

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Committee on Balance-of-Payments Restrictions

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1985 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH SRI LANKA

Statement submitted by Sri Lanka under Simplified Procedures for Consultations¹

Balance of payments - 1984

The balance of payments position improved substantially in 1984 due to the growth of export sector and the favourable movements of the terms of trade. The current account deficit which had risen to a peak level of 17.5 per cent as a ratio to Gross Domestic Product in 1980 declined to 0.8 per cent in 1984. Export earnings in SDR terms increased by 44 per cent while import payments increased by 2.6 per cent during the year. This led to a marked improvement in the trade deficit which narrowed down to Rs 10,798 million (SDR 413 million) in 1984 from Rs 20,168 million (SDR 801 million) in 1983. However, the services account continued to be in deficit largely on account of increased interest payments on foreign loans and a slower growth of tourist earnings. The deficit in the services account increased from Rs 1,411 million (SDR 56 million) in 1983 to Rs 1,735 million (SDR 66 million) in 1984. Net inflows of transfers increased further due to higher receipts from both private and official transfers. The outcome of these developments in the current account is a reduction of its deficit from Rs 11,122 million (SDR 441 million) in 1983 to Rs 348 million (SDR 11 million) in 1984.

The net inflows of non-monetary capital mainly to the public sector was more than sufficient to finance the marginal deficit in the current account in 1984. As a result the overall balance indicated a surplus

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

of Rs 7,062 million (SDR 297 million) as compared with Rs 342 million (SDR 0.6 million) in the previous year. In consequence, gross external assets also rose from Rs 13,026 million (SDR 516 million) at the end of 1983 to Rs 18,942 million (SDR 784 million) at the end of 1984. On the basis of the adequacy of gross external assets to finance the estimated imports for the following year, the pressure on the country's foreign exchange reserves further declined during the year. The gross external assets at the end of 1984 was sufficient to finance nearly four and a half months imports projected for 1985.

A noteworthy feature of the balance of payments situation in 1984 was the narrowing of the deficit in the merchandise trade account. Although this improvement was primarily due to a considerable increase in the export earnings, a much slower increase in imports was also a contributory factor. Export earnings increased from Rs 25,038 million (SDR 993 million) in 1983 to Rs 37,198 million (SDR 1,427 million) in 1984. Increased earnings from plantation crops mainly tea and industrial exports, mostly ready made garments and petroleum products were largely responsible for the improved performance of the export sector. During 1984 export earnings from ready made garments and textiles increased by 60 per cent and those from petroleum products by 34 per cent in SDR terms. The total outlay on imports rose from Rs 45,206 million (SDR 1,794 million) in 1983 to Rs 47,996 million (SDR 1,840 million) in 1984. This increase import payments was entirely due to a rise in intermediate goods. Import expenditure on intermediate goods increased by 19 per cent in SDR terms.

For the third year in succession, the service account of the balance of payments continued to be in deficit. The payments on account of services in 1984 was Rs 10,302 million (SDR 395 million) as against a receipt figure of Rs 8,567 million (SDR 329 million). Therefore net outflow of foreign

exchange on account of services in 1984 amounted to Rs 1,735 million (SDR 56 million) as compared with Rs 1,411 million (SDR 56 million) in 1983. Enhanced interest payments on foreign loans, slower growth of tourist earnings and higher payments on foreign travel were mainly responsible for the greater deficit in 1984. Foreign exchange receipts on port, transportation and insurance increased from Rs 1,617 million (SDR 64 million) in 1983 to Rs 1,811 million (SDR 69 million) in 1984. This was mainly on account of increased earnings on freight by vessels of the Ceylon Shipping Corporation and passenger fares from the expanded operations of Air Lanka Limited. Foreign exchange payments on port, transportation and insurance increased from Rs 1,400 million in 1983 to Rs 1,497 million (SDR 57 million) in 1984. Although the outflow on passenger fare collections of foreign carriers remained at the same level as in 1983 due to savings by Air Lanka Limited, the payments on port dues and other services rendered to the larger fleets of the Shipping Corporation and Air Lanka increased in 1984.

