

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Limited Distribution

Committee on Balance-of-Payments
Restrictions

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1979 CONSULTATIONS UNDER ARTICLE XVIII:12(b) WITH SRI LANKA

Statement Submitted by Sri Lanka under the Simplified Procedures for Consultation ^{1/}

Balance of payments 1978

The current account of the balance of payments showed a deficit of Rs 782 million (SDR 64 million) in 1978 in contrast to a surplus of Rs 1,266 million (SDR 116 million) in 1977. This was largely due to an increase in import payments following the liberalization of the exchange and trade system in 1977. External assets, however, increased further in 1978 due to a heavy inflow of long-term capital and drawings from the International Monetary Fund.

Import payments increased by 30 per cent in 1978, in SDR terms; the import bill increased from Rs 6,290 million (SDR 622 million) in 1977 to Rs 15,350 million (SDR 808 million) in 1978. The increase in imports reflected the release of a pent-up demand built up over the years of controls. The rise in imports stemmed mainly from a speeding-up of imports of investment and intermediate goods. Consumer good imports grew relatively at a slower pace.

In comparison with a substantial increase in imports, export earnings in 1978 showed only a marginal increase of 4 per cent from Rs 6,640 million (SDR 651 million) in 1977 to Rs 13,207 million (SDR 675 million) in 1978. The slow growth of export earnings during the year was to a great extent a result of the weakening of tea prices in international markets. Since the output of major exports of Sri Lanka remained stagnant in recent years, the level of earnings from such commodity exports moved almost entirely in line with the fluctuations of international market prices.

The slower growth of exports and the much faster growth of imports, thus resulted in a shifting of the trade balance to a deficit of Rs 2,143 million (SDR 133 million) in 1978 from a surplus of Rs 350 million (SDR 28 million) in 1977.

^{1/}L/3772/Rev.1

Net earnings from services declined in 1978; the net surplus declined from Rs 304 million (SDR 29 million) in 1977 to Rs 119 million (SDR 6 million). Following the relaxation of restrictions on foreign travel in November 1977 the expenditure by Sri Lankans travelling abroad increased sharply from Rs 33 million (SDR 3 million) in 1977 to Rs 444 million (SDR 23 million) in 1978. Estimated gross earnings from tourism increased from Rs 304 million (SDR 29 million) in 1977 to Rs 750 million (SDR 38 million) this year. The surplus on port, transport and insurance earnings declined. Largely as a result of these developments, the rising trend in the services account surplus experienced since 1973 was reversed in 1978. Inward remittances by Sri Lankans working abroad, particularly in the Middle East countries have been estimated to have risen sharply from Rs 190 million (SDR 18 million) in 1977 to Rs 610 million (SDR 31 million) in 1978 and this resulted in an increase in the surplus on total transfers from Rs 612 million (SDR 59 million) to Rs 1,242 million (SDR 63 million) in 1978.

The current account deficit in 1978 was financed entirely by long-term loans. The gross inflow of long-term loans increased considerably from Rs 1,184 million (SDR 114 million) in 1977 to Rs 3,680 million (SDR 188 million) in 1978. Nearly one third of these loans were disbursed as project aid (Rs 1,222 million or SDR 62 million) tied to various development projects. In addition, loans of Rs 1,680 million (SDR 86 million) were disbursed from the commodity and food-aid pipe line. The IMF provided Rs 778 million (SDR 40 million) under its Trust Fund arrangement. The two final instalments of the IMF Stand-by arrangement negotiated in the previous year provided Rs 756 million (SDR 38 million). Receipts of grants amounted to Rs 900 million (SDR 46 million) in 1978 and, in foreign exchange terms, this was almost equivalent to the 1977 level. As a result of the marked increase in long-term availability in 1978, the need for recourse to non-concessionary short-term trade credits was further reduced, as in 1977.

Balance of Payments for 1978^{1/}

	Rs. Million			SDR Million ^{2/}		
	Credit	Debit	Net	Credit	Debit	Net
Goods and Services						
1. Merchandise	13,206.5	15,350.0	- 2,143.5	674.5	808.0	-135.5
2. Non-monetary gold	-	-	-	-	-	-
3. Freight and Merchandise Insurance	30.0	50.0	- 20.0	1.5	2.6	- 1.1
4. Other Transportation	288.6	267.6	+ 21.0	14.7	13.7	+ 1.0
4.1 Passenger fares	22.5	120.0	- 97.5	1.1	6.1	- 5.0
4.2 Port expenditures	240.0	80.0	+ 160.0	12.3	4.1	+ 8.2
4.3 Other	26.1	67.6	- 41.5	1.3	3.5	- 2.2
5. Travel	750.0	444.2	+ 305.8	38.3	22.7	+ 15.6
6. Investment Income	313.8	550.7	- 236.9	16.0	28.1	- 12.1
6.1 Direct Investment	-	65.9	- 65.9	-	3.4	- 3.4
6.2 Other	313.8	484.8	- 171.0	16.0	24.7	- 8.7
7. Government Expenditure, n.i.e.	108.3	75.0	+ 33.3	5.5	3.8	+ 1.7
8. Other Services	451.6	435.4	+ 16.2	23.1	22.2	+ 0.9
8.1 Non-merchandise Insurance	11.4	32.5	- 21.1	0.6	1.6	- 1.0
8.2 Other	440.2	402.9	+ 37.3	22.5	20.6	+ 2.4
Total Goods and Services	15,148.8	17,172.9	- 2,024.1	773.6	901.1	-127.5
Transfer Payments						
9. Private	609.8	267.7	+ 342.1	31.1	13.7	+ 17.4
10. Official	900.0	-	+ 900.0	46.0	-	+ 46.0
Total Current Account	16,658.6	17,440.6	- 782.0	850.7	914.8	- 64.1
Capital and Monetary Gold						
Non-monetary Sector	3,824.6	1,225.0	+ 2,599.6	195.3	62.5	+132.8
11. Direct Investment	23.5	-	+ 23.5	1.2	-	+ 1.2
12. Other Private Long-term	7.8	-	+ 7.8	0.4	-	+ 0.4
13. Other Private Short-term	113.6	-	+ 113.6	5.8	-	+ 5.8
14. Central Government	3,679.7	1,225.0	+ 2,454.7	187.9	62.5	+125.4
14.1 Long-term Loans	3,679.7	673.5	+ 3,006.2	187.9	34.3	+153.6
14.2 Other long-term	-	397.5	- 397.5	-	20.3	- 20.3
14.3 Other short-term	-	154.0	- 154.0	-	7.9	- 7.9

