

Overview & Summary of the Public Debt Management Bill 2024



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Public Debt Management Bill

Executive Summary

The Public Debt Management (PDM) Bill of Sri Lanka aims to establish a comprehensive framework for managing the country's public debt, ensuring fiscal responsibility, and promoting economic stability. The Bill provides for the establishment of the Public Debt Management Office (PDMO), which will be responsible for the issuance, management, and servicing of public debt, loan guarantees, and on-lending operations. The Bill also sets out the procedures for government borrowings, the issuance of guarantees, and the management of suppliers' credit and financial lease agreements. By defining clear roles and responsibilities, the Bill seeks to enhance transparency, accountability, and efficiency in public debt management.

Additionally, the Bill outlines the processes for preparing and publishing a medium-term debt management strategy, an annual borrowing plan, and auction calendars for government securities. It establishes the Public Debt Coordinating Committee to oversee debt management policies and ensure consistency with macroeconomic objectives. The Bill includes provisions for maintaining comprehensive records of public debt, reporting to Parliament, and managing debt-related risks. Overall, the PDM Bill provides a robust legal framework to support prudent debt management practices and safeguard the country's fiscal health.

PART I – ESTABLISHMENT OF THE PUBLIC DEBT MANAGEMENT OFFICE

Overview

Part I of the Public Debt Management Bill establishes the Public Debt Management Office (PDMO) within the Ministry of Finance. The PDMO is tasked with the comprehensive management of the government's debt, including the issuance and servicing of debt securities, loan guarantees, and on-lending operations. This section outlines the structure, powers, and functions of the PDMO, aiming to centralize and professionalize debt management in Sri Lanka.

Establishment and Structure

The PDMO is established as the central body responsible for managing the public debt of Sri Lanka. It operates under the Ministry of Finance and is headed by a Director-General, who is appointed by the Cabinet of Ministers. The Director-General is responsible for the overall operations of the PDMO and ensuring that its functions align with the objectives outlined in the Bill. The terms and conditions of employment for the Director-General and all PDMO employees are determined by prevailing government regulations.

Powers and Functions

The PDMO is endowed with several key responsibilities to ensure effective debt management:

- **Debt Management Strategy:** The PDMO is responsible for preparing and publishing a medium-term debt management strategy. This strategy outlines the government's approach to managing public debt over a five-year horizon, ensuring that borrowing needs are met at the lowest possible cost while maintaining a prudent degree of risk.
- **Annual Borrowing Plan:** The PDMO develops an annual borrowing plan that details the planned borrowings and debt management operations for the year. This plan includes the instruments to be used, sources of borrowing, and the timing of these operations.
- **Auction Calendars:** To enhance transparency and predictability, the PDMO publishes auction calendars for the issuance of government securities. These calendars are updated regularly and made available on the official websites of the Ministry of Finance and the PDMO.
- **Negotiation and Coordination:** The PDMO negotiates the financial terms and conditions of domestic and external borrowings, coordinating with relevant departments, including the Treasury and the Central Bank, to ensure cohesive debt operations.
- **Risk Assessment and Mitigation:** The PDMO assesses credit risks associated with loan guarantees and on-lending operations, recommending risk mitigation measures and ensuring that these operations are managed prudently.
- **Reporting and Dissemination:** The PDMO is responsible for recording, reporting, and disseminating information related to public debt, loan guarantees, on-lending,

suppliers' credit, and finance leases. This includes preparing debt service forecasts and ensuring timely servicing of government debt.

- **Additional Functions:** The Minister of Finance may assign additional functions to the PDMO to support the overall objectives of debt management.

Ministerial Oversight

The Minister of Finance retains the authority to issue guidelines and directions to the PDMO, ensuring that its activities align with government policies. These guidelines must be consistent with the provisions of the Bill and support the effective management of public debt.

