonds with embedded put options can exacerbate market and rollover risks.

Rollover Risk

The risk that debt will have to be rolled over at an unusually high cost or, in extreme cases, cannot be rolled over at all. To the extent that rollover risk is limited to the risk that debt might have to be rolled over at higher interest rates, including changes in credit spreads, it may be considered a type of market risk. However, because of the inability to roll over debt and/or exceptionally large increases in government funding costs can lead to, or exacerbate, a debt crisis and thereby cause real economic losses, in addition to the purely financial effects of higher interest rates, it is often treated separately. Managing this risk is particularly important for emerging market countries.

Liquidity Risk

There are two types of liquidity risk. One refers to the cost or penalty that the investors have to pay in trying to exit from a position when the number of transaction has markedly decreased or because of the lack of depth of a particular market. This risk is particularly relevant in cases where debt management includes the management of liquid assets or the use of derivatives contracts. The other form of liquidity risk, for a borrower, refers to a situation where the volume of liquid assets can diminish quickly in the face of unanticipated cash flow obligations and/or a possible difficulty in raising cash through borrowing in a short period of time.

Credit Risk

This refers to risk of non-performance by borrowers on loans or other financial assets or by a counterparty on financial contracts. This risk is particularly relevant in cases where debt management includes the management of liquid assets. It may also be relevant in the acceptance of bids in auctions of securities issued by the government as well as in relation to contingent liabilities, and in derivative contracts entered into by the debt manager.

Settlement Risk

Refers to the potential loss that the government, as a counterparty, could suffer as a result of failure to settle, for whatever reason other than default, by another counterparty.

Operational Risk

This includes a range of different types of risks, including transaction errors in the various stages of executing and recording transactions; inadequacies or failures in internal controls, or in systems and services; reputation risk; legal risk; security breaches; or natural disasters that affect business activity.

Part 2 – Debt Management Indicators

Several key indicators reflecting the cost and the degree of risk of borrowing can be used to carry out a prudential debt management. The cost of domestic market borrowings is usually reflected by yields of debt instruments. In Sri Lanka, since most of the foreign loans are concessional and obtained from bilateral and multilateral sources interest cost for foreign loans is low. The following table indicates some of the debt indicators that are useful for debt management.

Table 5
Key Debt Indicators

<i>Indicator*</i>		<i>Position in 2003</i>	<i>Future Direction</i>
Government Debt/GDP	(%)	105.9	Maintain low
Domestic Debt/GDP	(%)	57.3	Maintain low
Foreign Debt/GDP	(%)	48.1	Maintain low
Per Capita Debt	(Rs.)	96,813	Maintain low
Total Debt Service/GDP	(%)	19.3	Maintain low
Debt Service/Budget Deficit	(%)	96.33	Maintain low
Cost of Domestic Debt/GDP	(%)	6.45	Lower the cost
Cost of Foreign Debt/GDP	(%)	0.76	Lower the cost by favorable terms
Average Duration of Domestic Debt (Yrs)		2.32	Increase to a reasonable level
Ratio of Short Term to Long Term Debt		32:68	Lower at least up to 25:75
Share of Foreign Debt		47.3	Maintain at an affordable levels
Currency Composition of Foreign Debt (%)			Develop a suitable benchmark composition
SDR		42.6	
US Dollars		15.6	
Japanese Yen		30.9	
Euro		7.5	
Other		3.4	

* Including SLDBs and FCBU.

Table 6
International Comparison - as a % of GDP 2003

	Fiscal Operations			Government Debt		
	<i>Revenue</i>	<i>Expenditure</i>	<i>Budget Deficit</i>	<i>Total</i>	<i>Domestic</i>	<i>Foreign</i>
Sri Lanka	10.4	16.5	-8.0	105.9	57.9	47.9
India	18.1	18.1	0.0	57.7	55.0	2.6
Pakistan	15.0	18.7	-3.7	176.6	43.4	133.2
Bangladesh	14.9	17.4	8.0	3.7	1.5	2.1
Nepal	11.7	18.3	-6.5	66.9	18.0	48.9
Bhutan	16.7	33.3	n.a.	n.a.	n.a.	n.a.
Maldives	28.6	42.9	-5.5	46.5	16.4	30.0
Singapore	26.1	21.2	5.2	96.7	96.7	n.a.
Korea	21.0	18.0	3.3	n.a.	n.a.	n.a.
Malaysia	23.6	29.0	-5.3	5.0	5.9	-0.9
Thailand	17.0	16.8	0.3	27.5	21.5	5.9
Philippines	14.4	n.a.	-14.4	n.a.	n.a.	n.a.
Indonesia	19.2	21.1	-1.9	n.a.	n.a.	n.a.

Source : Asian Development Bank, Key Indicators-2004

Part 3 – Cost of Borrowing

The government has to pay interest and the capital at maturity for its borrowings. The interest payments are computed on the basis of the nominal yield rates at which the borrowing has been contracted. In case of T-bills interest is paid to the lender at the time of maturity (up-front) and in case of T-bonds and RSs semi annually. The interest cost to the government is the total interest payments made to the borrowers during the lifetime of the borrowing instrument. The interest commitment made in a given year will be higher than the actual interest cost of that year due to the fact that the lifetime of the instrument may spread beyond one year.

The following table indicates the interest amount committed for 2005 and the respective interest rates applicable for domestic debt instruments.

Table 7
Cost of Borrowing

<i>Instrument</i>	<i>Interest Amount*</i>	<i>Weighted Average Interest</i>	<i>Repayment Period</i>	
	<i>Committed for 2005</i>	<i>Rate of the outstanding</i>	<i>Days</i>	<i>Years</i>
	<i>Rs. Mn</i>	<i>debt (% p. a.)</i>		
Treasury Bills	16,944	8.39%	145	0.40
Treasury Bonds	68,996	11.23%	1,030	2.82
Rupee Loans	18,179	12.19%	1,611	4.41
Overall	104,119	10.73%	916	2.51

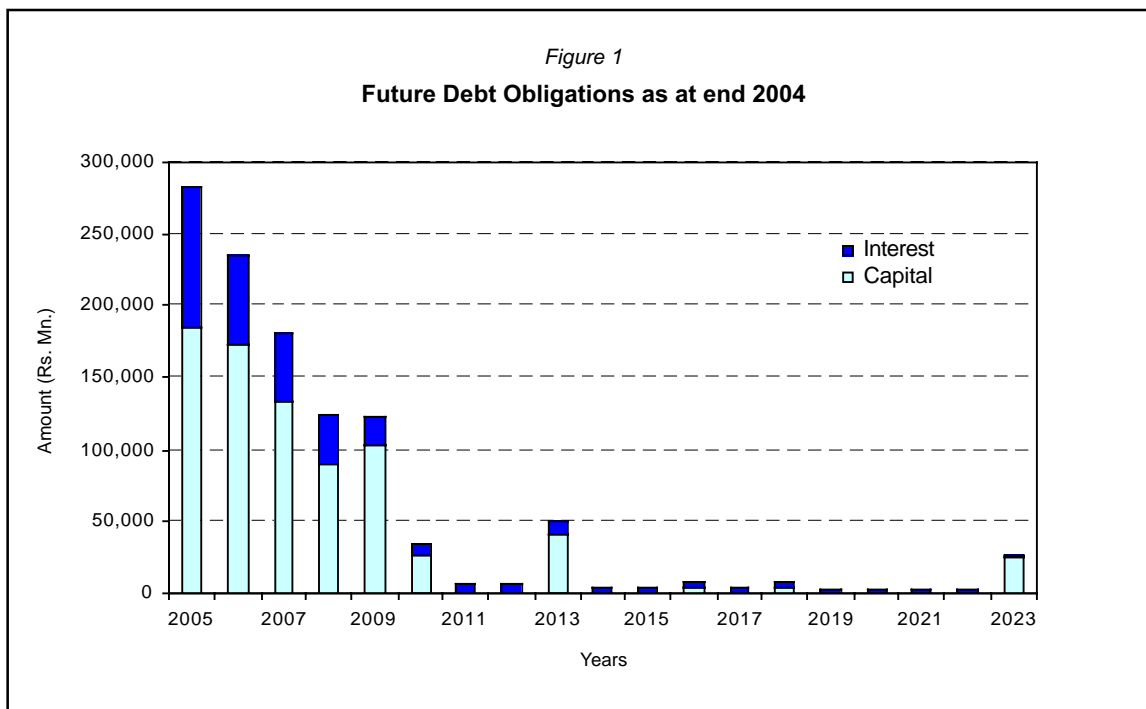
* Based on the latest revised estimates.

Table 8 gives the future debt obligations based on the stock of domestic debt prevailed as at end December 2004. These data would change depending on the subsequent debt issues and maturities.

The Figure 1 depicts debt obligations based on Table 8.

