

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/215

24 April 1981

Limited Distribution

Committee on Balance-of-Payments Restrictions

Original : English

1981 CONSULTATIONS UNDER ARTICLE XVIII:12(b) WITH SRI LANKA

Statement Submitted by Sri Lanka Under the Simplified Procedures for Consultations¹

I. BALANCE OF PAYMENTS 1980

The acceleration in the demand for imports arising from investment activities in the public and private sectors following the liberalization of import and exchange controls, sharply expanded deficits on merchandise and current accounts, a further deterioration of the terms of trade and depletion of external assets, were some of the main features of the balance-of-payments developments in 1980.

The deficit on the merchandise account amounted to SL Rs. 16,140 million (SDR 763 million) in 1980. This was the highest on record and represented a substantial increase from the deficit of SL Rs. 7,288 million (SDR 362 million) recorded in the previous year. The current account deficit in 1980 was SL Rs. 10,739 million (SDR 499 million), which again was the largest ever recorded. In comparison, the current account deficit in 1979 was SL Rs. 3,556 million (SDR 177 million). Although the net receipts of non-monetary capital in 1980 at SL Rs. 7,446 million (SDR 346 million) were the highest on record for any single year, these were not sufficient to finance the current account deficit in full. In the event, the year ended with a deficit of SL Rs. 2,967 million (SDR 166 million) on the overall balance and a resultant loss of reserves.

Total imports in 1980 at SL Rs. 33,851 million (SDR 1,573 million) showed an increase of 40 per cent in value over 1979. The major part of this increase was due to a sharp increase in import prices. The import price index increased by 43 per cent from 152 in 1979 to 217 in 1980. However, there was also an increase in the import volume index which rose by 13 per cent from 123 in 1979 to 139 in 1980.

In 1980, total export earnings amounted to SL Rs. 17,711 million (SDR 823 million). In comparison with a substantial increase in import payments, export earnings reflected only a modest increase of 12 per cent over 1979. The improvement in export earnings was the outcome of higher export prices during the year.

¹These procedures are set out in BISD, 20S, pages 47-49.

In fact, the export volume index remained unchanged as compared with the preceding year, while the export price index showed a modest increase of 15 per cent.

The services account of the balance of payments continued to show expansion with total receipts rising from SL Rs. 2,993 million (SDR 149 million) in 1979 to SL Rs. 4,605 million (SDR 214 million) in 1980. However, due to higher payments mainly on account of interest and service charges on loans, IMF drawings and other short-term borrowings, the net surplus increased only marginally from SL Rs. 739 million (SDR 37 million) in 1979 to SL Rs. 861 million (SDR 40 million) in 1980. Net receipts from transfers, especially from private transfers consisting mainly of remittances from Sri Lankan residents employed abroad, continued to grow and helped to increase the surplus on the transfers account to SL Rs. 4,540 million (SDR 211 million) in 1980. The net surplus recorded on services transactions and on private and official transfers helped to reduce the current account deficit to SL Rs. 10,739 million (SDR 499 million) in 1980.

Net receipts from private and official capital flows in the non-monetary sector of the capital account amounted to SL Rs. 7,446 million (SDR 346 million) in 1980, as against net receipts of SL Rs. 3,306 million (SDR 164 million) in 1979. A major part of the increase was due to substantially larger receipts on account of direct investments from abroad, mainly investments in Greater Colombo Economic Commission (GCEC) enterprises. However, private commercial borrowings also increased during the year. On the other hand, a sizeable part of the current account deficit was financed by official aid flows in 1980. Gross disbursements under official capital flows, consisting mainly of receipts of loans under Commodity, Food and Project Aid, and Trust Fund loans, amounted to SL Rs. 4,325 million (SDR 201 million). A noteworthy feature of official aid receipts was that although the aid commitments for 1980 at US\$643 million were the highest for any single year, actual aid utilization in 1980 fell short of the aid utilization figure for 1979.

