

GENERAL AGREEMENT ON TARIFFS AND TRADE

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1983 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH SRI LANKA

Statement submitted by Sri Lanka under
Simplified Procedures for Consultations

Balance of Payments - 1982

A sharp deterioration in the trade balance accompanied by a worsening of the Current Account balance and a further deterioration in the terms of trade were some of the major features of Sri Lanka's balance of payments developments in 1982. Increased net receipts of non-monetary capital flows, however, helped to mitigate the adverse impact of these developments and contain the overall deficit on balance of payments transactions at SDR 24 million, which was slightly lower than the overall deficit of SDR 25 million recorded in the previous year. The country's gross external reserves, however, increased by Es: 1,734 million (SDR 79 million) during the year and the level of gross reserves at the end of the year was adequate to finance 3 months imports projected for 1983.

The deficit in the merchandise account amounted to Es: 20,168 million (SDR 892 million) in 1982. This was the highest on record and represents a substantial increase from the corresponding deficit of Es: 15,616 million (SDR 693 million) recorded in the previous year. The current account deficit also worsened from Es: 8,342 million (SDR 375 million) in 1981 to Es: 11,793 million (SDR 315 million) in 1982. Net receipts of non-monetary capital, in 1982, however, increased from Es: 7,691 million (SDR 341 million) in 1981 to Es: 9,885 million (SDR 431 million) in 1982. In the event, the year ended with an overall deficit of Es: 1,149 million (SDR 24 million) with a resultant deterioration in the country's net international reserves position.

The sharp increase in the trade balance can be attributed to an increase in import outlay by 14.4 per cent, while export receipts increased only by 3.4 per cent. Earnings from merchandise exports increased from Es: 20,507 million (SDR 903 million) in 1981

to Rs. 21,434 million (SDR 934 million) in 1982. The combined earnings from the three traditional exports—tea, rubber and coconut—registered a 6.0 per cent decline (in SDR terms) during the year. Therefore, the increase in export earnings in 1982 was entirely the outcome of higher earnings from non-traditional exports such as textiles and garments, other industrial goods, and minor agricultural products.

Expenditure on imports increased from Rs. 36,123 million (SDR 1,596 million) in 1981 to Rs. 41,903 million (SDR 1,826 million) in 1982, an increase of 14 per cent. This rate of increase, though considerably lower than the average of 36 per cent growth recorded in the 1977-1980 period, is significantly higher than the 1 per cent growth recorded in 1981. A greater part of the increase in import outlay is attributable to the investment goods category, the expenditure on this class of imports rising by 46 per cent between 1981 and 1982. This large increase was due partly to the import of ships and aircraft during the year. Outlay on consumer goods imports fell by 7 per cent in the same period, while that of intermediate goods rose by 12 per cent.

The services account of the balance of payments recorded a smaller surplus of Rs. 126 million (SDR 5 million) in 1982, as compared with a surplus of Rs. 238 million (SDR 10 million) in 1981. This is a further intensification of an adverse trend experienced since 1980 when the surplus on the services account began to decline after a period of steady increase since 1973.

Increased interest payments on external debt was the prime cause of this development. Interest payments on foreign loans, IMF drawings and commercial credits increased from Rs. 2,128 million (SDR 93 million) in 1981 to Rs. 2,497 million (SDR 109 million) in 1982, recording a 17 per cent increase in SDR terms. Although the interest earnings on investments abroad also increased during the year, rising from Rs. 552 million (SDR 24 million) in 1981 to Rs. 742 million (SDR 32 million) in 1982, the fact that interest payments rose at a faster rate and by a larger magnitude meant that the deficit on account of interest transactions expanded during the year, rising from Rs. 1,576 million (SDR 69 million) in 1981 to Rs. 1,755 million (SDR 77 million)

in 1982. This, together with increased outlays on account of profits and dividend payments, increased the deficit on the "investment income" category by 15 per cent to Rs. 1,968 million (SDR 86 million) during the year.

Tourism, port, transportation and insurance were the major sources of earnings in the services account. Net earnings from port, transportation and insurance increased from Rs. 227 million (SDR 9 million) in 1981 to Rs. 264 million (SDR 12 million) in 1982. Earnings from tourism increased from Rs. 2,244 million (SDR 99 million) in 1981 to Rs. 2,573 million (SDR 112 million) in 1982, largely due to a 10 per cent rise in tourist arrivals during the year. On the other hand, payments on account of Sri Lankans travelling abroad increased by a larger margin of 27.2 per cent, reducing the net earnings from tourism to Rs. 1,679 million (SDR 73 million) in 1982.