Table 8
Future Debt Obligations as at end 2004

<i>Year</i>	<i>Rs. Mn.</i>		
	<i>CAPITAL</i>	<i>INTEREST</i>	<i>Grand Total</i>
2005	184,787	97,457	282,244
2006	172,934	61,899	234,833
2007	132,881	47,808	180,688
2008	89,685	34,458	124,143
2009	103,553	19,086	122,639
2010	25,590	9,417	35,007
2011	–	6,863	6,863
2012	–	6,863	6,863
2013	40,776	9,612	50,388
2014	–	3,347	3,347
2015	–	3,347	3,347
2016	4,397	3,347	7,744
2017	–	3,347	3,347
2018	4,459	3,724	8,183
2019	–	2,961	2,961
2020	–	2,961	2,961
2021	–	2,961	2,961
2022	–	2,961	2,961
2023	25,088	1,515	26,603
Grand Total	784,151	323,933	1,108,084



Part 4 – Debt Market Developments

Important Events in the Debt Securities Market

- ◆ Treasury bills first introduced under LTBO (1923)
- ◆ T-bill issues under parliamentary approval started (1941)
- ◆ Issuance of T-bills brought under Treasury Bills Act (1953)
- ◆ Issuance of six month T-bills started (1981)
- ◆ Introduction of secondary market operations for T-bills introduced (1981)
- ◆ Commencement of weekly issues of T-bills (1986)
- ◆ Introduction of Tap System (1986)
- ◆ Issuance of T-bills with multiple maturities (1989)
- ◆ Tap System to agents in Colombo was extended (1989)
- ◆ Accredited Primary Dealer System was introduced (1992)
- ◆ Repurchase Agreement System for T-bills (1993)
- ◆ Primary Dealer System was reformed (1994)
- ◆ Phased out non-competitive bidding by Public Sector Institutional Investors (1995)
- ◆ T-bill Reverse Repo was introduced (1995)
- ◆ Fixing and prior announcement of T-bills to be issued under each maturity (1995)
- ◆ Amending laws relating to Treasury Securities (1995)
- ◆ Commencement of T-bond issue (1997)
- ◆ Electronic Bidding System (1998)
- ◆ Introduction of Dedicated Primary Dealer System (2000)
- ◆ Issuance of Callable Bonds (2000)
- ◆ Introduction of Fiscal Management (Responsibility) Act (2002)
- ◆ Introduction of Scripless Securities Settlement System & Central Depository (2004)

Scripless Securities Settlement System and the Central Depository System With Real Time Gross Settlement System

As a part of the reform process, the CBSL introduced a Real Time Gross Settlement (RTGS) system from September, 2003. The RTGS system is an electronic and computer based fund transfer and settlement system. The next reform introduced by the CBSL was the Scripless Securities Settlement System (SSSS) for government securities in February, 2004.

In the past, all debt instruments were issued in paper form. The purpose of the SSSS was to avoid involvement of paper based certificates by introducing an electronic system in which scripless securities are traded and settled. SSSS is a computer network in which trading of government securities in scripless form is recorded on an electronic system instantaneously. Under the SSSS, trading and recording of government securities are carried out electronically on a centralised computer system. In order to record trade information of scripless securities, a system known as a “Central Depository

of Securities” (CDS) was established in the PDD of the CBSL. The CDS has been named as “LankaSecure”. This depository maintains all information on trades and ownership of scripless government securities with details recorded to the level of individual investors.

All Licensed Commercial Banks, Primary Dealers (PDs), Domestic Operations Department of the CBSL and selected institutional investors are the participants of the new systems.

Licensed Commercial Banks and PDs who are known as ‘dealer direct participants’ are allowed to maintain and operate accounts in the CDS on their behalf and on behalf of their customers. Institutional investors such as Employees’ Provident Fund who are known as ‘direct participants’ are not permitted to maintain accounts for individual customers but they are allowed to maintain accounts only on their behalf.

Under the SSSS all payments due on scripless securities are made to the beneficial owners through PDs and Licensed Commercial Banks via RTGS. Statements issued by LankaSecure provide official confirmation of the securities holdings or transactions that took place.

Product Development

CBSL is mindful of the need for issuing new debt instruments to the market, and the need to develop a long-term yield curve. Complying with this requirement the PDD issued long-term Treasury bonds with maturity periods of 10, 15 and 20 years in 2003. Based on the market developments and government cash flow requirements the PDD is planning to issue long-term treasury bonds during the second half of 2004.

One of the other attractive debt instruments that the PDD issued was the Sri Lanka Development Bonds (SLDBs). SLDBs which are issued in terms of Foreign Loans Act are Dollar denominated foreign loans. These were issued at a variable interest rate with two year maturity. The variable rate was decided on the basis of LIBOR+ margin, where the margin was decided on competitive bidding from the market participants. The borrowing through SLDBs may reduce the need for borrowing from the domestic market thus reducing the pressure on the domestic interest rates.

Part 5 – The Debt Profile

(a) Total Government Debt

Table 9
Composition of Public Debt^{1/}

Category	1999		2000		2001		2002		2003 ^{2/}		2004 ^{2/}	
	(Rs.Mn)	%	(Rs.Mn)	%	(Rs.Mn)	%	(Rs.Mn)	%	(Rs.Mn)	%	(Rs.Mn)	%
Domestic Debt	491,937	48.7	603,026	52.5	731,056	54.4	899,040	55.9	993,104	54.2	1,114,158	53.7
Treasury bills	124,996		134,996		170,995		210,995		219,295		243,886	
Treasury bonds ^{3/}	104,867		204,124		229,174		347,128		487,504		647,746	
Rupee loans	262,056		263,888		292,813		287,700		248,414		164,758	
Sri Lanka												
Development Bonds	0		0		14,766		24,181		8,852		26,250	
Borrowing from FCBUs	0		0		23,290		29,018		29,021		31,500	
TCDs	11		11		11		11		11		11	
TRCs	7		7		7		7		7		7	
Foreign Debt ^{4/}	517,281	51.3	552,814	47.5	611,050	45.5	709,517	44.1	840,256	45.8	959,548	46.3
Total	1,009,218	100	1,155,840	100	1,342,106	100	1,608,557	100	1,833,360	100	2,073,706	100

Source : Central Bank of Sri Lanka

1/ Debt managed and serviced by the Public Debt Department.

2/ Provisional.

3/ Includes bonds issued in favour of CWE.

4/ Excludes outstanding defence loans of the government. Data are as at November 2004.

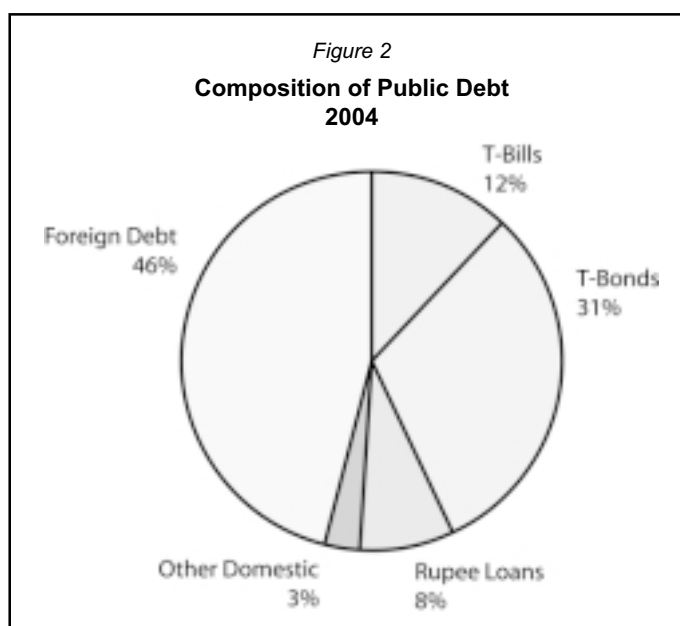


Table 10
**Government Debt Outstanding
1977 - 2004**

(Rs. million)

Year	Outstanding Debt		
	Domestic	Foreign	Total
1977	14,392	10,594	24,986
1978	16,368	14,573	30,941
1979	19,834	15,841	35,675
1980	29,070	22,277	51,347
1981	3,551	29,172	32,723
1982	45,267	35,263	80,530
1983	51,770	46,688	98,458
1984	51,652	54,182	105,834
1985	62,611	69,452	132,063
1986	69,499	88,304	157,803
1987	78,997	112,441	191,438
1988	98,595	125,657	224,252
1989	117,561	156,298	273,859
1990	133,897	176,883	310,780
1991	152,119	214,579	366,698
1992	170,020	235,538	405,558
1993	213,685	270,224	483,909
1994	250,094	301,812	551,906
1995	289,410	346,286	635,696
1996	356,703	359,685	716,388
1997	287,740	376,331	664,071
1998	463,426	461,273	924,699
1999	543,464	507,866	1,051,330
2000	676,660	542,040	1,218,700
2001	815,965	636,741	1,452,706
2002	948,386	721,956	1,670,342
2003	1,019,969	843,882	1,863,851
2004 (a)	1,113,830	959,548	2,073,378

