

RESTRICTED

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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Limited Distribution

CONTRACTING PARTIES  
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## CEYLON TEMPORARY DUTY INCREASES

### Second Annual Report by Ceylon under Decision of April 1961

The Government of Ceylon is required under the Decision of 10 April 1961 adopted by the CONTRACTING PARTIES to submit before 15 September of each year a report on the action taken to reduce or eliminate the increases in duties maintained under the Decision and on the circumstances which in its view still justify the application of the increases in duties not yet eliminated.

Since the waiver was granted the 5 per cent surcharge of duty has been removed from seven items (referred to in the first report) to which the waiver applied. The supplementary duty however continues to apply to all the other items affected by the waiver. There has been no basic change in the economic situation that prompted the imposition of the increase in duties sanctioned by the waiver. Indeed, that situation continues to deteriorate and has necessitated the imposition of further restrictive measures.

In 1961 the value of exports, which had risen continuously from 1957, declined to Rs. 1,733 million or Rs. 99 million less than in the previous year. The value of imports declined sharply to Rs. 1,703 million, their lowest level since 1957. At this low level of trade, the balance of trade which had been in deficit since 1957, recorded a small surplus of Rs. 30 million. The fall in export earnings was the result of a sharp decline in average export prices, the index of which fell from 104 in 1960 to 95 in 1961. This fall would have been sharper but for a moderate increase in export volume, the index of which rose to 107 from 103 in 1960. The decline in the value of imports was largely the result of the intensification of quantitative import restrictions in early 1961. Re-enforcing these restrictions were the increases in tariffs introduced in January and July of 1961. The decline in 1961 in the value of imports brought under quantitative restrictions during the course of that year was of the order of Rs. 140 million, as compared with similar imports during 1960. The index of import volume declined sharply from 113 in 1960 to 91 in 1961. Import prices showed very little change, their index falling to 101 from 102 in the previous year. The terms of trade deteriorated from 102 in 1960 to 94 in 1961.

The balance of payments for 1961 showed a deficit on current account of Rs. 87 million. The deficit on merchandise account is of the order of Rs. 84 million, and discloses a much less satisfactory position than is warranted by the balance of trade data based on customs statistics referred to above. Though the current account deficit represents a marked improvement over the previous three years (1958, 1959 and 1960 recording deficits of Rs. 153 million, Rs. 208 million and Rs. 220 million respectively), it is necessary to emphasize that this has been the result of the severe restrictions imposed on imports and of the stringent foreign exchange control exercised on current as well as capital transactions in the field of invisible payments. While these measures have been effective in slowing down the rate of decline in Ceylon's external assets, they have not been able to arrest the decline, a fact which must continue to be viewed with concern. These assets fell by Rs. 9.6 million in 1961 as compared with a decline of Rs. 192.7 million in the previous year. If, however, the drawing of Rs. 53.8 million from the International Monetary Fund in the early part of the year is left out of account, the decline is Rs. 62.1 million.

Developments during the first half of this year do not change this unsatisfactory picture, particularly because the performance of the principal export commodities and the outlook for them continue to be depressing. The value of exports during this period at Rs. 868 million exceeded slightly that of the corresponding period of 1961, viz., by Rs. 3 million. The value of imports at Rs. 803 million showed a slight decline of Rs. 3 million, as compared with the same period of 1961. The trade surplus at Rs. 65 million recorded a modest improvement of Rs. 6 million. Average export prices declined by 4 per cent during this period as compared with the corresponding period of the previous year, while average import prices remained unchanged. The deterioration in the terms of trade was, therefore, 4 per cent as compared with the corresponding period of 1961.

Provisional balance-of-payments data in respect of the first half of this year, disclose a deficit of Rs. 25 million on total current account. The merchandise account shows a deficit of Rs. 7 million, reflecting once again a position far less satisfactory than that warranted by the customs data referred to above. External assets at the end of July 1962, as provisionally estimated, stands at Rs. 514.6 million. If, however, account is not taken of a second IMF drawing of Rs. 53.8 million in February this year, these assets amount to Rs. 460.8 million, a decline of Rs. 110.4 million as compared with the position a year ago.

The budget for the forthcoming financial year 1962-63, introduced in Parliament on 26 July 1962, contains new fiscal measures, which are expected to impose further restraints on consumer demand, including the demand for imports. These include an increase in the surcharge on Income Tax from 15 per cent to 20 per cent, new excise duties, additional duties under the Motor Traffic Act, and further increases in import duties. The increases in import duties announced in Notification R.P.O. No. 62/2 of 26 July 1962 cover items (including a wide variety of textiles) the value of imports of which amounted to approximately Rs. 140 million in 1961 or 8 per cent of total imports for that year. Those announced in Notification R.P.O. No. 62/3 of 3 August 1962 affect items imports of which amounted to approximately Rs. 863 million in 1961 or 51 per cent of total imports. These increases are being reinforced by an intensification of quantitative restrictions, and all imports of textiles and rubber tyres and tubes have been brought under individual licensing arrangements.