PART II – PUBLIC DEBT COORDINATING COMMITTEE

Overview

Part II of the Public Debt Management Bill establishes the Public Debt Coordinating Committee (PDCC) to ensure effective coordination and oversight of Sri Lanka's debt management policies. The PDCC aims to align debt management strategies with macroeconomic policies, fostering a cohesive approach to managing the nation's public debt. This section outlines the composition, functions, and operational procedures of the PDCC.

Composition and Meetings

The PDCC is chaired by the Deputy Secretary to the Treasury and comprises key officials involved in fiscal and debt management:

- The Director-General of the Public Debt Management Office (PDMO)
- The Director-General of Treasury Operations
- The Director-General of Fiscal Policy Management
- The Director-General of External Resources
- Two Central Bank officers nominated by the Governor
- The Director-General of the PDMO, who also nominates a senior officer to act as Secretary and Convener of the Committee

The PDCC is required to meet at least once a month, with a quorum of five members. Meetings can be conducted in person or via audio-visual communication, ensuring flexibility and continuous coordination.

Powers, Duties, and Functions

The PDCC is entrusted with several critical responsibilities to ensure effective debt management:

- **Review and Opinion on Debt Management Strategy:** The PDCC reviews and provides opinions on the medium-term debt management strategy prepared by the PDMO, ensuring its consistency with macroeconomic policies.

- **Annual Borrowing Plan Review:** The committee reviews the annual borrowing plan and its performance, providing recommendations for improvements and adjustments.
- **Market Conditions and Risk Assessment:** The PDCC monitors domestic and international market conditions, assessing risks associated with public debt and identifying opportunities for leveraging official development assistance.
- **Additional Functions:** The PDCC performs other functions as assigned by the Minister of Finance in accordance with the provisions of the Bill.

The PDCC ensures that debt management activities are well-coordinated and aligned with broader fiscal and economic objectives, promoting sustainable and prudent debt practices.

PART III – GOVERNMENT BORROWING AND DEBT MANAGEMENT

Overview

Part III of the Public Debt Management Bill establishes a comprehensive framework for the government's borrowing and debt management activities. This section delineates the legal and procedural basis for government borrowings, the issuance of debt securities, and liability management operations. It aims to ensure that borrowing activities are conducted in a transparent, efficient, and sustainable manner, aligning with broader fiscal and macroeconomic objectives.

Debt Management Strategy

The Public Debt Management Office (PDMO) is responsible for developing a medium-term debt management strategy (MTDS). This strategy covers a rolling five-year horizon and is designed to manage public debt with objectives that include:

- Meeting the government's financing needs at the lowest possible cost over the medium to long term
- Maintaining a prudent level of risk
- Promoting the development of the domestic debt market

The MTDS must be reviewed annually and approved by the Cabinet of Ministers. Once approved, the strategy is published on the official websites of the Ministry of Finance and the PDMO to ensure transparency and public accessibility. The strategy includes comprehensive assessments of cost and risk, future borrowing requirements, market conditions, and alignment with the medium-term fiscal framework.

Borrowing Authorization and Purposes

The Minister of Finance holds the sole authority to undertake borrowing on behalf of the Government of Sri Lanka. Borrowing may be conducted in both local and foreign currencies, with all borrowings charged to the Consolidated Fund. The specific purposes for which the government may borrow include:

- **Financing Budget Deficits:** To cover gaps between government revenue and expenditure.
- **Cash Flow Management:** To manage short-term cash flow and maintain a liquidity buffer.
- **On-Lending:** To provide funds to Provincial Councils, Local Authorities, and State-Owned Enterprises (SOEs).
- **Guarantee Obligations:** To honor commitments under government loan guarantees.
- **Refinancing Debt:** To refinance existing debt to manage maturity profiles and reduce costs.
- **Emergency Response:** To respond to catastrophic events and emergencies.
- **Balance of Payments Support:** To support foreign currency reserves and stabilize the balance of payments.
- **Other Approved Purposes:** Any other purposes approved by Parliament.

In exceptional circumstances, such as emergencies, the Minister must inform Parliament of the borrowing terms within fifteen working days to ensure transparency and accountability.