In spite of the decline in the number of tourist arrivals in 1984 earnings from travel and allied services increased by 3 per cent in SDR terms. Earnings from tourism increased from Rs 2,404 million (Rs 96 million) in 1983 to Rs 2,587 million (Rs 99 million) in 1984. This could be attributed to an increase in the number of high spending tourists from Western Europe. Foreign exchange payments incurred by Sri Lankans travelling abroad rose rapidly in 1984 and stood at Rs 1,203 million (SDR 46 million) compared with Rs 916 million (SDR 36 million) in 1983.

The net outflow of foreign exchange on account of investment income comprising of profits, dividends and interest continued to be a substantial drain on the services account. However, it was partly offset by the high level of interest earnings from investment of external assets abroad. The increase in investments which accompanied the accumulation of external reserves as well as the reduction in interest rates in the international capital market helped to ease the interest payments position and maintained

the net deficit at the same level as in 1983. Interest receipts from investments abroad rose by 36 per cent from Rs 1,052 million (SDR 52 million) in 1983 to Rs 1,478 million (SDR 57 million) in 1984. Total outward payments on investment income increased from Rs 4,270 million (SDR 171 million) in 1983 to Rs 4,880 million (SDR 187 million) in 1984. Interest payments on foreign loans and borrowings rose from Rs 4,015 million (SDR 161 million) in 1983 to Rs 4,588 million (SDR 176 million) in 1984 equivalent to an increase of 9 per cent in SDR terms. Interest payments are likely to increase further in the forthcoming years on account of higher recourse to commercial borrowings by both public and private sector.

Total foreign exchange receipts from private and official transfers amounted to Rs 12,807 million (SDR 492 million) in 1984 compared with Rs 10,932 million (SDR 435 million) in 1983 which represents a 13 per cent increase over the previous year. Total transfer payments increased by 26 per cent in 1984 to reach Rs 622 million (SDR 24 million) consequently total net transfers in 1984 were Rs 12,185 million (SDR 468 million) as against Rs 10,457 million (SDR 416 million) in 1983. Receipts from private transfers increased from Rs 6,916 million (SDR 275 million) in 1983 to Rs 7,653 million (SDR 294 million) in 1984. This is a 7 per cent increase in SDR terms. Private transfers (mainly remittances by Sri Lankans working abroad) which contribute 60 per cent of total transfers were sufficient to finance 71 per cent of the trade deficit. Private remittances from the Middle East accounted for 54 per cent of total remittances in 1984. Official transfers increased by 24 per cent in SDR terms and amounted to Rs 5,154 million (SDR 198 million) in 1984. Project Aid accounted for Rs 2,701 million (SDR 104 million) or 53 per cent of official transfers. Commodity aid and food accounted for 24 per cent and 23 per cent of total transfers respectively.

Net inflows of non-monetary capital which decreased by 12 per cent in SDR terms in 1983 declined further by 20 per cent in 1984. Net receipts of non-monetary capital to both the private and public sectors declined from Rs 10,616 million (SDR 420 million) in 1983 to Rs 8,755 million (SDR 335 million) in 1984. This was entirely due to a decline in private sector capital inflows by Rs 3,943 million (SDR 158 million) in 1984 on account of market decline in the disbursement of suppliers' credits and a considerable drop in the utilization of acceptance credits by the Ceylon Petroleum Corporation. In contrast, the net inflow of non-capital monetary/^{capital}to the public sector increased significantly by 28 per cent in SDR terms in 1984 and reached Rs 8,693 million (SDR 333 million). Net receipts of non-monetary capital far exceeded the marginal current account deficit of Rs 348 million (SDR 11 million) and helped to generate an overall surplus of Rs 7,062 million (SDR 297 million) in 1984. Direct investments in enterprises under Greater Colombo Economic Commission (GCEC), Foreign Investment Advisory Committee (FIAC) and other payments show a marginal decline in SDR terms. Gross investments amounted to Rs 942 million (SDR 36 million) in 1984 outward payments on account of compensation increased from Rs 42 million (SDR 2 million) in 1983 to Rs 112 million (SDR 4 million) in 1984. Gross investments in GCEC enterprises amounted to Rs 229 million (SDR 9 million) while investments in other enterprises amounted to Rs 713 million (SDR 27 million). Commercial borrowings of the private sector declined drastically from Rs 2,259 million (SDR 90 million) in 1983 to Rs 1,075 million (SDR 42 million) in 1984. The high debt servicing burden was the main reason for the shortfall in the inflow of long-term capital to private sector. Short-term capital flows declined by Rs 1,534 million (Rs 63 million) in 1984.