(a) Foreign loans are as at end November, 2004

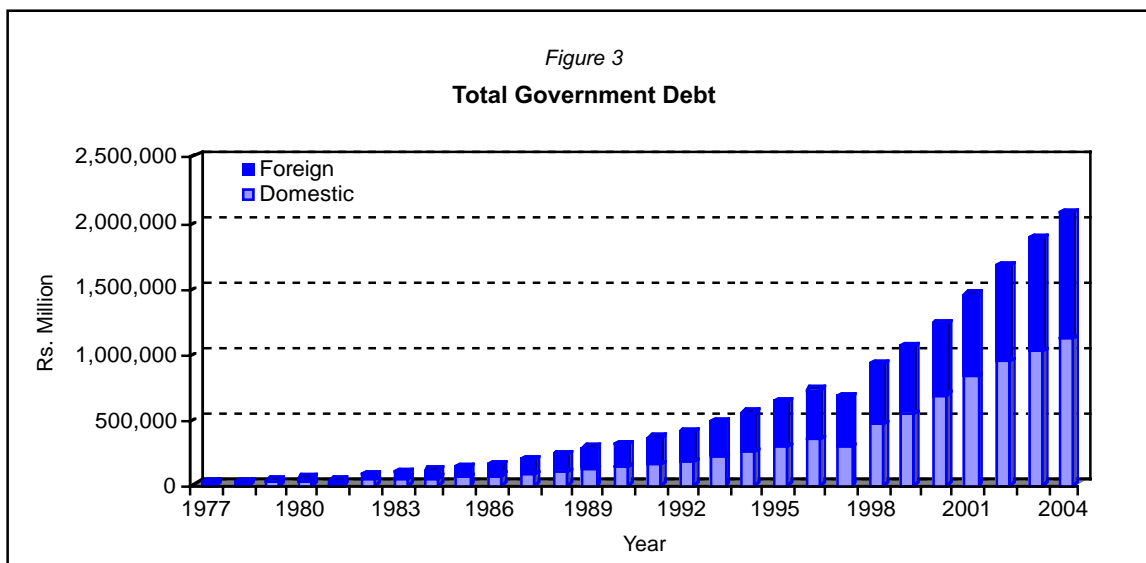


Table 11
Composition of Outstanding Government Debt

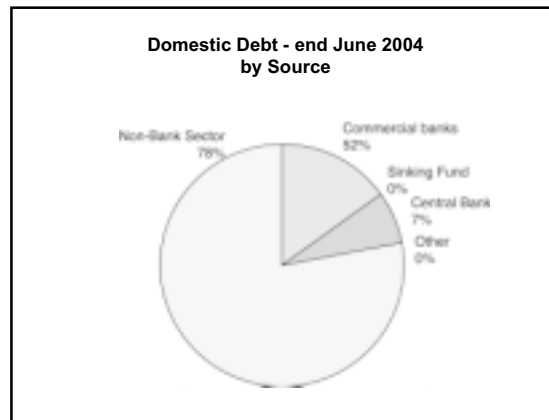
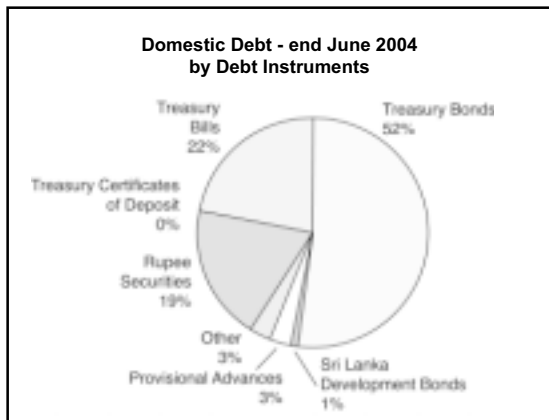
<i>Item</i>	<i>End Dec 2003</i>	<i>End June 2004</i>
Total Domestic Debt	1,019,969	1,086,045
Short - Term	249,621	274,920
Treasury bills	219,295	236,340
Provisional advances from the Central Bank	31,204	34,723
Import bills held by commercial banks	180	220
Other liabilities to the banking sector net of bank deposits	-8,511	812
Other	7,453	3,857
Medium and long - term	770,348	811,125
Rupee securities	248,414	205,725
Treasury bonds (a)	483,107	558,965
Treasury certificates of deposit	11	11
Sri Lanka Development Bonds	8,816	14,832
Other	30,000	31,585
By Debt Instrument	1,019,969	1,086,045
Rupee securities	248,414	205,725
Treasury bills	219,295	236,340
Treasury bonds	483,107	558,965
Treasury certificates of deposit	11	11
Sri Lanka Development Bonds	8,816	14,832
Provisional advances	31,204	34,723
Other	29,122	35,442
By Institution	1,019,969	1,086,045
Banks	228,411	240,193
Central Bank		
By debt instrument	44,587	73,433
Treasury bills	13,365	38,851
Treasury bonds	-	-
Provisional advances	31,204	34,723
Other	18	-141
Commercial Banks		
By debt instrument	183,824	166,760
Rupee loans	43,481	43,481
Treasury bills	44,637	28,067
Treasury bonds	65,246	48,350
Sri Lanka Development Bonds	8,816	14,832
Other	21,644	32,030
Sinking fund	100	100
Rupee loans	100	100
Non bank sector		
By debt instrument	791,459	845,852
Rupee loans	204,833	162,244
Treasury bills	161,293	169,422
Treasury bonds	417,861	510,615
Treasury certificates of deposit	11	11
Other	7,461	3,571

Part 5 - The Debt Profile

<i>Item</i>	<i>End Dec 2003</i>	<i>End June 2004</i>
By institution	791,459	845,852
National Savings Bank	138,939	143,064
Employees' Provident Fund	323,182	345,550
Other	329,338	357,138
Total Foreign Debt (b)	843,882	900,586
By Type	843,882	900,586
Project Loans	769,559	825,679
Non-Project Loans	74,323	74,908
Commodity	68,891	70,674
Other	5,431	4,234
By Institution	843,882	900,586
Concessional Loans	822,839	880,189
Multilateral	404,937	432,702
Bilateral	417,902	447,487
Non-Concessional Loans	21,043	20,398
Multilateral	219	232
Bilateral	836	666
Commercial Loans	19,988	19,499
Total Outstanding		
Government Debt	1,863,851	1,986,631

- (a) Excludes bonds issued in favour of CWE.
- (b) Includes outstanding defence loans of the government.

Figure 4
Composition of Outstanding
Government Debt



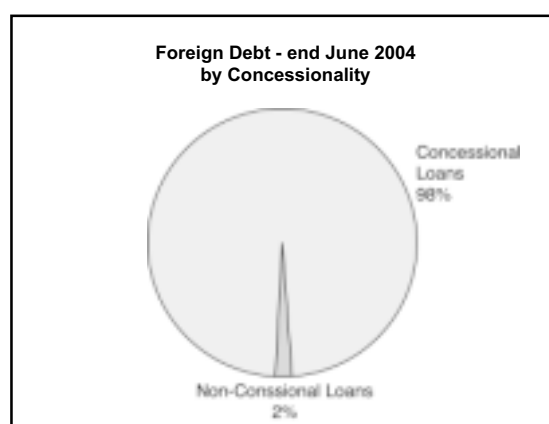
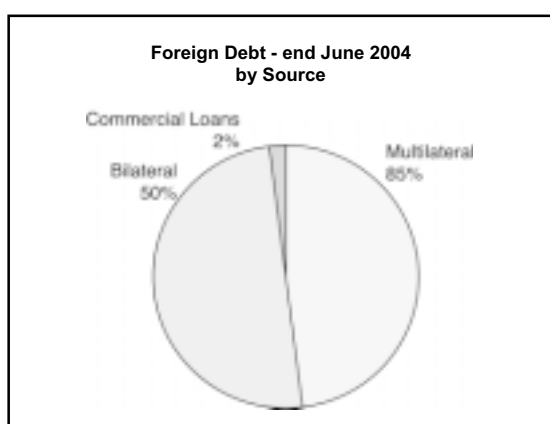
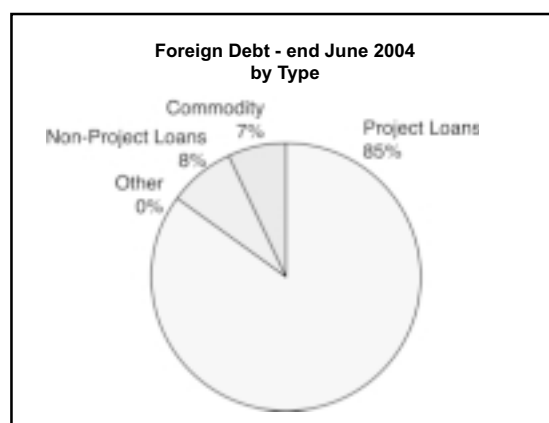
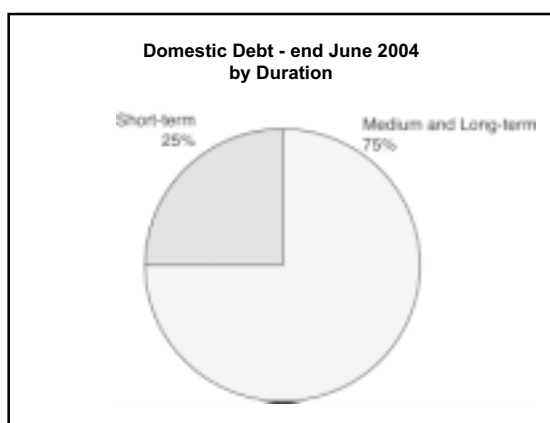


Table 12
Issuing Methods of government Securities

Year	Auction Systems	Non-auction Systems	Total
			Rs. Billion
1996	190.8	94.1	284.9
1997	195.6	73.8	269.4
1998	242.6	79.3	321.9
1999	236.5	64.2	300.7
2000	240.6	109.0	349.6
2001	227.1	118.9	346.0
2002	387.5	200.7	588.2
2003	358.7	247.1	605.8
2004	379.6	328.8	708.4
Relative Share (%)			
1996	67.0	33.0	100.0
1997	72.6	27.4	100.0
1998	75.4	24.6	100.0
1999	78.6	21.4	100.0
2000	68.8	31.2	100.0
2001	65.6	34.4	100.0
2002	65.9	34.1	100.0
2003	59.2	40.8	100.0
2004	53.6	46.4	100.0

(b) Domestic DebtTable 13
Domestic Debt By instruments and Maturities - 2004

				Rs. Million
	<i>Maturity</i>	<i>Issues</i>	<i>Repayments</i>	<i>Net Issues</i>
Treasury Bills	91 day	197,147	185,691	11,456
	182 day	85,605	50,828	34,777
	364 day	114,047	145,863	(31,816)
	Other	73,174	63,000	10,174
	Total	469,973	445,382	24,591
T Bonds	1 year	19,970	–	19,970
	2 year	101,028	21,422	79,606
	3 year	51,700	19,534	32,166
	4 year	9,600	10,000	(400)
	5 year	11,500	6,000	5,500
	6 year	13,400	–	13,400
	9 year	10,000	–	10,000
	Total	217,198	56,956	160,242
R Loans	2/5 year	–	38,419	(38,419)
	2/6 year	564	–	564
	4/8 year	–	3,500	(3,500)
	5/6 year	–	6,000	(6,000)
	5/7 year	–	1,500	(1,500)
	6/7 year	–	33,800	(33,800)
	6/8 year	–	1,000	(1,000)
	Total	564	84,219	(83,655)
Sri Lanka Development Bonds	2 year	25,705	9,344	16,361
	Total	25,705	9,344	16,361
Loans from FCBUs	Total	–	–	–
	Total	713,440	595,901	117,539