Issuance of Government Debt Securities

Government debt securities may be issued through various market-based mechanisms, with auctions being the primary method. The process involves:

- **Auction Calendars:** The PDMO publishes auction calendars detailing the schedule for issuing government securities. These calendars are updated regularly and cover a minimum period of three months.
- **Non-Market-Based Issuances:** For issuances outside of market-based mechanisms, such as private placements, prior approval from the Cabinet of Ministers is required.
- **Annual Borrowing Plan:** The PDMO prepares an annual borrowing plan outlining the planned borrowings for the year, including the types of instruments, sources of funds, and timing of issuances. This plan is reviewed and approved by the Cabinet of Ministers to ensure alignment with the fiscal strategy.

Liability Management Operations

To manage financial risks in the debt portfolio, the Minister of Finance or an authorized representative may engage in liability management operations. These operations include:

- **Interest Rate and Currency Swaps:** To manage exposure to interest rate and currency fluctuations.
- **Buybacks and Early Repayments:** To manage debt maturities and reduce refinancing risks.
- **Other Risk Management Transactions:** Any other transactions designed to mitigate financial risks.

The PDMO is responsible for preparing and executing these operations in line with the debt management strategy and relevant fiscal responsibility laws.

Monitoring and Reporting

The PDMO is tasked with the ongoing monitoring of market conditions and the performance of debt management operations. This includes:

- **Market Monitoring:** Regularly assessing domestic and international market conditions to inform borrowing decisions.
- **Performance Evaluation:** Evaluating the performance of the borrowing plan and liability management operations against the objectives set out in the debt management strategy.

The PDMO provides regular reports to the Minister of Finance, detailing the outcomes of borrowing activities and any significant deviations from the planned strategy. These reports are crucial for maintaining transparency and accountability in the government's debt management practices.

PART IV – GOVERNMENT LOAN GUARANTEES, GOVERNMENT ON-LENDING, SUPPLIERS' CREDIT AGREEMENTS, AND FINANCE LEASE AGREEMENTS

Overview

Part IV of the Public Debt Management Bill establishes the legal framework for the issuance and management of government loan guarantees, on-lending operations, suppliers' credit agreements, and finance lease agreements. This section aims to ensure that these financial instruments are used prudently and transparently, contributing to effective debt management and minimizing fiscal risks.

Government Loan Guarantees

The Minister of Finance has the sole authority to issue and manage loan guarantees on behalf of the government. These guarantees can be extended to Provincial Councils, Local Authorities, State-Owned Enterprises (SOEs), or any other entity approved by Parliament. The issuance of loan guarantees must consider several factors:

- **Credit Risk Assessment:** The borrower must not be in financial difficulty based on a credit risk assessment conducted by the Public Debt Management Office (PDMO). If the borrower is deemed to be in financial difficulty, the guarantee cannot be issued.
- **Economic Development:** The loan guarantee should promote the economic development of Sri Lanka.
- **Debt Reduction Objective:** The guarantee issuance must align with the debt reduction objective under relevant fiscal responsibility laws.

Each loan guarantee must be supported by legal documentation ensuring the borrower's commitment to repay any amounts paid under the guarantee if called upon. The PDMO assesses and prices the credit risk and recommends risk mitigation mechanisms, including guarantee fees, for approval by the Cabinet of Ministers.

Government On-Lending

The Minister of Finance also holds the authority to on-lend government funds to Provincial Councils, Local Authorities, SOEs, or other approved entities. The conditions for on-lending include:

- **Credit Risk Assessment:** Similar to loan guarantees, the borrower must not be in financial difficulty.
- **Economic Development:** The on-lending should promote economic development.
- **Approval by Parliament:** On-lending to entities other than Provincial Councils, Local Authorities, or SOEs requires additional approval by Parliament.

The PDMO assesses and prices the credit risk, recommends interest rates to cover funding costs, currency risk, and credit risk, and ensures that each on-lending transaction is supported by legal documentation.