Gross disbursements of project aid increased by 33 per cent to Rs 7,427 million (SDR 285 million) while commodity aid (including food aid) declined by 21 per cent to Rs 1,103 million (SDR 42 million) in 1984.

The Government also drew the balance U.S.\$ 35 million (Rs 880 million) of the Syndicated Euro-Currency Loan of U.S.\$ 100 million contracted in 1982 and the proceeds were re-invested abroad. Commercial borrowings amounting to Rs 977 million (SDR 37 million) were utilised in 1984 to finance on-going development projects. Amortization of loans of the public sector reached Rs. 1,694 million (SDR 65 million) in 1984.

During 1984 resources amounting to Rs. 774 million (SDR 31 million) consisting of Rs. 497 million (SDR 20 million) under the Stand-By Agreement and Rs. 277 million (SDR 11 million) under the Reserve Tranche were drawn from the IMF.

The external resource gap which is equivalent to the difference between total foreign exchange receipts and payments declined by 33 per cent and amounted to Rs. 22,957 million (SDR 879 million) when aid imports are excluded the external resource gap narrowed considerably to Rs. 11,302 million (SDR 432 million). The favourable performance of the export sector contributed to ease the pressure on the balance of payments. An index based on the ratio of external resource gap to total foreign exchange receipts declined steeply from 83 per cent in 1983 to 43 per cent in 1984, when adjusted for aid imports it followed the same trend and declined from 59 per cent in 1983 for 21 per cent in 1984. Total foreign exchange payments in SDR terms increased by 1 per cent and amounted to Rs. 76,735 million (SDR 2,929 million) in 1984. Import payments accounted for

2/3 of total payments in 1984 as in previous year. Aid financed imports increased its share and imports financed by own resources declined. Share of capital repayments declined slightly in 1984.

External assets showed a marked improvement reflecting the overall improvement in the external payments position. Gross external assets increased by 47 per cent in SDR terms to Rs. 18,942 million (SDR 735 million) at end 1984.

Gross assets of the Central Bank increased from Rs. 7,704 million (SIR 295 million) in 1983 to Rs. 12,734 million (SDR 494 million) in 1984 due to an increase in liquid balances abroad and investment in foreign securities. Gross international reserves of the commercial banking sector showed only a marginal increase in 1984 and stood at Rs. 5,218 million (SIR 202 million) the gross international reserves were sufficient to finance nearly four and half months imports projected for 1985.

The Sri Lanka Rupee appreciated against all major currencies except the US Dollar in 1984. The Rupee appreciated by 17.6 per cent, 11 per cent and 9 per cent against the Pound Sterling, Indian Rupee, Deutsche Mark and French Franc. The Rupee also appreciated modestly against the Japanese Yen by 2 per cent. Following the strengthening of the Rupee against several key currencies it appreciated against the SIR by 1.2 per cent during the year.