Source : Central Bank of Sri Lanka

Table 14
Ownership of Rupee Loans

	Rs. Million										
<i>Owner</i>	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 (a)
1. Bank Sector	24,840	24,928	44,321	44,321	44,321	44,068	44,068	44,068	43,981	43,481	29,934
1.1 Central Bank	-	-	-	-	-	-	-	-	-	-	-
1.2 Commercial Banks (b)	24,840	24,928	44,321	44,321	44,321	44,068	44,068	44,068	43,981	43,481	29,934
2. Non Bank Sector	112,714	133,000	161,654	195,154	206,249	217,988	219,820	248,745	243,720	204,933	134,824
2.1 Savings Institutions (c)	30,756	34,905	44,303	54,950	50,288	50,362	46,374	53,123	51,695	47,906	25,418
2.2 Sinking Funds	137	100	100	100	100	100	100	100	100	100	2,003
2.3 Depart. & Other Official Funds (d)	213	212	509	503	4,897	9,237	9,238	10,444	11,732	17,550	12,738
2.4 Employees' Provident Fund	77,586	93,576	110,231	127,818	142,821	150,661	156,309	177,157	171,609	130,319	74,308
2.5 Other Provident Funds	3,647	3,846	6,283	9,455	5,531	5,813	6,006	6,351	7,019	7,144	18,491
2.6 Insurance Corporations	312	303	158	1,508	1,793	993	993	285	285	285	285
2.7 Insurance Companies	-	-	-	-	-	-	-	408	408	-	-
2.8 Other State Corporations	12	10	10	756	755	756	746	831	831	1,575	1,575
2.9 Other (e)	51	48	60	64	64	66	54	46	41	54	6
Total	137,554	157,928	205,975	239,475	250,570	262,056	263,888	292,813	287,701	248,414	164,758

Sources: Central Bank of Sri Lanka
Ministry of Finance

- (a) Provisional
 (b) Includes the value of long term bonds of Rs. 24,088 million and Rs. 19,393 million issued by the government in connection with the restructuring of the two state banks in 1993 and 1996, respectively.
 (c) Includes the value of long term bonds of Rs. 4,480 million issued by the Government to recapitalise the liabilities of the NSB in 1996.
 (d) From 1998, the Employees Trust Fund is included. Prior to 1998, it was included under Other Provident Funds.
 (e) Comprises co-operative banks, other companies, clubs, institutions and individuals.

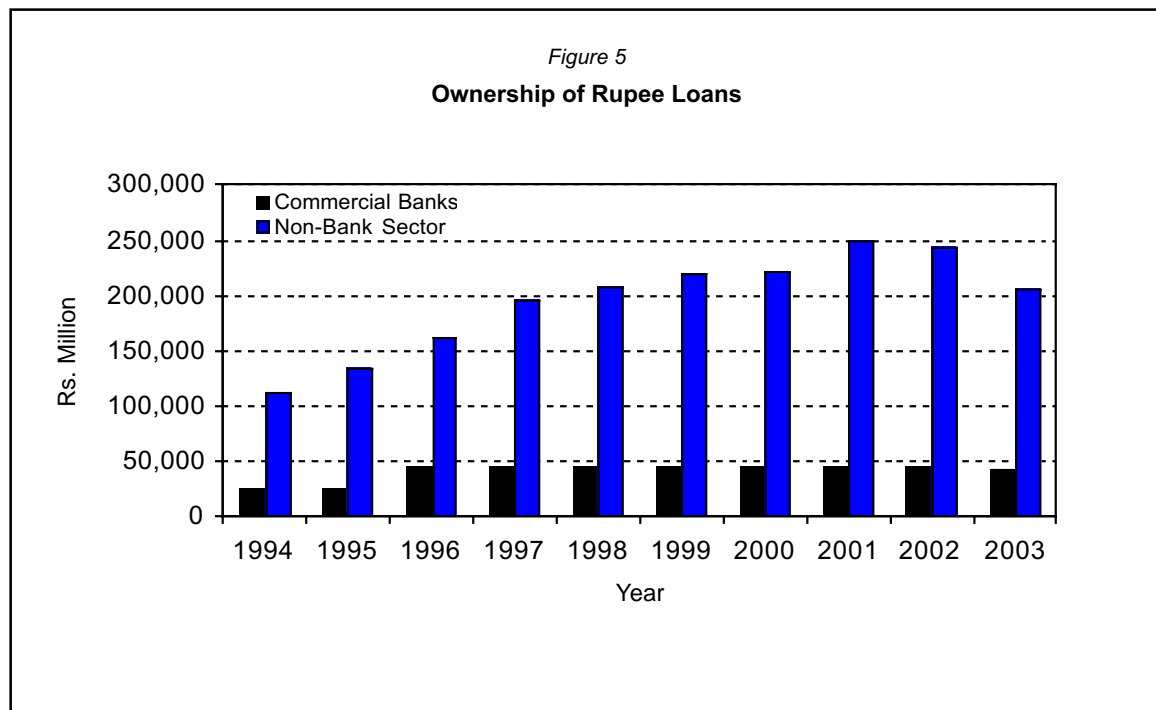


Table 15
Changes in Treasury Bill Limits

<i>Date</i>	<i>Change</i> <i>(Rs. Mn)</i>	<i>Limit</i> <i>(Rs. Mn)</i>
1941.07.29	10	10
1948.06.01	15	25
1949.07.15	25	50
1950.07.28	50	100
1953.02.26	100	200
1959.04.23	150	350
1959.10.29	100	450
1960.08.23	200	650
1961.06.28	100	750
1961.12.14	250	1,000
1963.03.21	150	1,150
1963.10.01	100	1,250
1964.08.22	250	1,500
1968.01.27	250	1,750
1969.08.18	200	1,950
1970.09.25	100	2,050
1972.07.21	500	2,550
1976.11.26	450	3,000
1980.03.06	1,000	4,000
1980.07.10	2,000	6,000
1980.10.17	2,000	8,000
1980.12.01	2,000	10,000
1981.07.08	3,000	13,000
1981.11.24	5,000	18,000
1982.11.02	5,000	23,000
1985.11.10	2,000	25,000
1986.11.13	10,000	35,000
1988.08.11	5,000	40,000
1988.10.28	5,000	45,000
1988.12.07	10,000	55,000
1989.04.11	10,000	65,000
1990.10.29	25,000	90,000
1992.12.16	35,000	125,000
1997.11.05	-10,000	115,000
1998	10,000	125,000
2000	10,000	135,000
2001	40,000	175,000
2002	75,000	250,000
2004	50,000	300,000

Table 16
Ownership of Treasury Bills and Treasury Bonds (a)

Owner	Rs. Million											
	Treasury Bills						Treasury bonds (b)					
	1998	1999	2000	2001	2002	2003(c)	1998	1999	2000	2001	2002	2003(c)
1. Bank Sector	24,358	40,155	50,606	75,934	73,818	58,002	5,808	8,405	38,648	22,214	35,523	65,246
1.1 Central Bank	9,508	27,322	42,238	64,842	44,923	13,365	-	452	30,936	1,616	-	-
1.2 Commercial Banks	14,850	12,833	8,368	11,092	28,895	44,637	5,808	7,953	7,712	20,598	35,523	65,246
2. Non-Bank Sector	95,638	84,841	84,390	95,061	137,177	161,294	43,107	96,462	165,476	206,960	311,605	417,860
2.1 Employees'												
Provident Fund	2,978	3,285	5,430	3,112	2,953	5,198	11,912	27,635	50,003	64,758	109,093	187,665
2.2 Other Provident												
Funds	209	414	418	-	816	906	83	147	449	-	591	287
2.3 Savings Institutions	6,600	8,537	15,417	13,889	22,645	36,534	10,372	20,656	25,472	28,964	42,292	54,499
2.4 Insurance & Finance												
Companies	11,470	13,509	9,641	7,576	9,179	7,742	6,849	7,987	10,940	16,258	21,159	20,740
2.5 Depart.& other												
Official Funds	10,054	8,343	1,480	547	3,040	6,898	571	907	13,176	16,061	17,010	17,375
2.6 Private and other	64,327	50,753	52,004	69,937	98,544	104,016	13,320	39,130	65,436	80,919	121,460	137,294
Total	119,996	124,996	134,996	170,995	210,995	219,296	48,915	104,867	204,124	229,174	347,128	483,106

(a) Adjusted for secondary market transactions.

Source : Central Bank of Sri Lanka

(b) Excludes bonds issued in favour of CWE.

(c) Provisional.

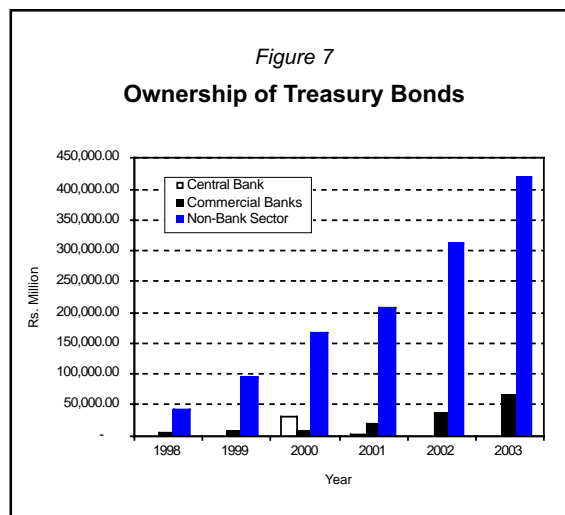
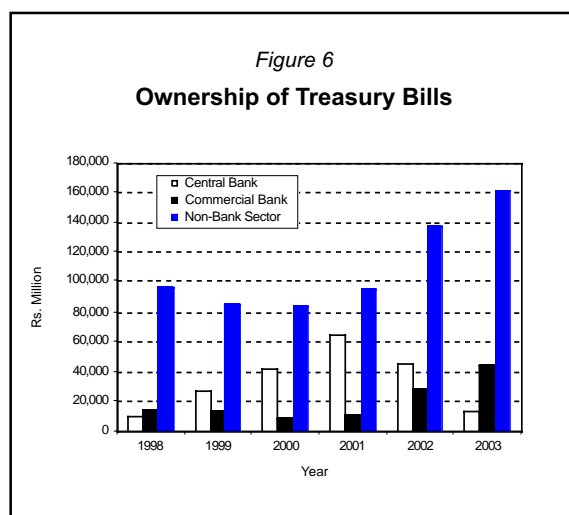


