

Sri Lanka: Heavy interest payments on public debt

Monday 1 August 2022, by [SIRIMANNA Bandula](#) (Date first published: 31 July 2022).

Sri Lanka is continuing to spend a substantial amount of its earnings on interest payment on public debt this year, Finance Ministry data shows.

This will be a burden for the interim budget 2022 which will be presented in parliament next month in which the total expenditure is estimated to be more than double that of the income.

Interest expenditure on public debt will be the largest item now and in all previous budgets presented in parliament during the past several decades, a senior Ministry official said.

Sri Lanka's debt-to-GDP ratio is alarmingly increasing owing to high interest payments, limited access to global financial markets, and dwindling revenues.

Overall revenue performance of the Government improved during the first four months of 2022 benefiting from the mobilisation of both tax and non-tax revenue, compared to the subdued revenue performance of the same period in 2021

According to Ministry provisional data, interest payment will come down to 20-30 per cent of the revenue this year from the previous level of 66 to 70 per cent as the Treasury will have to service only domestic borrowings following the decision to suspend foreign debt servicing.

High rise in the interest cost-to-revenue ratio was driven primarily by the decline in government revenue. High interest payment also reduces spending on priority areas such as education, health, and social protection.

Total expenditure on interest payments including both domestic and foreign debt increased by 16.5 per cent to Rs. 426.8 billion in the first four months of 2022 compared to Rs. 366.2 billion in the same period of 2021.

Interest payments on foreign debt fell by 8.1 per cent to Rs. 84.9 billion in the first four months of 2022, compared to Rs. 92.4 billion in the same period of 2021 whereas interest payment for domestic debt increased by 24.8 per cent to Rs. 341.9 billion in the first four months of 2022 from Rs. 273.8 billion in the same period of 2021.

Out of every Rs.100 in government revenue Rs. 30 to Rs 67 is drained off to service the interest on public debt during the past several years, the official explained.

[Click here](#) to subscribe to ESSF newsletters in English and/or French.

P.S.

The Sunday Times

<https://www.sundaytimes.lk/220731/business-times/heavy-interest-payments-on-public-debt-490243.html>