The total outstanding amount of external debt consisting of long term and medium term debt, suppliers credit, commercial borrowing of public corporations and Air Lanka, borrowings of GCFC and other approved enterprises from the Foreign Currency Banking Units, private foreign borrowings and trade credits stood at Rs. 74,321 million (SIR 2,881 million) at end 1984, compared with Rs. 67,952 million (SDR 2,606 million) at end 1983. Total outstanding external

debt as a ratio of GDP declined from 55.9 per cent in 1983 to 49 per cent in 1984. Total long and medium term loans of government, public and private sectors reflected an increase of 15.5 per cent in SDR terms and stood at Rs. 64,649 million (SDR 2,510 million) in 1984. Long and medium term loans of Central Government rose from Rs. 46,729 million (SDR 1,785 million) in 1983 to Rs. 54,192 million (SDR 2,104 million) in 1984. Multilateral and bilateral loans and loans from financial markets to the Government increased 28 per cent, 12 per cent and 28 per cent, respectively in 1984. Loans to public corporations increased by 3.3 per cent. Private sector loans (with Government Guarantee) increased to Rs. 98 million (SDR 4 million) while private sector loans without Government Guarantee increased to Rs. 1,178 million (SDR 46 million) in 1984. A significant feature was the 14 per cent decline in outstanding amount of short-term loans, this was principally due to a decline in Central Bank borrowings from abroad. IMF drawings, Suppliers credit and foreign bank borrowings declined by 2 per cent, 33 per cent and 99 per cent in 1984 respectively. Commercial borrowings of public corporations, Air Lanka, GCEC and other enterprises (from FCBUs) increased from Rs. 14,294 million (SDR 546 million) in 1983 to Rs. 14,988 million (SDR 582 million) in 1984.

Debt service payments consisting of amortization of long-term and medium term loans and interest payments relating to long, medium and short-term loans increased from Rs. 7,136 million (SDR 287 million) to Rs. 8,026 million (SDR 308 million) in 1984. Repurchases interest and service payments in respect of IMF drawings amounted to Rs. 593 million (SDR 23 million) and Rs. 819 million (SDR 31 million) respectively. Total debt service payment (inclusive of IMF transactions) as a ratio of earnings from merchandise exports and services decreased when measured in SDR terms from 21.9 per cent in 1983 to 17.5 per cent

in 1984. This was mainly due to higher export earnings.. In 1984 Debt service ratio (excluding IMF transactions) also decreased from 16 per cent in 1983 to 14.4 per cent in 1984. Overall debt service payments as ratio of receipts from merchandise exports, services and private transfers decreased from 18 per cent in 1983 to 15 per cent in 1984. Excluding IMF transactions the ratio declined from 13.2 per cent to 12.4 per cent between the two years.

The presentation of the Balance of payments in 1983 and in 1984 is given in Annex 'A'.

Foreign Trade Regulations

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

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 of administering the regulations rests with the Department of Imports and Exports Control. Details of import policies, licensing procedures and any changes thereof are published in Government Gazettes.

2. Liberalization of Imports -

From November 1977, the Imports and Exports 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 into the country and also ensuring that

market forces would operate to the benefit of the consumer. Requirements and procedures like allocation of quotas and licensing were relaxed to facilitate the flow of Imports and Exports.

The importation of a few items was restricted. The items that were restricted were mainly :-

- (i) Basic foodstuffs like infant milk food.
- (ii) Items which affected the security of the state, eg. arms. ammunitions explosives etc.
- (iii) Precious items like gold and silver.
- (iv) Narcotics and dangerous drugs.
- (v) Items of which the importation had to be controlled either in the interest of local industries or items which were considered to be luxurious or fancy in respect of which more tariff protection could not be effective as a constraint on imports.

The monopoly imports by the State Sector have been reduced considerably. The Private Sector is now allowed to import the following restricted items which were originally imported by the State Sector only.

- (a) Rice
- (b) Western Drugs
- (c) Full Cream Milk Powder
- (d) Onions

The gift licence fee is 15% of the licence value. The maximum value for import of gifts of controlled items on no-exchange-involved basis is Rs. 10,000/-. As regards liberalised items, there is no maximum value when these items are imported as gifts.