Table 17
Details of Outstanding Treasury Bonds as at end 2004

<i>Issue Date</i>	<i>Maturity Date</i>	<i>Series</i>	<i>Face Value</i>
1-Jan-00	1-Jan-05	11.50% 2005 A	9,150,000,000.00
1-Jan-02	1-Jan-05	12.25% 2005 A	6,250,000,000.00
1-Jan-03	1-Jan-05	12.50% 2005 A	2,500,000,000.00
11-Jan-02	11-Jan-05	12.25% 2005 B	4,590,000,000.00
1-Feb-02	1-Feb-05	12.25% 2005 C	3,370,000,000.00
15-Feb-02	15-Feb-05	12.25% 2005 D	4,000,000,000.00
1-Mar-02	1-Mar-05	12.25% 2005 E	7,000,000,000.00
8-Mar-02	8-Mar-05	12.25% 2005 F	6,100,000,000.00
15-Mar-00	15-Mar-05	11.50% 2005 B	6,550,000,000.00
1-Apr-00	1-Apr-05	11.50% 2005 C	5,150,000,000.00
1-Apr-02	1-Apr-05	12.25% 2005 G	5,000,000,000.00
16-Apr-02	16-Apr-05	12.25% 2005 H	6,000,000,000.00
15-May-00	15-May-05	11.50% 2005 D	4,500,000,000.00
5-Jul-02	5-Jul-05	12.25% 2005 J	5,250,000,000.00
15-Jul-02	15-Jul-05	12.25% 2005 K	8,500,000,000.00
26-Jul-02	26-Jul-05	12.25% 2005 L	3,100,000,000.00
1-Aug-02	1-Aug-05	12.25% 2005 M	3,470,000,000.00
1-Sep-99	1-Sep-05	12.00% 2005 A	2,500,000,000.00
2-Sep-02	2-Sep-05	12.25% 2005 N	2,000,000,000.00
19-Sep-02	19-Sep-05	12.25% 2005 O	3,600,000,000.00
1-Oct-02	1-Oct-05	12.25% 2005 P	3,500,000,000.00
21-Oct-02	21-Oct-05	12.25% 2005 Q	6,750,000,000.00
1-Dec-03	1-Dec-05	08.00% 2005 A	12,500,000,000.00
1-Jan-00	1-Jan-06	11.75% 2006 A	26,526,000,000.00
1-Mar-03	1-Mar-06	10.25% 2006 A	29,142,000,000.00
15-Mar-00	15-Mar-06	11.75% 2006 B	2,000,000,000.00
1-Apr-00	1-Apr-06	11.75% 2006 C	4,900,000,000.00
19-Apr-02	19-Apr-06	12.00% 2006 A	3,000,000,000.00
25-Apr-02	25-Apr-06	12.00% 2006 B	4,550,000,000.00
2-May-02	2-May-06	12.00% 2006 C	3,471,000,000.00
15-May-00	15-May-06	11.75% 2006 D	4,000,000,000.00
1-Jun-04	1-Jun-06	08.00% 2006 A	22,500,000,000.00
15-Jul-04	15-Jul-06	08.00% 2006 B	25,510,000,000.00
19-Jul-02	19-Jul-06	12.00% 2006 D	1,000,000,000.00
1-Aug-02	1-Aug-06	12.00% 2006 E	4,000,000,000.00
23-Aug-02	23-Aug-06	12.00% 2006 F	2,700,000,000.00
1-Sep-03	1-Sep-06	07.90% 2006 A	17,000,000,000.00
1-Nov-02	1-Nov-06	12.00% 2006 G	3,000,000,000.00
1-Mar-03	1-Mar-07	10.00% 2007 A	29,750,000,000.00
17-May-02	17-May-07	11.75% 2007 A	4,500,000,000.00
31-May-02	31-May-07	11.75% 2007 B	4,200,000,000.00
15-Jun-03	15-Jun-07	10.00% 2007 B	11,500,000,000.00
1-Jul-02	1-Jul-07	11.75% 2007 C	4,470,000,000.00
1-Aug-02	1-Aug-07	11.75% 2007 D	3,250,000,000.00
15-Aug-03	15-Aug-07	07.80% 2007 A	28,650,000,000.00
16-Aug-02	16-Aug-07	11.75% 2007 E	1,250,000,000.00
2-Sep-02	2-Sep-07	11.75% 2007 F	16,300,000,000.00
1-Oct-02	1-Oct-07	11.75% 2007 G	4,500,000,000.00
7-Oct-02	7-Oct-07	11.75% 2007 H	6,000,000,000.00
1-Nov-02	1-Nov-07	11.75% 2007 J	12,000,000,000.00
1-Nov-03	1-Nov-07	07.80% 2007 B	4,300,000,000.00
1-Jan-03	1-Jan-08	11.75% 2008 A	12,000,000,000.00
15-Jan-03	15-Jan-08	09.75% 2008 A	20,000,000,000.00

Part 5 - The Debt Profile

Public Debt
Management
and
Debt Profile
of Sri Lanka

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<i>Issue Date</i>	<i>Maturity Date</i>	<i>Series</i>	<i>Face Value</i>
1-Apr-03	1-Apr-08	09.75% 2008 B	8,200,000,000.00
26-Jun-02	26-Jun-08	11.50% 2008 A	9,000,000,000.00
19-Jul-02	19-Jul-08	11.50% 2008 B	1,000,000,000.00
1-Aug-02	1-Aug-08	11.50% 2008 C	4,000,000,000.00
2-Sep-02	2-Sep-08	11.50% 2008 D	5,000,000,000.00
13-Sep-02	13-Sep-08	11.50% 2008 E	1,500,000,000.00
15-Sep-03	15-Sep-08	07.70% 2008 A	11,600,000,000.00
1-Oct-02	1-Oct-08	11.50% 2008 F	2,500,000,000.00
7-Oct-02	7-Oct-08	11.50% 2008 G	7,500,000,000.00
1-Nov-02	1-Nov-08	11.50% 2008 H	13,000,000,000.00
1-Jan-03	1-Jan-09	11.50% 2009 A	19,500,000,000.00
15-Jan-03	15-Jan-09	09.50% 2009 A	16,250,000,000.00
2-May-03	2-May-09	09.50% 2009 B	14,000,000,000.00
1-Aug-03	1-Aug-09	07.60% 2009 A	19,000,000,000.00
1-Nov-03	1-Nov-09	07.60% 2009 B	22,150,000,000.00
1-Apr-04	1-Apr-10	07.60% 2010 A	2,000,000,000.00
15-Jan-03	15-Jan-13	08.50% 2013 A	10,000,000,000.00
15-Jul-03	15-Jul-13	08.50% 2013 B	12,000,000,000.00
1-Aug-03	1-Aug-13	07.50% 2013 A	17,700,000,000.00
1-Nov-03	1-Nov-13	07.50% 2013 B	4,250,000,000.00
10-Nov-03	10-Nov-16	00.00% 2016 A	4,397,000,000.00
1-Feb-03	1-Feb-18	08.50% 2018 A	1,500,000,000.00
15-Jul-03	15-Jul-18	08.50% 2018 B	400,000,000.00
15-Aug-03	15-Aug-18	07.50% 2018 A	3,000,000,000.00
1-Oct-03	1-Oct-23	07.00% 2023 A	1,000,000,000.00
Total			647,746,000,000.00

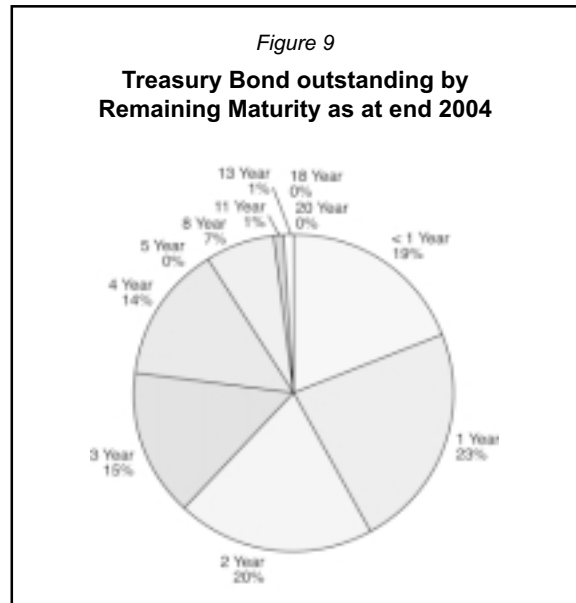
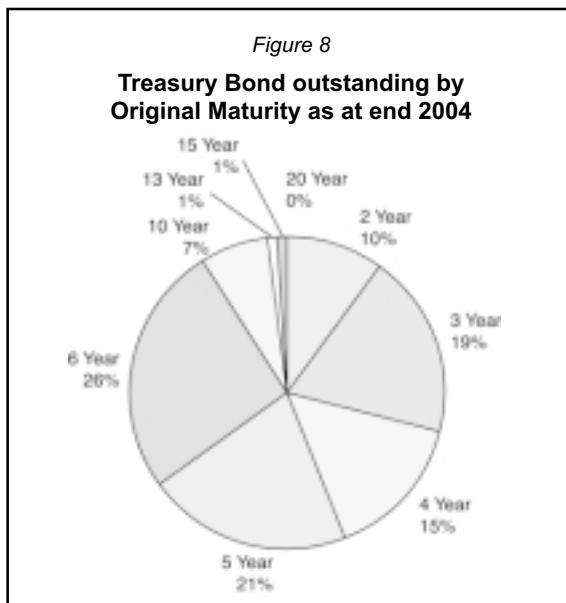


Table 18
**Changes in Relative Composition of Government Debt
and Extension of Yield Curve**

	1970	1980	2000	2003	2004
A. Maturity (%)					
Short term	37	40	31	24	39
Medium and long term	63	60	69	76	61
B. Marketability (%)					
Marketable	31	33	50	69	85
Non-marketable	69	67	50	31	15
C. Investor base (%)					
Central Bank	39	38	14	4	7*
Commercial banks	6	3	15	18	15*
Captive sources	52	58	52	42	45*
Others	2	1	19	35	33*
D. Maximum maturity in the yield curve					
Primary market (years)	1	1	3	20	4
Secondary market (years)	1	1	3	6	15

