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திகதி } 13.09.2024
Date }

PREE RELEASE

Successful conclusion of the Treasury Bond auction held on 12th September 2024

The Ministry of Finance, Economic Stabilization and National Policies/General Treasury, through the Central Bank of Sri Lanka, offered Rs. 290 Bn to the market at the Treasury Bond auction held on 12.09.2024 to finance maturing Treasury Bonds worth Rs.168.5 Bn and coupon payments of Rs. 122.3 Bn, which totaled to Rs. 290.8 Bn.

The bond auction calendar is published well in advance to ensure transparent information for the market, in line with international best practices. This particular auction was announced in the auction calendar published on 12.06.2024, offering Rs. 300.0 Bn through 3-year, 5-year and 10-year maturities. Subsequently, the auction size was reduced to Rs. 290 Bn in the updated auction calendar published on 26.08.2024, along with the cancellation of the Treasury Bond auction previously scheduled for Rs. 30 Bn on 29.08.2024, considering the observed and potential upward pressure on the yield rates.

In recent weeks, there has been a gradual upward pressure on interest yields observed at almost all recent auctions for Government securities. For instance, on the 01.08.2024, the yield of the 6 month Treasury Bill was 9.34% whereas on the 11.09.2024, the 6 month Treasury Bill yield had increased to 10.24%. Similarly, in the auction held on 12.09.2024 for a relatively large volume also, elevated bidding was indicated across all maturities. Although the fiscal position has improved substantially as a result of the decisive fiscal policy measures implemented by the government, the bidding pattern at recent auctions, including auction held on 12.09.2024, appears to be driven by other factors which may include the market pricing on risk associated with uncertainties related to the forthcoming elections.

Given the fact that the increase in yields was likely to have been driven by temporary factors, such as the short term uncertainty, accepting the entire amount offered would have resulted in the General Treasury facing an elevated interest cost over a longer period of time. Accordingly, bids received for the 10-year maturity was rejected and it was decided to maintain the Weighted Average Yield Rate (WAYR) at a reasonable level across shorter tenure maturities. Accordingly, 3-year Treasury Bonds were issued at 13.79% (WAYR) p.a. and 5-year Treasury Bonds were issued at 13.98% (WAYR) p.a. As a result, there will be an

auction shortfall of around Rs. 58.5 Bn, which will be financed by the cashflow of the General Treasury.

Therefore, contrary to certain mis-informed claims that received wider media publicity, the auction was successfully concluded in line with the well-established procedure of the government securities auction system. The debt management strategy adopted by the government ensured that the large volume of maturing debt was fully serviced, whilst also ensuring the interest cost faced by the government is maintained at a reasonable level.