Suppliers' Credit Agreements

The Minister of Finance, or an authorized representative, has the authority to enter into suppliers' credit agreements for procuring capital goods or construction and maintenance for public investment projects. These agreements must be assessed by the PDMO to ensure they are cost-effective and in the government's best interests. The PDMO's assessment and recommendations are submitted to the Minister or the authorized representative for approval.

Finance Lease Agreements

Similarly, the Minister of Finance, or an authorized representative, is empowered to enter into finance lease agreements on behalf of the government. The PDMO evaluates the cost implications of these agreements and provides recommendations. The terms, form, and duration of finance lease agreements must comply with the prescribed standards and are subject to approval by the Cabinet of Ministers.

PART V – RECORDS AND PUBLICATION OF PUBLIC DEBT AND FINANCE ARRANGEMENTS

Overview

Part V of the Public Debt Management Bill mandates the comprehensive recording and transparent publication of data related to public debt and financial arrangements. This section aims to ensure accurate and timely dissemination of information, promoting accountability and public confidence in the management of public finances.

Records Maintenance

The Public Debt Management Office (PDMO) is responsible for maintaining detailed and accurate records of the following:

- Outstanding public debt
- Suppliers' credit agreements
- Finance lease agreements
- Derivative transactions
- Loan guarantees
- On-lending operations

These records are maintained in an appropriate database and include all relevant data and information. The PDMO has the authority to request necessary information from relevant entities to ensure comprehensive records.

Quarterly Statistical Debt Bulletin

The PDMO is required to prepare and publish a quarterly statistical debt bulletin within sixty days of the end of each quarter. This bulletin provides accurate and timely information on various aspects of public debt, including:

- Aggregate debt stock, debt flows, debt service cost, and redemption profile
- Risk measures of the debt portfolio and new government borrowings
- Details of derivatives and loan guarantees
- Non-guaranteed debt stock of SOEs, Provincial Councils, and Local Authorities
- On-lending facilities provided by the government
- Suppliers' credit agreements and finance lease agreements

The publication of the quarterly debt bulletin ensures that stakeholders have access to up-to-date information on public debt, fostering transparency and informed decision-making.

Annual Reporting to Parliament

In addition to the quarterly bulletins, the PDMO must prepare an annual report on government borrowings, debt management operations, and related financial arrangements. This report includes information on the debt management strategy, its execution, and deviations from planned objectives. The Minister of Finance reviews the draft annual report, submits it to the Cabinet of Ministers for approval, and tables the approved report before Parliament within 180 days following the end of the preceding financial year. The annual report is also published on the official websites of the Ministry of Finance and the PDMO.

Parts IV and V of the Public Debt Management Bill provide a structured and transparent approach to managing government loan guarantees, on-lending, suppliers' credit agreements, and finance lease agreements. By establishing rigorous procedures for recording and publishing data related to public debt and financial arrangements, these sections aim to enhance accountability, transparency, and prudent management of public finances. The comprehensive framework outlined in these parts supports the government's broader fiscal objectives and promotes public confidence in Sri Lanka's debt management practices.

PART VI – ANNUAL REPORTING TO PARLIAMENT

Overview

Part VI of the Public Debt Management Bill outlines the requirements for annual reporting to Parliament, ensuring that the government’s borrowing activities and debt management operations are transparent and subject to legislative oversight. This section aims to promote accountability and provide Parliament with comprehensive information to assess the effectiveness of debt management strategies and compliance with fiscal policies.

Annual Report Preparation

The Public Debt Management Office (PDMO) is responsible for preparing an annual report on government borrowings, debt management operations, and related financial arrangements. The report covers the following key areas:

- **Debt Management Strategy:** An overview of the medium-term debt management strategy and its implementation over the reporting period.
- **Borrowing Activities:** Detailed information on all borrowing activities undertaken, including amounts, terms, and conditions.
- **Debt Portfolio Performance:** Analysis of the performance of the debt portfolio, including cost and risk measures.
- **Liability Management Operations:** Summary of liability management transactions conducted during the year, such as buybacks, swaps, and early repayments.
- **Compliance and Deviations:** Assessment of compliance with the debt management strategy and any significant deviations from planned objectives.