In keeping with the trend observed in recent years, receipts from private transfers consisting largely of remittances made by Sri Lankans employed abroad increased significantly during the year. Such receipts increased by 29.2 per cent to reach Rs. 5,789 million (SDR 252 million) in 1982, from a level of Rs. 4,430 million (SDR 195 million) in 1981. This was the most positive single item in Sri Lanka's balance of payments in recent years. The net surplus on this account which has been rising steadily since 1977, has played a significant role in off-setting to some extent, the poor outturn on the merchandise account.

Official transfers, consisting largely of grants, both project and commodity aid from foreign governments and international agencies, increased by 8 per cent from Rs. 3,118 million (SDR 136 million) in 1981 to Rs. 3,379 million (SDR 147 million) in 1982. The major contributors during the year were Australia, Finland, Japan, the Netherlands, the Norwegian Agency for International Development (NORAD), the Swedish International Development Authority (SIDA), the United Kingdom, the United Nations Agencies, and the United States of America. The overall surplus on transfers increased from Rs. 7,036 million (SDR 308 million) in 1981 to Rs. 8,549 million (SDR 372 million) in 1982, reflecting increased inflows on account of both private and official transfers.

The marginal surplus on services account and the considerable increase in receipts on account of transfers helped somewhat to off-set the deficit on merchandise account. Accordingly, the current account deficit for the year was Rs. 11,793 million (SDR 515 million), as compared with a merchandise trade deficit of Rs. 20,468 million (SDR 892 million). The Current account deficit was largely financed by means of non-monetary capital, consisting of long-term aid loans, commercial borrowings, as well as direct investments.

Total net non-monetary sector capital movements or the total extent of financing available from private and official sources amounted to Rs. 9,885 million (SDR 431 million) in 1982 as compared with Rs. 7,691 million (SDR 341 million) in 1981. This was about 26 per cent higher (in SDR terms) than the extent of such financing available in 1981. With the availability of capital flows of such magnitude, it was possible to mitigate the adverse impact of the large deficit that emerged on current transactions and to contain the overall deficit to Rs. 1,149 million (SDR 24 million) in 1982.

The extent to which short term credits were utilised to finance the balance of payments deficit in 1982 was lower than in 1981. This fall may largely be attributed to a decline in short-term credits obtained mainly by the Petroleum Corporation, which declined from a net increase of Rs. 386 million (SDR 20 million) in 1981 to a net decrease of Rs. 64 million (SDR 2.5 million) in 1982. On the other hand, net inflows of private long term capital increased substantially from Rs. 2,184 million (SDR 96 million) in 1981 to Rs. 5,072 million (SDR 220 million) in 1982. Of this amount, net investments of GCEC and FIAC-approved enterprises amounted to Rs. 1,030 million (SDR 45 million). The share of GCEC investments in this total was, however, lower and represented only 43 per cent. The rest of private sector net long-term capital receipts consisting of private sector suppliers credits and commercial borrowings amounted to Rs. 4,042 million (SDR 175 million) in 1982, as compared with Rs. 1,238 million (SDR 54 million) in 1981.

Official loans received during the year amounted to Rs. 6,393 million (SDR 280 million), an increase of 5 per cent over the corresponding figure for 1981. This was largely the outcome of increased disbursements of project loans, the total rising from Rs. 1,931 million (SDR 84 million) in 1981 to Rs. 3,225 million (SDR 141 million) in 1982. The disbursement of commodity loans, however, fell by 21.5 per cent over the same period. The use of commercial borrowings by the Government, consisting of a Euro-currency loan and a Yen denominated bond issue, amounted to Rs. 1,090 million (SDR 48 million) in the year under review. This was of a lower magnitude than what was utilised in 1981. Since 1980, commercial credits raised by the Government have been resorted to as a means of financing balance of payments deficits. Amortization of loans and advance payments on the on-going development projects amounted to Rs. 1,517 million (SDR 67 million) in 1982. Allowing for these, the extent of net financing available from public sector capital flows was Rs. 4,876 million (SDR 213 million) in 1982, as compared with net official capital receipts of Rs. 5,120 million (SDR 225 million) in the previous year.

The resources available from the International Monetary Fund for financing the balance of payments deficit in 1982 amounted to Rs. 916 million (SDR 39 million) representing a drawing under the Compensatory Financing Facility. The repurchases in respect of earlier drawing amounted to Rs. 1,146 million (SDR 50 million) resulting in a net outflow of SDR 11 million. An analytical presentation of the balance-of-payments 1981-82 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 affect 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.

