

GENERAL AGREEMENT ON TARIFFS AND TRADE

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CEYLON TEMPORARY DUTY INCREASES

Report by Ceylon under Decision of 15 November 1962

The Government of Ceylon is required under the Decision of 15 November 1962 adopted by the CONTRACTING PARTIES to submit before 15 September 1963 a report on the action taken to reduce or eliminate the additional duty maintained under the Decision and on the circumstances which in its view still justify the application of the additional duty not yet eliminated.

In 1962, Ceylon's exports amounted to Rs.1,808 million, an increase of Rs.75 million or 4.3 per cent as compared with 1961. Imports declined by Rs.43 million or 2.5 per cent. The trade balance, which had shown a small surplus of Rs.30 million in the previous year, consequently improved to Rs.148 million. The increase in export receipts was accounted for wholly by an expansion in the volume of exports which rose by 7.9 per cent, the index rising to 115 from 107 in the previous year. This expansion was partly the result of increases in production and partly due to the running down of accumulated stocks. Average exports prices actually declined by 2.1 per cent, continuing the downward trend of these prices which had set in in 1961. The index of these prices fell from 95 to 93. Notwithstanding the measures adopted during July, September and October of the year to intensify quantitative import restrictions and extend the area of licensing control and also the widespread increases in import duties introduced in July and August of the same year, the value of aggregate imports declined only very moderately, viz., by Rs.43 million, as compared with the previous year. In fact, the volume of these imports registered a very slight increase of 1.1 per cent, the index rising by 1 point to 92. This increase however, was more than offset by a decline in the average price of imports by 5.9 per cent, the index of this price falling to 95 from 101 in the previous year. The moderate decline in the value of imports is in part explained by the fact that the restrictions of July, September and October 1962, which were estimated to effect an annual exchange saving of approximately Rs.100 million, did not have their full impact on imports during the year. There is also the further reason that the level of imports during 1961 had itself been effected by the considerable restrictions then in force. Since the indices of export and import prices registered declines of approximately 2.1 per cent and 5.9 per cent respectively, the terms of trade improved by approximately 4.3 per cent.

Balance-of-payments data which, rather than the customs data referred to above, determine the impact of exports and imports on the external reserves, depict a more unsatisfactory picture. In terms of these data (and in contrast to

the trade figures cited above) Ceylon's merchandise account showed a deficit of Rs.143.7 million in 1962 as against a deficit of Rs.86.4 million in the previous year. This increase in the merchandise deficit took place notwithstanding an increase in export receipts by Rs.55.8 million, and is accounted for by an increase in import payments by Rs.113.1 million. Ceylon's total balance on current account, comprising both merchandise and invisibles, showed a deficit of Rs.140.5 million as compared with a deficit of Rs.93.8 million in 1961. On private capital account there was a net outflow of Rs.1.8 million in contrast to a net inflow of Rs.6.1 million in the previous year.

The financing of the total deficit on current and private capital account involved a decline in Ceylon's external reserves by Rs.27.8 million (as compared with a decline of Rs.9.6 million in 1961) and an increase in external foreign exchange liabilities by Rs.81.9 million, of which the principal component was a second drawing of foreign exchange of Rs.53.8 million from the International Monetary Fund in February 1962. But for this drawing, the decline in external reserves would have been Rs.81.6 million. At the end of 1962 these reserves amounted to Rs.503.9 million or 23.5 per cent of total payments for goods and services in that year, and represented a decline of Rs.27.8 million from their level a year earlier. The International Reserve of the Central Bank, which constitutes the relatively liquid segment of these reserves, amounted to Rs.152.1 million, a fall of Rs.32.6 million as compared with the position at the end of the previous year.