Approval and Submission

The draft annual report prepared by the PDMO is reviewed by the Minister of Finance, who may provide comments and require revisions. Once finalized, the report is submitted to the Cabinet of Ministers for approval. The approved report must be tabled before Parliament within 180 days following the end of the preceding financial year. This process ensures that Parliament has timely and accurate information to evaluate the government’s debt management practices.

Publication

To promote transparency, the annual report is published on the official websites of the Ministry of Finance and the PDMO. This makes the information accessible to the public, fostering greater accountability and public confidence in the management of public debt.

PART VII – BORROWING AND ISSUANCE OF GUARANTEES BY STATE OWNED ENTERPRISES AND REPORTING BY PROVINCIAL COUNCILS, LOCAL AUTHORITIES AND STATE OWNED ENTERPRISES

Overview

Part VII of the Public Debt Management Bill establishes the guidelines and reporting requirements for borrowing and the issuance of guarantees by State-Owned Enterprises (SOEs), and for financial reporting by Provincial Councils, Local Authorities, and SOEs. This section aims to ensure that these entities operate within a structured and transparent financial framework, aligning with national fiscal policies.

Borrowing and Issuance of Guarantees by SOEs

SOEs are permitted to borrow and issue guarantees, but they must do so under strict conditions to ensure fiscal prudence and accountability:

- **Approval Requirements:** All borrowing and issuance of guarantees by SOEs require prior approval from the Minister of Finance. The terms and conditions must align with the government's debt management strategy and fiscal responsibility principles.
- **Risk Assessment:** The PDMO conducts a thorough risk assessment of the proposed borrowing or guarantee, evaluating the financial health of the SOE and the potential impact on the national debt portfolio.
- **Reporting Obligations:** SOEs must submit detailed reports on their borrowing and guarantee activities to the PDMO. These reports include information on the amounts, terms, and conditions of the borrowings or guarantees, as well as the utilization of the funds.

Reporting by Provincial Councils and Local Authorities

Provincial Councils and Local Authorities are required to adhere to similar reporting standards to ensure transparency and accountability in their financial operations:

- **Annual Financial Reports:** These entities must prepare and submit annual financial reports to the PDMO, detailing their borrowing activities, financial performance, and compliance with fiscal policies.
- **Risk Assessment and Monitoring:** The PDMO monitors the financial health of Provincial Councils and Local Authorities, assessing the risks associated with their borrowing activities and ensuring alignment with national fiscal objectives.

Consolidated Reporting

The PDMO consolidates the reports received from SOEs, Provincial Councils, and Local Authorities into a comprehensive annual report. This consolidated report is submitted to the

Minister of Finance and included in the annual report to Parliament, providing a complete picture of sub-national and SOE borrowing activities.

PART VIII – OFFENCES AND PENALTIES

Overview

Part VIII of the Public Debt Management Bill outlines the offences and penalties related to violations of the Act's provisions. This section aims to ensure compliance with the legal framework and deter misconduct in the management of public debt and related financial activities.

Defined Offences

The Bill specifies a range of offences, including but not limited to:

- **Unauthorized Borrowing:** Undertaking borrowing activities without the required approvals from the Minister of Finance.
- **Misuse of Borrowed Funds:** Utilizing borrowed funds for purposes other than those approved.
- **False Reporting:** Providing false or misleading information in financial reports or other documents required under the Act.
- **Failure to Comply with Directives:** Ignoring directives issued by the Minister of Finance or the PDMO related to debt management and financial reporting.

Penalties

Penalties for offences under the Act are designed to be proportional to the severity of the violation and aim to deter future misconduct. The penalties include:

- **Fines:** Monetary penalties for individuals or entities found guilty of offences, with amounts varying based on the nature and impact of the violation.
- **Imprisonment:** Custodial sentences for severe offences, such as significant financial mismanagement or fraud.
- **Disqualification:** Banning individuals from holding public office or positions within SOEs, Provincial Councils, or Local Authorities if they are found guilty of serious offences.