II. FOREIGN TRADE REGULATIONS

1. Import Policy

The present legal basis for the control of imports lies in the Imports and Exports (Control) Act No.1 of 1969. Under this Act the Government has the power to prohibit or restrict the importation of any goods and to prescribe conditions relating to imports and exports.

Balance of Payments - Analytic Presentation from 1976-1980

Item	SL Rs million					SDR million				
	1976	1977	1978	1979	1980 ^a	1976	1977	1978	1979	1980 ^a
1. Merchandise	-709	+350	-2,393	-7,288	-16,140	-73	+29	-144	-362	-750
Exports (f.o.b.)	4,707	6,640	13,207	15,282	17,711	484	651	675	759	823
Imports (c.i.f.)	-5,416	-6,290	-15,600	-22,570	-33,851	-557	-622	-819	-1,121	-1,573
2. Services	+112	+304	+119	+739	+861	+12	+29	+6	+37	+140
Receipts	643	923	1,942	2,992	4,605	66	89	99	149	214
Payments	-531	-619	-1,823	-2,253	-3,744	-54	-60	-93	-112	-174
3. Goods and services (1+2)	-597	+654	-2,274	-6,549	-15,279	-61	+58	-138	-325	-710
4. Transfers	547	612	1,242	2,993	4,540	56	59	63	148	211
Private	56	122	342	754	2,260	6	12	17	37	105
Official	491	490	900	2,239	2,281	50	47	46	111	106
5. Current account balance	-50	+1,266	-1,032	-3,556	-10,739	-5	+117	-75	-177	-499
6. Non-monetary capital	591	326	2,600	3,306	7,446	61	32	133	164	346
Private sector	-109	-127	145	874	4,153	-11	-12	8	43	193
Public sector	700	453	2,455	2,432	3,293	72	44	125	121	153
Long-term (net)	659	602	2,609	2,432	3,293	68	58	133	121	153
Receipts	(1,244)	(1,319)	(3,680)	(3,351)	(4,326)	(128)	(127)	(188)	(167)	(201)
Amortization	(-585)	(-717)	(-1,071)	(-919)	(-1,033)	(-60)	(-69)	(-55)	(-46)	(-48)
Short-term (net)	41	-149	-154	-	-	4	14	-8	-	-
7. Valuation adjustments	-	1,680	344	-18	+919	-	-	-	-	-
8. Errors and omissions	-10	+41	-50	+820	-851	7	4	7	36	-25
9. SDR allocations	-	-	-	241	258	-	-	-	12	12
10. Overall balance	531	3,313	1,861	793	-2,967	49	153	65	35	-166
11. Monetary movements (- surplus)	-531	-3,313	-1,861	-793	+2,967	-49	-153	-65	-35	+166
Rate of conversion - SL Rs/SDR (annual average)						9.73	10.42	19.58	20.13	21.52

^a/ Provisional

Source: Central Bank of Ceylon.

Note: 1. The table on balance of payments in previous reports is replaced by this analytic presentation.

2. Rates of conversion for all transactions in the current account and in non-monetary sector capital movements are weighted average annual rates. Monetary movements are converted at end-of-period rates. From 1977 onwards all conversions of goods and services transactions, of private and official transfers (current account transactions) and of non-monetary transactions, represent the sum of conversions for the four quarters, and may not coincide with the conversions at average annual rates.

The Import Control Policy is formulated by the Ministry of Trade and Shipping in consultation with the Ministry of Finance and Planning and subject to the approval of the Cabinet. The Minister of Trade and Shipping is empowered under the Act to issue regulations in conformity with the objectives and purposes of the Act. The responsibility for administering the regulations rests with the Department of Import and Export Control. Details of Import Policies, Licensing procedures and any changes thereof are published in the Sri Lanka Government Gazette.