* as at June, 2004

Secondary Market for Treasury Bills & Treasury Bonds

Table 19
Volumes Traded in the Secondary Market as Reported by Primary Dealers

		(Rs. Million)				
		2000 (Aug-Dec)	2001	2002	2003	2004
Outright Transactions						
T-Bills	Purchased	22,836	27,092	38,007	37,408	72,693
	Sold	200,276	214,917	164,296	265,757	317,025
	Total	223,112	242,009	202,303	303,166	389,718
T-Bonds	Purchased	299,778	107,987	24,857	346,801	173,098
	Sold	368,603	185,814	49,067	426,865	222,326
	Total	668,381	293,801	73,924	773,665	395,424
Repurchase Transactions						
T-Bills	Repo	680,720	396,523	298,840	1,058,459	286,866
	Reverse Repo	169,862	201,931	162,715	240,911	289,823
	Total	850,582	598,454	461,555	1,299,371	576,689
T-Bonds	Repo	1,458,702	1,006,379	481,869	1,938,581	1,983,963
	Reverse Repo	269,808	225,896	376,825	304,995	807,735
	Total	1,728,510	1,232,275	858,694	2,243,576	2,791,698

(c) Foreign Debt**Composition of Outstanding Foreign Debt - 2004^{a/}**

Table 20
Creditor Category & Use of Funds
as at end November, 2004

(Rs. Million)

Category	Bilateral	Multilateral	Commercial	Export Credit	Total	% of total
Cash	530	101	0	494	1,125	0.1
Commodity	30,991	0	0	221	31,212	3.3
Food	36,584	0	0	0	36,584	3.8
Goods & Services	6,886	0	0	0	6,886	0.7
Military	908	0	0	0	908	0.1
Programme	14,575	78,235	10,501	0	103,311	10.8
Project	365,764	377,646	8,303	27,106	778,819	81.2
Technical Assistance	0	703	0	0	703	0.1
Total	456,238	456,685	18,804	27,821	959,548	100.0
%	47.5	47.6	2.0	2.9	100.0	

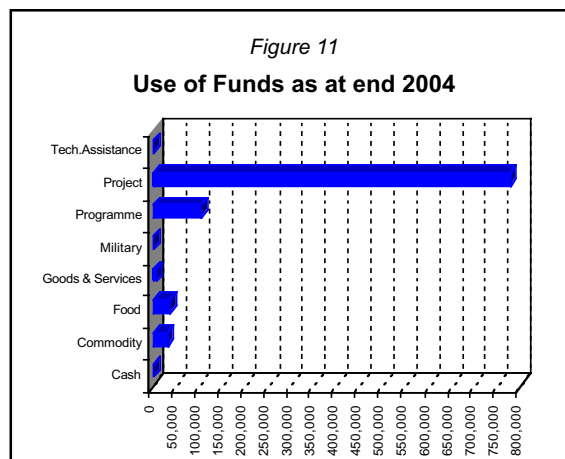
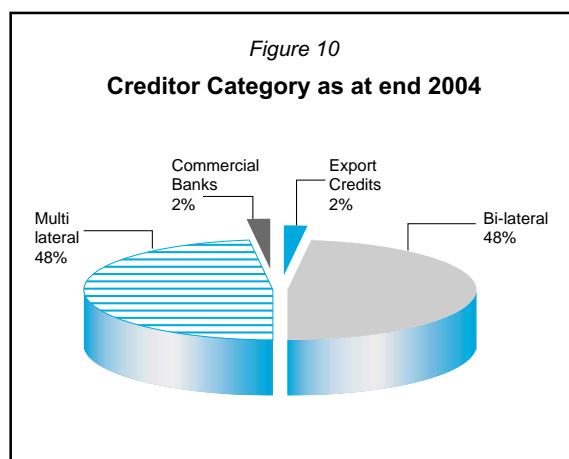


Table 21
Concessional of Loans
as at end November, 2004

Category	Outstanding Debt	
	Amount (Rs.mn)	(%)
Concessional	940,714	98.0
Non-concessional	18,834	2.0
Total Debt	959,548	100

a/ Excludes outstanding defence loans of the government.

Table 22
Ownership of Outstanding Foreign Debt (a)

Source	1980	1990	1995	2000	2002	2003(b)
	Rs. Million					
1. Multilateral	109,283	123,016	144,594	250,096	341,326	405,117
ADB	44,688	51,318	60,748	115,353	164,017	195,895
EEC	316	315	336	–	–	559
IBRD	1,185	1,048	970	89	379	204
IDA	60,097	67,220	79,112	129,403	169,336	199,782
IFAD	2,294	2,503	2,876	4,678	6,381	7,116
OPEC	704	610	551	91	464	538
Nordic Development Fund	–	–	–	482	749	1,023
2. Bilateral	151,273	169,446	191,063	277,317	349,007	398,926
Canada	5,427	5,064	5,492	6,219	6,626	7,746
France (c)	4,888	5,235	6,187	5,907	7,596	8,735
Germany	23,707	24,858	28,961	28,338	39,545	46,657
India	35	27	111	1,146	2,786	6,702
Japan	73,815	89,291	101,557	172,932	217,151	255,277
Kuwait	1,359	1,605	1,661	2,180	2,884	2,939
Netherlands	3,824	3,899	3,928	2,505	2,610	2,645
People's Republic of China	987	699	717	2,088	3,373	3,115
Saudi Arabian Fund	788	685	665	38	–	–
Switzerland	496	557	693	–	–	–
USA	34,180	34,747	37,817	51,053	57,937	55,229
Other	1,767	2,779	3,274	4,911	8,499	9,881
3. Financial Markets	9,668	9,350	10,630	14,627	31,625	39,801
Riggs National Bank	742	750	811	965	3,831	3,746
Indo-Suez Bank (France and Stockholm)	336	285	265	178	144	129
Bankers' Trust Co.	693	700	757	896	948	877
C. Itoh & Co., Ltd.	132	–	–	–	158	–
France	1,789	1,702	1,712	979	–	–
Manufacturers Hanover Trust Co.	497	243	64	–	–	–
Skandinaviska Enskilda Bankens Sweden	164	124	76	–	868	774
Solomon Bros. Inc. New York	865	827	843	869	–	9,635
Other	4,450	4,719	6,102	10,740	25,676	24,640
Total	270,224	301,812	346,286	542,040	721,958	843,844

(a) Includes outstanding defence loans of the government.

Sources: Central Bank of Sri Lanka
Ministry of Finance

(b) Provisional

(c) Includes loans from financial institutions.

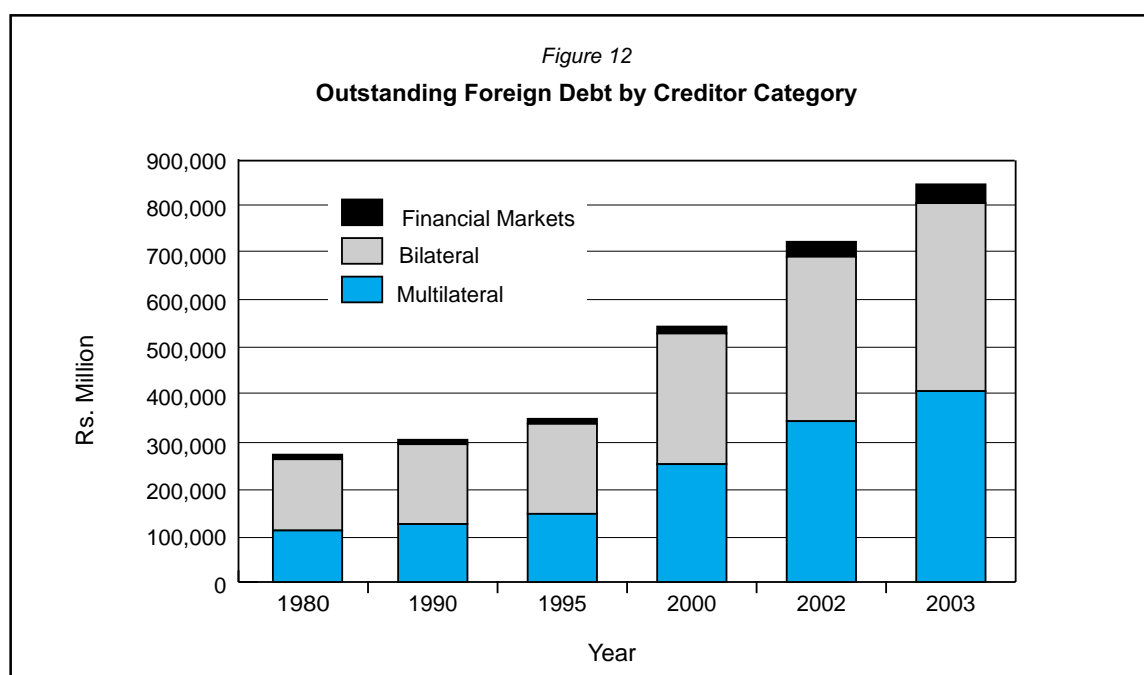


Table 23
**Currency Composition
of Outstanding Government Foreign Debt**
(as at end November, 2004)

<i>Currency</i>	<i>In Foreign Currency</i>	<i>In Sri Lankan Rupees</i>	<i>%</i>
Special Drawing Right	2,582	402,714	41.97
Japanese Yen	295,554	301,790	31.45
US Dollar	1,390	145,981	15.21
EURO	576	79,757	8.31
Other		29,306	2.96
Total		959,548	100