Enforcement and Prosecution

The enforcement of the Act's provisions and the prosecution of offences are the responsibilities of the Attorney-General, in collaboration with the Secretary to the Treasury and the PDMO. This ensures that violations are addressed promptly and effectively, maintaining the integrity of public financial management.

Parts VI, VII, and VIII of the Public Debt Management Bill provide a comprehensive framework for annual reporting to Parliament, borrowing and issuance of guarantees by State-Owned Enterprises, and financial reporting by sub-national entities. Additionally, these sections establish clear guidelines for offences and penalties to ensure compliance and deter misconduct. By promoting transparency, accountability, and prudent financial management practices, these provisions support the broader objectives of maintaining fiscal stability and public confidence in Sri Lanka's debt management framework.

PART IX – GENERAL

Overview

Part IX of the Public Debt Management Bill addresses various general provisions that support the effective implementation and enforcement of the Act. These provisions ensure that the Act's objectives are met through proper governance, regulatory compliance, and the establishment of clear procedural guidelines. This section covers the power to make regulations, the legal protection of public officers, the handling of confidential information, and the duty of cooperation among public entities.

Power to Make Regulations

The Minister of Finance is vested with the authority to make regulations necessary for the effective implementation of the Act. These regulations may cover a wide range of areas, including:

- Procedures for the issuance, management, and redemption of government securities
- Guidelines for the management of government loan guarantees and on-lending operations
- Standards for financial reporting and disclosure by the Public Debt Management Office (PDMO), State-Owned Enterprises (SOEs), Provincial Councils, and Local Authorities
- Risk management practices and the use of financial derivatives in public debt management
- Any other matters required for the proper functioning of the public debt management framework

Regulations made under this section must be published in the Gazette and laid before Parliament for approval, ensuring transparency and legislative oversight.

Protection of Public Officers

The Bill provides legal protection for public officers performing their duties in good faith under the Act. This protection is intended to ensure that officers can carry out their responsibilities without fear of personal liability, provided their actions are within the scope of their official duties and are not conducted in bad faith or with gross negligence. This provision aims to foster a supportive environment for public officers, enabling them to perform their roles effectively and confidently.

Confidentiality of Information

The Bill includes provisions to safeguard the confidentiality of sensitive information related to public debt management. Public officers and any individuals involved in the execution of the Act's provisions are prohibited from disclosing confidential information obtained in the course of their duties, except as authorized by law. This confidentiality clause ensures that sensitive financial data and strategic information are protected from unauthorized disclosure, maintaining the integrity and security of public debt management operations.

Duty of Cooperation

All public entities, including SOEs, Provincial Councils, Local Authorities, and other government departments, have a statutory duty to cooperate with the PDMO and the Ministry of Finance. This duty of cooperation includes:

- Providing timely and accurate information required for debt management and reporting purposes
- Complying with directives and guidelines issued by the Minister of Finance and the PDMO
- Facilitating audits, inspections, and assessments conducted by the PDMO or other authorized bodies

The duty of cooperation is essential for ensuring that the public debt management framework operates smoothly and that all relevant entities contribute to achieving the Act's objectives.

Conclusion

The Public Debt Management Bill of Sri Lanka establishes a comprehensive legal framework for the management of public debt, encompassing the establishment of the Public Debt Management Office, guidelines for government borrowing and debt management, and the coordination of debt-related activities. It ensures the systematic issuance and management of government securities, defines the roles and responsibilities of key entities, and introduces stringent reporting and accountability measures. Additionally, the Bill provides for the management of loan guarantees, on-lending, and financial leases, while safeguarding transparency through regular reporting and public dissemination of information. By outlining procedures for offences and penalties, and granting regulatory powers to the Minister of Finance, the Bill aims to promote prudent, transparent, and efficient public debt management, aligned with broader fiscal objectives and economic stability.

Link to the Bill: http://documents.gov.lk/files/bill/2024/4/485-2024_E.pdf

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