The Convertible Rupee Account Scheme has been abolished with effect from 16.11.1977. Trade with Israel is not allowed. Trade relations with Taiwan have been reviewed and the Private Sector is now permitted to trade with the Private Sector in Taiwan.

Since 1981 the following measures have been taken. -

- (i) Import of Newsprint has been restricted.
- (ii) Import of Colour photo-copying apparatus has been restricted.
- (iii) Import of vehicles over three years old at the time of importation as computed from the date of first registration has been restricted.
- (iv) Import of dried fish and Maldiva fish has been liberalised.

The following items also have been restricted and the import of these items are now under specific licences issued by Import and Export Control Department.

- (a) Slag, dress, scalings and similar waste from the manufacture of iron or steel.
- (b) Ash and residues (other than from the manufacture of iron or steel) containing metals or metallic compounds.
- (c) Other slag and ash including kelp.
- (d) Disinfectants, Insecticides, Fungicides, Weed-Killers (herbicides).
- (e) Retreaded tyres and tyres showing signs of wear.
- (f) Yarn of man-made fibres (discontinuous or waste) not put up for retail sale.
- (g) Yarn of man-made (discontinuous or waste) put up for retail sale.
- (h) Concrete Cement Blocks encasing Industrial waste sludge.

- (i) Wire rod.
- (j) Outboard Marine Engines above 25 Horse Power,
Inboard Marine Propulsion Engines above 50 Horse Power.

EXPORT LICENSING

With the adoption of a realistic rate of exchange and the improvement in our terms of trade, a large number of items, the export of which was restricted, were exempted from export licensing. Now only 20 items require export licences. These items are listed in Annex B. .

3. State Trading

With the introduction of the liberalised trade policy in 1977 State monopolies have been gradually withdrawn. While allowing some State trading institutions to enjoy a monopoly status on a few selected products, minimal State control was maintained to protect the interest of consumers and producers. As monopolies enjoyed by State Corporations were withdrawn, except in a few specified instances, the corporations have to operate on equal terms with the private sector under the present system.

The items of import or export regarding which Corporations or Government Departments have sole or partial monopoly are given in the Annex C.

4. Trade & Payments Agreement

Sri Lanka does not have Trade and Payments Agreement of a contractual nature with any country.

Balance of Payments

Item	Rs. Million		SDR Million	
	1983	1984	1983	1984
A. Merchandise (net)	-20,167.6	-10,798.1	- 800.8	- 412.6
Exports f.o.b.	25,038.7	37,197.6	993.0	1,427.4
Imports c.i.f.	45,206.3	47,995.7	1,793.8	1,840.0
B. Services (net)	- 1,411.2	- 1,735.0	- 56.6	- 66.2
Receipts	8,032.9	8,567.3	319.9	328.7
Payments	9,444.1	10,302.3	376.5	394.9
C. Goods and Services (net)	-21,578.8	-12,533.1	- 857.4	- 478.8
D. Transfers (net)	+10,457.0	+12,185.4	+ 416.0	+ 467.5
Private (net)	+ 6,441.0	+ 7,031.0	+ 256.4	+ 269.7
Official (net)	+ 4,016.0	+ 5,154.4	+ 159.6	+ 197.8
E. Current Account (C+D)	-11,121.8	- 347.7	- 441.4	- 11.3
F. Non-Monetary Sector (net)	+10,615.8	+ 8,755.0	+ 420.3	+ 335.4
Private (net)	+ 4,005.2	+ 62.3	+ 159.9	+ 2.3
Central Government (net)	+ 6,610.6	+ 8,692.7	+ 260.4	+ 333.1
Long-term (net)	+ 6,612.9	+ 8,692.7	+ 260.4	+ 333.1
Disbursements	8,545.7	10,386.9	346.8	398.2
Amortization	1,932.8	1,694.2	86.4	65.1
Short term (Net)	- 2.3	-	-	-
G. Valuation Adjustments	+ 81.5	- 38.8	-	-
H. Errors & Omissions	+ 766.5	- 1,306.4	+ 21.7	- 27.0
I. SDR Allocation	-	-	-	-
J. Overall Balance	* 342.0	+ 7,062.1	+ 0.6	+ 297.1
K. Monetary Movements	- 342.0	- 7,062.1	- 0.6	- 297.1
Conversion Rate Rs/SDR			23.54	26.08