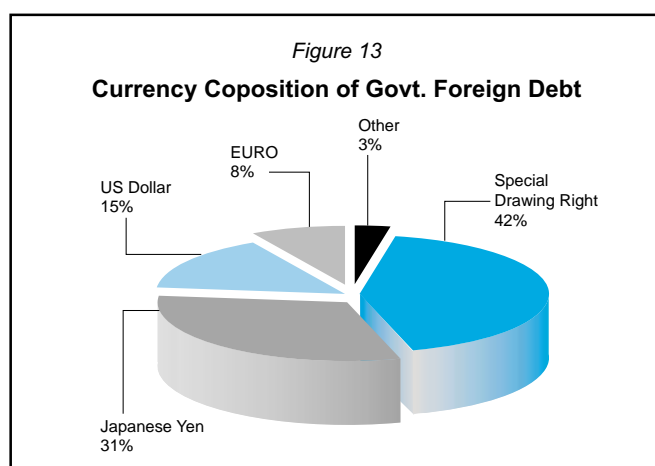


Table 24
Foreign Loan Disbursements by Source

<i>Category</i>	<i>Disbursements</i>					
	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003(a)</i>	<i>2004(a)</i>
1. Donor	24,889	26,966	40,934	47,623	87,536	42,878
Bilateral	12,823	16,804	26,455	18,835	29,786	19,834
Multilateral	10,880	9,490	12,500	23,787	41,119	18,877
Commercial	–	–	–	–	10,082	–
Export Credits	1,186	672	1,979	5,001	6,549	4,167
2. Use of Funds	24,889	26,966	40,934	47,623	87,536	42,878
Cash	–	–	–	–	–	–
Commodity	28	6	871	317	–	–
Food	–	385	701	–	–	–
Goods & Services	–	–	–	905	2,321	3,191
Military	–	–	553	–	–	–
Programme	–	–	2,252	6,389	33,012	1,509
Project	24,860	26,575	36,557	40,012	52,118	37,877
Technical Assistance	1	–	–	–	85	301

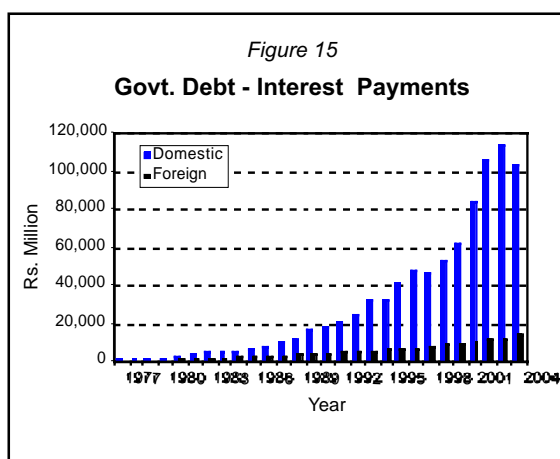
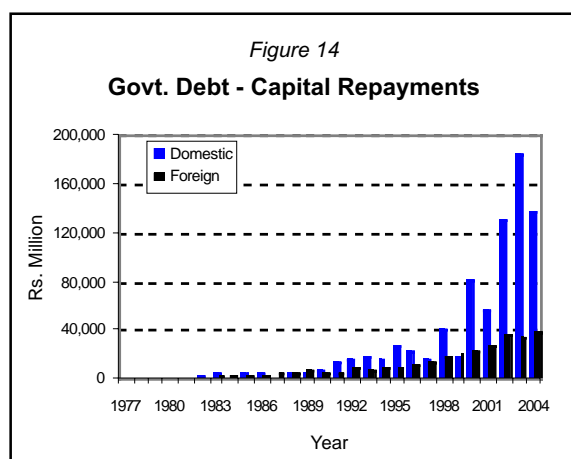
(a) Provisional

(d) Service PaymentsTable 25
Government Debt Repayments and Interest Payments

(Rs. Million)

Year	Principal Repayments			Interest Payments		
	Domestic	Foreign	Total	Domestic	Foreign	Total
1977	513	434	947	811	136	947
1978	664	501	1,165	1,055	285	1,340
1979	683	499	1,182	1,277	357	1,634
1980	902	600	1,502	1,787	412	2,199
1981	1,001	607	1,608	3,025	713	3,738
1982	1,938	674	2,612	4,189	915	5,104
1983	3,860	1,165	5,025	5,336	1,270	6,606
1984	764	1,465	2,229	5,115	1,623	6,738
1985	5,108	1,789	6,897	5,458	1,970	7,428
1986	4,505	3,020	7,525	6,553	2,209	8,762
1987	902	4,690	5,592	7,593	2,564	10,157
1988	4,471	5,209	9,680	9,694	2,896	12,590
1989	3,796	5,742	9,538	11,015	3,337	14,352
1990	7,304	4,906	12,210	16,990	3,678	20,668
1991	12,901	4,881	17,782	17,960	4,113	22,073
1992	18,123	7,955	26,078	21,201	4,739	25,940
1993	20,327	6,963	27,290	25,101	5,102	30,203
1994	15,065	7,606	22,671	32,520	5,511	38,031
1995	28,069	8,477	36,546	32,064	6,162	38,226
1996	22,749	10,491	33,240	42,184	6,739	48,923
1997	15,232	13,251	28,483	48,554	6,692	55,246
1998	41,617	18,351	59,968	47,598	7,300	54,898
1999	20,322	21,440	41,762	53,371	8,752	62,123
2000	81,244	23,282	104,526	62,185	9,015	71,200
2001	56,844	27,921	84,765	84,560	9,747	94,307
2002	130,786	37,057	167,843	105,897	10,617	116,514
2003	185,083	34,425	219,508	113,540	11,586	125,126
2004 (a)	138,428	38,207	176,635	103,468	14,918	118,386

(a) Provisional



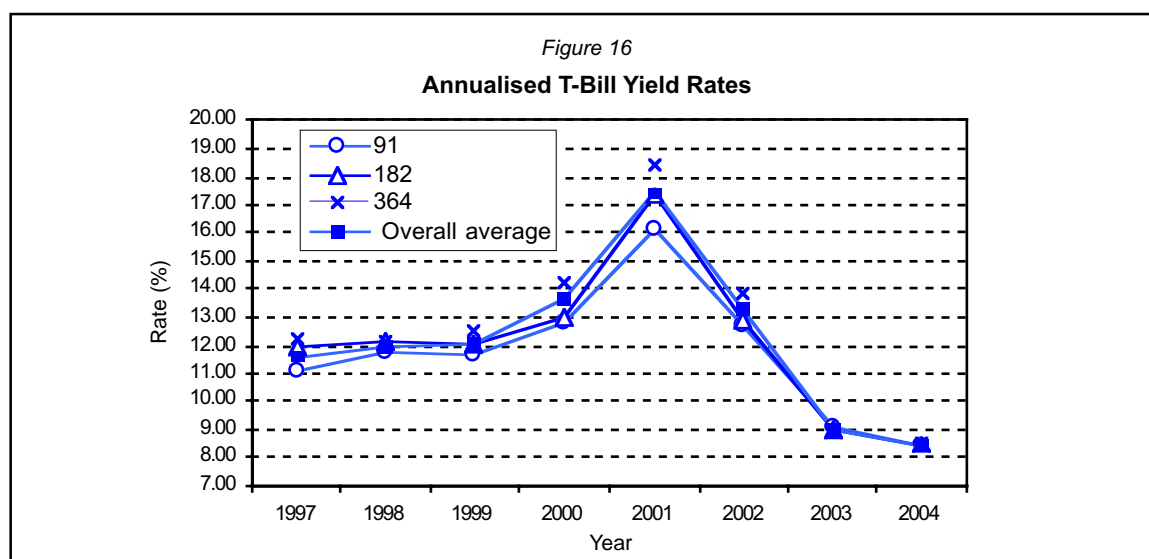
(e) Interest Rates

Table 26
Annualized Weighted Average Yield Rates of T-Bills, T-Bonds and Rupee Loans

	Per cent per annum							
<i>Instrument</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003(a)</i>	<i>2004(a)</i>
Treasury Bills (Days)(b)								
91	11.03	11.77	11.69	12.78	16.11	12.69	9.13	8.46
182	11.95	12.13	12.03	12.97	17.33	12.90	9.04	8.44
364	12.29	12.20	12.55	14.23	18.41	13.84	9.02	8.55
Overall average	11.60	11.98	12.06	13.68	17.41	13.23	9.07	8.49
Treasury Bonds (Years)								
2	12.81	12.84	13.01	16.71	19.82	14.88	10.75	9.78
3	11.42	13.43	13.31	15.00	15.60	14.29	9.69	9.83
4	11.67	13.72	13.53	12.52	-	14.54	9.97	9.61
5	-	-	13.78	12.78	-	14.69	10.97	10.31
6	-	-	13.65	12.88	-	14.83	9.56	9.30
10	-	-	-	-	-	-	8.72	11.11
13	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	9.01	-
20	-	-	-	-	-	-	6.66	-
Overall average	12.50	13.08	13.37	15.10	18.07	14.57	9.59	9.82
Rupee Loans (Years)								
2	-	-	-	-	15.00	-	-	-
5	-	11.35	-	-	14.03	13.00	11.93	-
6	-	12.00	-	11.00	-	-	8.40	8.00
7	12.05	11.25	-	-	-	-	-	-
8	11.72	12.25	12.25	-	-	-	-	-
10	-	11.50	12.50	12.00	13.00	-	-	-
Overall average	11.98	11.61	12.36	11.68	14.31	13.00	11.66	8.00

Source : Central Bank of Sri Lanka

- (a) Includes 10% withholding tax which was imposed by the Government with effect from 3rd May 2002 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.