	Rs. Million			SDR Million ^{2/}		
	Credit	Debit	Net	Credit	Debit	Net
Monetary Sector	844.5	2,705.9	- 1,861.4	42.6	108.8	- 65.4
15. Government - Assets	-	24.5	- 24.5	-	1.2	- 1.2
16. Government - Liabilities	-	35.6	- 35.6	-	1.9	- 1.9
17. Commercial Banks - Assets	-	73.3	- 73.3	0.7	-	+ 0.7
18. Commercial Banks - Liabilities	88.5	-	+ 88.5	3.9	-	+ 3.9
19. Central Bank - Assets	-	1,805.9	- 1,805.9	-	64.7	- 64.7
20. Central Bank - Liabilities	-	326.2	- 326.2	-	18.2	- 18.2
21. Transactions with I.M.F.	756.0	440.4	+ 315.6	38.0	22.0	+ 16.0
22. Allocation of SDR's	-	-	-	-	-	-
23. Valuation Adjustments	344.2	-	+ 344.2	-	-	-
24. Monetary Gold	-	-	-	-	-	-
25. Errors and Omissions	-	300.4	- 300.4	-	3.3	- 3.3

Source : Central Bank of Ceylon.

1/ Very Provisional

2/ Includes adjustments of SDR 24 million due to exchange rate differential

Rate of conversion : Weighted average for 1978; SDR 1 = Rs.19.58 (SDR 0.051072 = Rs. 1)

FOREIGN TRADE REGULATIONS

1. Legal and administrative basis of import restrictions

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 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 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 import trade

From November 1977, the Import and Export Control Department successfully implemented the policy decisions of the Government to liberalize imports, in the interests of bringing about a better supply of commodities in the country, and also ensuring that market forces would operate to the benefit of the consumer. Licensing requirements and procedures such as the allocation of quotas, categorization of imports were removed to facilitate the smooth flow of imports. The importation of all but a few items was liberalized. The restricted items were mainly:

1. Basic foodstuffs like rice, flour and infant milk foods where Government subsidy schemes are involved.
2. Items affecting the security of the State e.g., arms, ammunitions, explosives etc.
3. Precious metals like gold and silver.
4. Narcotics and dangerous drugs.
5. Items the importation of which had to be controlled either in the interest of local industries or items which are considered to be luxury items in respect of which mere tariffs alone are not effective as a constraint on imports.

The number of trade quota items was reduced from 163 to twenty-one. 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:

- (a) Dried fish from countries other than India and Pakistan.
- (b) Western drugs.
- (c) Full cream milk powder.

The gift licence fee has been 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 has been increased from Rs 2,500 to Rs 10,000. As regards liberalized items, there is no maximum value when those items are imported as gifts. The Foreign Exchange Entitlement Certificate Scheme (FEECS) and the Convertible Rupee Account Scheme were abolished with effect from 16 November 1977 with the unification of the exchange rates.

3. Use of State trading

The Government through the Food Department is the sole importer of rice and flour. The following State corporations have also the monopoly or partial 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 viz. dates, chillies, big onions, potatoes, lentils, pulses. |
| S.L.S.T. (General) Corporation | - Chemicals (controlled items only). Explosives, base metal, guns and cartridges, mammothies etc. |
| S.L.S.T. (Textile) Corporation | - Textile and used clothing. |
| Ayurvedic Drugs Corporation | - Raw drugs and prepared. Ayurvedic drugs (partial monopoly). |
| State Pharmaceuticals Corporation and - Pharmaceuticals | - Western drugs and pharmaceuticals (partial monopoly) |
| Ceylon Petroleum Corporation | - Petroleum products. |

4. Bilateral Agreements

Sri Lanka has trade agreements with the following countries. Bulgaria, China, Czechoslovakia, German Democratic Republic, Hungary, Iraq, North Korea, Poland, Romania, Syria, Arab Republic of Egypt, USSR, Yugoslavia, Bangladesh, Nepal. These trade Agreements while containing indicative lists of products available for export provide for payments in convertible currencies except the Agreement with China which provides for a separate payments arrangement.

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 - Chemicals other than caustic soda
Explosives
Artificial resins and plastic materials
Tea chests and tea chest panels
Jute hessian
Base metals
Mammoties
Stationery, internal combustion engines
Guns and cartridges

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

Peranthan 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
Liquified petroleum gas, brake fluid, petrolatum
white oils, process oils, methanol, solvents

Sri Lanka Ayurvedic Drugs Corporation

Import - Raw ayurvedic drugs (minerals)
Prepared ayurvedic drugs) (partial monopoly)
Prepared unani drugs)

Ceylon Mineral Sands Corporation

Export - Mineral sands

Sri Lanka Tobacco Industries Corporation

Import - Beedi wrapper leaves

National Salt Corporation

Export - Common salt

State Graphite Corporation

Export - Graphite

State Pharmaceuticals Corporation

Import - Western drugs and pharmaceuticals (partial monopoly)