No.5A, Police Park Place, Colombo 00500, Sri Lanka
Tel & Fax: + 94 11 2055544
Email: reception@veriteresearch.org

Press Release

Heading: Is the Government at Risk of Over-Borrowing in 2024?
Subheading: An Explainer by FactCheck.lk

Colombo, 15 December 2024.

The following explainer is an abridged version of our analysis. The full explainer is available on our website at https://factcheck.lk/.

After the presidential election, there have been several claims regarding government borrowing. Some argue that borrowing is excessive, while others contend it is reasonable. There are also conflicting claims about whether most of the borrowing is allocated to cover the budget deficit, or to repay debt.

This FactCheck.lk explainer clarifies three key questions surrounding government borrowing in Sri Lanka.

Question 1: Why do governments borrow?

Primarily for three reasons: to 1) cover primary deficit, (2) pay interest on debt and (3) repay principal on maturing debt.

Together, these annual obligations add up to the amount that the government would need to borrow each year. This is the Gross Financing Need (GFN).

Question 2: How much was the government expected to borrow in 2024?

FactCheck.lk determined the government's expected borrowing for 2024 by calculating the GFN of LKR 3,670 billion.

Question 3: Will government borrowing for 2024 exceed expected borrowing?

In its budget, the government sets two borrowing expectations/limits for its:

(1) GFN and

(2) debt stock increase – the total amount of debt the government owes at a specific point in time.

FactCheck.lk will test whether the government has exceeded its borrowing limits or remained within the expectations set for 2024 by evaluating domestic government borrowing against these limits.

GFN Test

Based on budget estimates (BE24), the government’s 2024 limit for GFN was LKR 3,670 billion. MoF data shows that the actual borrowing for from January to September amounted to LKR 1,903 billion.

Therefore, there is another LKR 1,766 billion that the government can borrow during October to December, within the limit set by the budget.

FactCheck.lk reassessed the estimated borrowing requirement for the period October to December based on available data. Our calculations indicate that the borrowing requirement for this period would amount to LKR 1,612 billion.

This amount is lower than the LKR 1,766 billion, and available within the budget limit. The reduced borrowing requirement can be attributed to reduced interest payments on T-bonds compared to BE24.

Result: The borrowing for 2024 is not expected to exceed the budget limits set for GFN.

Debt Stock (DS) Test

To determine the expected limit on the increase of government DS, we subtract the expected debt repayments from the GFN limit.

If the government only borrowed to repay maturing debt, then the DS would not increase. However, in addition to that, if the government borrows to finance the budget deficit, it would increase the DS.

Based on BE24, the government has projected a budget deficit of around LKR 2,401 billion and set an expected limit on the increase of the DS of about the same amount.

During January to September, the DS increased by LKR 956 billion. That means, the government still had LKR 1,445 billion for October to December within the budgeted limit for increasing the DS.

The budget also sets out the expectations of how the borrowing to finance the deficit will be split between domestic and foreign borrowing. Of the balance LKR 1,445 billion left in the budget for October to December, LKR 1,030 billion was expected to be financed by domestic borrowing, and LKR 415 billion from foreign borrowing.

From October to November, domestic debt stock increased by LKR 371 billion, leaving a more than ample LKR 659 billion within the domestic financing limits of the budget for the month of December.

Result: The ample borrowing capacity left in December demonstrates that the government's total domestic borrowing in 2024 is well within the limit.

The above results of government's borrowing against the GFN limit and increase in DS limit indicates that the government is not at risk of overborrowing in 2024.

FactCheck.lk is a platform run by Verité Research. For more fact-checks, visit our website at https://factcheck.lk/