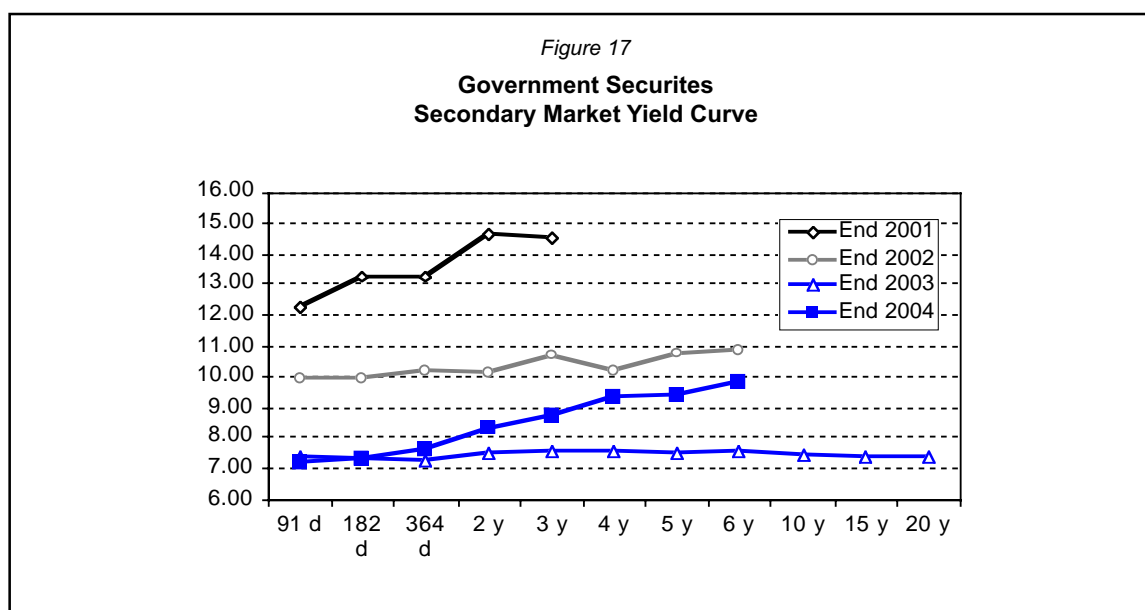


Table 27
Yields (Net of Tax) of Government Securities

<i>Maturity Period</i>	<i>Primary Market</i>					<i>Secondary Market</i>		
	<i>1999</i>	<i>2000</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
91 days	19.26	17.77	8.93	7.35	7.25	9.90	7.28	7.78
182 days	18.91	17.90	8.90	7.30	7.40	9.90	7.29	7.75
364 days	18.97	18.22	8.92	7.24	7.65	10.16	7.16	7.71
3 years		18.71	12.20	7.43	8.25	10.73	7.82	9.24
4 years			10.85	7.38	8.60	10.17	7.55	9.46
5 years			11.02	7.07		10.79	7.43	9.61
6 years			11.08	6.67		10.91	7.53	9.23
10 years				6.65				9.47
15 years				7.63				9.05
20 years				6.08				

Maturity, Interest Rates and Grant Element of Foreign DebtTable 28
Maturity of Foreign Debt

Donor Category	Maturity Period (Years)									
	Grace Period					Repayment				
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
Bilateral	1 - 17	1 - 17	1 - 17	1 - 16	1 - 16	7 - 40	7 - 40	7 - 40	7 - 40	2 - 40
Multilateral	3 - 11	3 - 11	3 - 11	3 - 11	1 - 11	9 - 40	9 - 40	9 - 40	9 - 40	1 - 40
Commercial	1 - 10	1 - 10	0 - 10	0 - 10	0 - 10	0 - 30	2 - 30	1 - 30	1 - 30	2 - 30
Export Credits		1 - 10	1 - 10	1 - 10	1 - 13		7 - 13	7 - 13	7 - 13	4 - 14

Table 29
Interest Rates & Grant Element of Foreign Debt

Donor Category	Interest Rate / Service Charge (% p.a.)					Grant Element (%)				
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
Bilateral	0.00 - 7.39	0.00 - 7.39	0.00 - 5.68	0.00 - 5.68	0.00 - 5.68	5 - 91	5 - 91	28 - 91	28 - 91	10 - 91
Multilateral	0.75 - 8.25	0.75 - 8.25	0.75 - 8.25	0.75 - 8.25	0.75 - 2.50	5 - 88	5 - 88	5 - 94	5 - 94	5 - 94
Commercial	4.00 - 10.85	4.00 - 10.85	4.00 - 10.85	1.35 - 7.70	1.42 - 7.70	1 - 61	2 - 61	2 - 65	2 - 65	1 - 43
Export Credits		3.50 - 9.58	2.60 - 9.20	1.45 - 9.20	0.00 - 7.39		4 - 55	11 - 74	11 - 74	11 - 74

(f) The Scripless Securities Settlement System and The Central Depository System (LankaSecure) Performance in 2004

Table 30
Scripless Securities Transactions

Trans- action Type	January-June		July		August		September		October		November		December		Total	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
DDD/DDC	409	186,352	45	55,395	59	29,179	28	31,450	33	24,547	30	26,342	22	12,484	626	365,749
DVF/RVF	21,141	435,020	3,011	93,568	2,855	113,979	2,279	92,937	1,483	77,279	871	42,759	431	59,055	32,071	914,597
DVP/RVP	1,284	119,594	508	51,052	779	69,972	983	71,030	444	43,633	312	39,456	503	67,250	4,813	461,987
IRE/IRR	2,540	253,730	698	68,302	770	68,411	583	50,266	548	43,361	509	45,545	591	68,253	6,239	597,868
IRT/IRX	2,530	253,130	693	68,065	766	67,861	580	50,088	547	43,291	507	45,401	586	67,244	6,209	595,080
REP/RRE	3,576	1,293,905	784	230,622	794	224,584	938	263,133	952	276,864	946	244,390	1,283	603,340	9,273	3,136,838
RPG/RPG	25,893	270,904	7,039	113,854	8,413	119,533	6,271	122,728	5,725	102,139	5,562	65,254	5,832	74,222	64,735	868,634
Total	57,373	2,812,635	12,778	680,858	14,436	693,519	11,662	681,632	9,732	611,114	8,737	509,147	9,248	951,848	123,966	6,940,753

* Values are in Rs. million

Transaction References:

DVP- Deliver Against Payments RVF- Receive Free RRE- Reverse Repo IRT- Reversal ILF Repo
 RVP- Receive Against Payments RPG- Repositioning IRE- ILF Repo IRX- Reversal ILF Reverse Repo
 DVF- Deliver Free REP- Repo IRR- ILF Reverse Repo DDD- Direct Debit

Scripless Securities Settlement System commenced its operations on February 8, 2004.

Table 31
Scriptless Securities Issues

(Rs. Million)

<i>Month</i>	<i>T-Bills</i>	<i>T-Bonds</i>	<i>Total</i>
February	33,348	7,476	40,824
March	37,614	7,000	44,614
April	37,721	11,300	49,021
May	29,885	34,542	64,427
June	37,077	31,000	68,077
July	48,824	42,750	91,574
August	43,569	18,680	62,249
September	43,629	23,450	67,079
October	54,198	17,600	71,798
November	33,456	28,569	62,025
December	37,644	3,300	40,944
Total	436,965	225,667	662,632

Table 32
Number of Statements Issued by LankaSecure

<i>Month</i>	<i>Transaction Statements</i>	<i>Payment Statements</i>	<i>Total</i>
February	2,125	-	2,125
March	3,183	22	3,205
April	3,291	522	3,813
May	4,101	2,419	6,520
June	5,069	1,860	6,929
July	4,506	1,138	5,644
August	5,251	3,726	8,977
September	3,814	3,642	7,456
October	3,626	4,292	7,918
November	3,560	2,579	6,139
December	3,766	2,554	6,320
Total	42,292	22,754	65,046

Table 33
Interest and Principal Repayments made by LankaSecure

<i>Month</i>	(Rs. Million)		
	<i>Interest</i>	<i>Principal *</i>	<i>Total</i>
February	704	10,840	11,544
March	208	8,585	8,793
April	698	9,466	10,164
May	956	27,083	28,039
June	1,191	26,108	27,299
July	6,076	39,520	45,596
August	1,947	40,011	41,958
September	4,876	37,586	42,462
October	3,148	46,386	49,534
November	3,753	25,564	29,317
December	2,465	32,519	34,984
Total	26,022	303,668	329,690

* T-Bills & T-Bonds

Table 34
Number of Beneficial Owner Accounts
in LankaSecure by Districts

<i>District</i>	<i>Number of Beneficial</i>
Ampara	44
Anuradhapura	122
Badulla	615
Batticaloa	31
Colombo	15,122
Galle	607
Gampaha	2,875
Hambantota	207
Jaffna	76
Kalutara	949
Kandy	841
Kegalle	234
Kurunegala	447
Mannar	13
Matale	114
Matara	543
Monaragala	21
Mullaittiv u	2
Nuwara-Eliya	23
Polonnaruwa	14
Puttalam	133
Ratnapura	281
Trincomalee	38
Vavuniya	25
Total	23,377

Glossary

Treasury Bills – A short-term debt instrument issued usually on a discount basis and for maturities of 91, 182 and 364 days through auctions by the Central Bank on behalf of the Government under the Local Treasury Bills Ordinance.

Treasury Bonds – A medium to long-term debt instrument issued for maturities of more than two years through auctions by the Central Bank on behalf of the Government under the Registered Stock and Securities Ordinance. The maximum maturity of Treasury Bonds issued so far is 20 years.

Rupee Securities (Loans) – A medium to long-term debt instrument issued on tap or as private placements by the Central Bank on behalf of the Government under the Registered Stock and Securities Ordinance. Maturity period of this instrument is more than 2 years. Interest rates of this instrument are determined administratively.

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

Yield – Yield is coupon or discount when expressed as a percentage of the price. There are three yields, i.e., current yield, yield-to-maturity and yield-to-call.

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.

Yield Curve – A graphical depiction of the relationship between the yield on the securities and different maturities is known as the yield curve. Yield curves may take different shapes.

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

Duration – Duration is the weighted average term-to-maturity of the security's cash flow.

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

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

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

Repurchase Transactions – are a combination of an immediate sale of securities with simultaneous agreement to reverse the transaction in the future. The transaction involves lending of cash against securities collateral.

Scripless Securities – means Treasury Bills and Treasury Bonds issued in book-entry form or as paperless securities. In Sri Lanka issuance of scripless securities started in February 2004.

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

Grant Element – is expressed as a percentage and is commonly used to measure the degree of concessionality of foreign loans. Concessionality is the difference between the present value of the loan and the present value of the future payment stream estimated using a suitable discount.