The gift licence fee is 15% of the licence value. The maximum value for import of gifts of controlled items on non-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 five years old at the time of importation as computed from the date of first registration has been restricted.
- (IV) Import of dried fish and Maldivic fish has been liberalised.

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 Annex B.

4. Trade & Payments Agreement

Trade Agreements of a general nature with Bangladesh, Egypt, Iraq, Bulgaria, Czechoslovakia, Hungary, Poland, Romania, German Democratic Republic, the USSR and Nepal were in force during 1982. As the 5 year Trade and Payments Agreement with China signed in 1977 was due to expire at the end of 1982, a new Trade Agreement was signed in 1982. It is of a general nature, granting most favoured nation treatment and providing payments for transactions in convertible currencies. The Rubber/Rice Barter Pact which was in existence since 1952 has been abandoned.

ANNEX A

Balance of Payments - 1981 and 1982

| Item | Rs. Mn. | | SDR Mn. | |
|------------------------------|---------|----------|---------|--------|
| | 1981 | 1982 | 1981 | 1982 |
| A. Merchandise (net) | 15,614 | -20,468 | - 693 | - 892 |
| Exports, f.o.b. | 20,507 | 21,434 | 903 | 934 |
| Imports, c.i.f. | -36,121 | -41,902 | - 1,596 | -1,826 |
| B. Services (net) | 238 | 126 | 10 | 5 |
| Receipts | 5,937 | 7,648 | 261 | 333 |
| Payments | - 5,699 | - 7,522 | - 251 | - 328 |
| C. Goods and Services (net) | -15,378 | -20,342 | - 683 | - 887 |
| D. Transfers (net) | 7,036 | 8,549 | 308 | 372 |
| Private (net) | 3,918 | 5,170 | 172 | 225 |
| Official (net) | 3,118 | 3,379 | 136 | 147 |
| E. Current Account (C+D) | - 8,342 | -11,793 | - 375 | - 515 |
| F. Non-Monetary Sector (net) | 7,691 | 9,885 | 341 | 431 |
| Private (net) | 2,571 | 5,009 | 116 | 218 |
| Central Government (net) | 5,120 | 4,876 | 225 | 213 |
| Disbursements | (6,087) | (6,393) | (267) | (280) |
| Amortization | (- 967) | (-1,517) | (-42) | (-67) |
| G. Valuation Adjustments | - 39 | - 124 | -- | -- |
| H. Errors & Omissions | + 32 | + 883 | - 4 | + 60 |
| I. SDR Allocation | 252 | -- | 12 | -- |
| J. Overall Balance | - 406 | - 1,149 | -26 | - 24 |
| K. Monetary Movement | 406 | 1,149 | 26 | 34 |
| Conversion Rate Rs/SDR | | | 22.67 | 22.98 |

Source: Central Bank of Ceylon.

Date:

ANNEX B

Sri Lanka's Balance of Payments Consultations
Under GATT

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, Dhall, Red Onions,
Dried fish (partial monopoly).

Sri Lanka State Trading (General) Corporation

Import - Sulphuric Acid
Formic Acid
Pottasium Nitrate
Pottasium Cholorate
Amonium Nitrate
Barium Nitrate
Explosives & Accessories
Aluminium Powder
Guns & Cartridges
Cellulose Tapes
P.V.C. Tapes
Cellophane Papers
Mammeties
Jute Hession Cloth (partial monopoly)
Tarpaulin " "
Cellulose Tapes and
Cellulose Paper (partial monopoly)

Sri Lanka State Trading (Textile) Corporation

Import - Consumer and Industrial Textiles
Used Woollen and synthetic clothing
Thread (partial monopoly)

State Film Corporation

Import & Export - Cinematographic exposed films.

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.
Lubricating Oil and Greases
Brake Fluid
Petroleum, White Oils, Process Oils,
Methanol, Solvents.

Ceylon Mineral Sands Corporation

Export - Mineral Sands

Sri Lanka Tobacco Industries Corporation

Import - Beedi Wrapper leaf

State Graphite Corporation

Export - Graphite

Sri Lanka State Trading (Consolidated Exports) Corporation

Export - Betel (Partial monopoly)

Sri Lanka Ceramics Corporation

Exports - Porcelain Ware
Wall Tiles
Mosaic Tiles
Sanitaryware
Crookery.