Source: Central Bank of Ceylon

Date: 85.08.07

ANNEX B

The 20 items which require export licences are as follows:-

1. Meat in any form, B.T.N. Chapter 02.
2. Dead fish, fish chilled or Frozen B.T.N. 03.01
3. Crustaceans and Molluscs, B.T.N. 03.03
4. Coral chanks and shells, B.T.N. 05.12
5. Vegetable in any form, B.T.N. Chapter 07
6. Wheat flour and rice, B.T.N. 10.01, 10.06
7. Betel Leaves, B.T.N. 12.03
8. Animal feeds, B.T.N. Chapter 23
9. Minerals and mineral products, B.T.N. Chapter 25.
10. Metal Ores, B.T.N. Chapter 26.
11. Pharmaceuticals, B.T.N. Chapter 30.
12. Hides and skins of animals raw or processed, B.T.N. Chapter 41.
13. Timber, i.e. wood and articles of wood (including logs and sawn timber) classified under B.T.N. Chapter 44 excluding coconut shell charcoal (B.T.N. 44.02) household utensils of wood (B.T.N. 44.24) and manufactured articles of wood (B.T.N. 44.27)
14. Metal and metal scrap.
15. Ivory and Ivory products (B.T.N. Nos. 05.10, 38.02, 95.03)
16. Passenger motor vehicles first registered in Sri Lanka prior to 01.01.1945 (B.T.N. 87.02)
17. Bone and Bone Products (B.T.N. 05.08)
18. Waste paper and paper board (B.T.N. 47.02)
19. Cashew with shell.
20. Cinnamon quills and quillings to Mexico.

Sri Lanka's Balance of Payments Consultation under GATT

Items of Import or Export regarding which Corporations/ Government Departments have a sole or partial monopoly.

(Sole monopoly unless otherwise stated)

CO-OPERATIVE WHOLESALE ESTABLISHMENT

IMPORT - Dried Chillies, Masoor Dhall, Potatoes.

SRI LANKA STATE TRADING (GENERAL) CORPORATION

IMPORT - Sulphuric Acid
Sodium Silicate
Sodium Metasilicate
Phosphoric Acid
Red Phosphorous
Hydrochloric Acid
Potassium Nitrate
Barium Nitrate
Aluminium powder
Black Blasting powder
Special Gelatine
Detonating Cord
Detonators
Safety Fuse (wet & dry)
Amonium Nitrate
Exploders (Blasting Machines)
Cartridges & Ammunitions
Crocodile Brand Mamoties
Jute Hessim Cloth (partial monopoly)
Tarpaulin (partial monopoly)
Cellulose Tape & Cellulose paper (partial monopoly)

SRI LANKA STATE TRADING (TEXTILE) CORPORATION

IMPORT - Consumer Utility textiles
Used woolen and synthetic clothing
Thread (partial monopoly)

THE NATIONAL FILM CORPORATION OF SRI LANKA

IMPORT & EXPORT - Exposed Film

PARANTHAN CHEMICAL 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.

STATE MINING AND MINERAL DEVELOPMENT CORPORATION

EXPORT - Graphite

CEYLON MINERAL SANDS CORPORATION

EXPORT - Mineral Sand

Sri Lanka Trading (Consolidated Exports) Corporation,
C.W.E. and Markfed have the monopoly for the export
of betel leaves to Pakistan.