As regards developments during the first half of the current year, Ceylon's export receipts fared slightly worse than during the corresponding period of 1962. They amounted to Rs.865 million, a decline of Rs.3 million as compared with the first half of 1962. Imports, on the other hand, at Rs.632 million declined sharply by Rs.121 million, evidencing the impact of the restrictive measures introduced during the latter half of 1962. The balance of trade consequently showed a surplus of Rs.183 million, as compared with a surplus of Rs.65 million in the corresponding period of the previous year. Average export prices showed a very slight improvement, viz., 1.1 per cent, during this period as compared with the first half of 1962, while the average prices of imports rose by 5.8 per cent. There was thus a deterioration in the terms of trade of 3.3 per cent.

Provisional balance-of-payments data for the first half of 1963 disclose a merchandise position much less favourable than that suggested by the customs figures of foreign trade. In terms of these data exports at Rs.826.6 million record a decline of Rs.24.7 million as compared with the first half of 1962, while imports at Rs.805.5 million represent a fall of only Rs.90.7 million. The surplus on merchandise account thus amounts to Rs.21.1 million, an improvement of Rs.66.0 million as compared with the corresponding period of the previous year. The total current account shows a surplus of Rs.14.5 million as compared with a deficit of Rs.51.4 million during the first half of 1962, while the private capital account, which shows a net inflow of Rs.12.7 million, records a modest improvement of Rs.4.8 million. Thus the combined current and private capital accounts disclose a surplus of Rs.27.2 million, which compares with a deficit of Rs.43.5 million in the corresponding period of the previous year.

Ceylon's external reserves at the end of June 1963 have amounted to Rs.603.3 million, an increase of Rs.99.4 million since the end of last year. However, her external foreign exchange liabilities, which had increased by Rs.81.9 million at the end of last year, have also increased by a further Rs.57.3 million during the first half of the current year. These increasing liabilities must be taken into account in any assessment of the external situation inasmuch as they constitute a future draught on external reserves. Indeed, the two drawings on the International Monetary Fund made in 1961 and 1962, amounting to Rs.107.6 million, have to be repaid in full during the next five years. External reserves at the end of July 1963 have amounted to Rs.559.3 million, a decline of Rs.44.0 million over the previous month.

Export earnings alone constitute the only satisfactory means of relief, but there is no evidence that the prices of the three major exports, viz., tea, rubber and coconut products, are likely to advance appreciably from their present depressed levels in the foreseeable future. As pointed out above, average export prices have shown only a very slight improvement (1.1 per cent) during the first half of 1963 as compared with the corresponding period of the previous year. The volume of exports has more or less remained the same during these two periods, and in any event short-run increases in supply could scarcely provide a solution to persistently depressed prices. Imports, on the other hand, are expected to be appreciably higher during the second half of 1963 than in the first half, the estimate for the year as a whole being in the region of Rs.1,500 to Rs.1,600 million. In these circumstances it is necessary that the various corrective measures (including the tariff increases in question) introduced in 1961 and 1962 should be continued. In December 1962 a further measure was adopted by the Central Bank, restricting commercial bank credit granted for the purchase of plantations, whether foreign-owned or not, to $33 \frac{1}{3}$ per cent of their purchase price. This restriction also applied to the purchase of other immovable properties belonging to non-residents or companies operating outside Ceylon.

The budget for the financial year 1963-64, introduced on 1 August 1963 also contains a number of important fiscal measures which are likely to exert a corrective influence on the external situation. These include increases in tariffs over a wide range of luxury and semi-luxury imports (including an increase of 10 cents per gallon on super grade petrol), which are expected to yield an additional Rs.40 million in customs revenue. Under a régime of quantitative import restrictions such increases help syphon off to the Government windfall profits that otherwise accrue to importers. Other measures include a Manufacturer's Turnover Tax (with rates varying from 1 per cent to 5 per cent) on domestically produced import substitutes, a Business Turnover Tax at one half of 1 per cent of total turnover on a wide range of transactions, and a Foreign Exchange Tax (at rates varying from 10 to 25 per cent) on outward payments in respect of certain specified invisible transactions including holiday travel, passenger fares, commissions, advertisements, maintenance remittances and migrant transfers.