2. Liberalization of imports

From November 1977, the Import and Export Control Department successfully implemented the policy decision of the Government to liberalise imports and exports in the interest of bringing about a better supply of commodities to the country and ensuring that market forces would operate to the benefit of the consumer. Requirements and procedures such as allocation of quotas and licensing were removed in order to facilitate the flow of imports and exports. The importation of all items except for a few was liberalized. The items that were restricted were mainly:

- (i) basic foodstuffs like infant milk foods where Government subsidy schemes are involved;
- (ii) items which affect the security of the State e.g. arms, ammunitions, explosives, etc.;
- (iii) precious items like gold and silver;
- (iv) narcotics and dangerous drugs; and
- (v) items of which the importation had to be controlled either in the interest of local industries or luxury items in respect of which tariff protection alone could not be effective as a constraint on imports.

The number of trade quota items was reduced from 163 to 29 over the period from mid-1977 to end 1980. This has resulted in a considerable reduction in the monopoly of imports by the State sector. The private sector is allowed to import the following controlled items which were originally imported by the State sector only:

- (i) rice and flour;
- (ii) dried fish from countries other than India and Pakistan;
- (iii) Western drugs; and
- (iv) full cream milk powder.

The gift licence fee was reduced from 25 per cent to 15 per cent of the licence value. The maximum value for import of gifts of controlled items on no exchange involved basis was increased from SL Rs. 2,500 to SL Rs. 10,000. As regards liberalized items, there is no maximum value when these items are imported as gifts.

3. Bilateral agreements

Sri Lanka has bilateral trade agreements with the following countries: Bangladesh, Bulgaria, China, Czechoslovakia, German Democratic Republic, Hungary, Iraq, Nepal, North Korea, Poland, Phillipines, Romania, Syria, Arab Republic of Egypt, U.S.S.R., Yugoslavia.

These trade agreements, while containing indicative lists of products available for export from the respective partners to the agreements, provide for payments in convertible currencies except in the case of the agreement with China which provides for a separate payments arrangement.

4. State trading

The following State Corporations have the monopoly for the import of items mentioned against their names.

C.W.E. - Dried fish from India and Pakistan, Maldivian fish and other subsidiary foodstuffs.

Infant's milk foods and full cream milk powder (partial monopoly).

S.L.S.T. (General)

Corporation - Chemicals (controlled items only), explosives, base metal, guns and cartridges, mamotics etc.

Ayurvedic Drugs Corporation - Ayurvedic drugs (partial monopoly)

State Pharmaceuticals Corporation - Western drugs and pharmaceuticals (partial monopoly)

Ceylon Petroleum Corporation - Petroleum products

Items of import or export regarding which Corporations/Government
Departments have the sole or partial monopoly

(Sole monopoly unless otherwise stated)

Co-operative Wholesale Establishment

Import - Dates, chillies, big onions, potatoes
Lentils and pulses
Dried fish (partial monopoly)

Sri Lanka State Flour Milling Corporation

Import - Wheat
Export - Wheat bran

Sri Lanka State Trading (General) Corporation

Import - Sulphuric Acid
Formic Acid
Potassium Nitrate
Potassium Chlorate
Ammonium Nitrate
Barium Nitrate
Explosives and accessories
Aluminium Powder
Guns and Cartridges
Cellulose Tapes
P.V.C. Tapes
Cellophane Papers.

Sri Lanka State Trading (Textiles) Corporation

Import - Consumer and industrial textiles
Used woollen and synthetic clothing
Thread (partial monopoly)

State Film Corporation

Import - Exposed films

Paranthan Chemicals Corporation

Import - Caustic soda

Ceylon Petroleum Corporation

Import - Refined petroleum products i.e. gasolene,
kerosene, aviation turbine fuel, gas oil,
diesel oil and fuel oil

Lubricating oil and greases

Brake fluid

Petrolatum, white oils, process oils,
methanol, solvents

Sri Lanka Ayurvedic Drugs Corporation

Import - Raw ayurvedic drugs (minerals)

Prepared ayurvedic drugs

Prepared Unani drugs

Ceylon Mineral Sands Corporation

Export - Mineral sands

Sri Lanka Tobacco Industries Corporation

Import - Beedi wrapper leaf

National Salt Corporation

Export - Common salt

State Graphite Corporation

Export - Graphite

State Pharmaceuticals Corporation

Import - Western drugs and pharmaceuticals
(partial monopoly)