

# GENERAL AGREEMENT ON

RESTRICTED

BOP/274

13 October 1987

Limited Distribution

## TARIFFS AND TRADE

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Committee on Balance-of-Payments Restrictions

Original: English

### 1987 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH SRI LANKA

#### Statement by Sri Lanka under Simplified Procedures for Consultations<sup>1</sup>

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<sup>1</sup>BISD 20S/47.

BALANCE OF PAYMENTS CONSULTATIONS - SRI LANKA

1. BALANCE OF PAYMENTS - 1986

In terms of the trade, services and current account balances, the balance of payments showed a slight improvement in 1986. The deficit in the trade account declined from SDR 711 million in 1985 to SDR 644 million in 1986 while the deficit in the services account decreased from SDR 133 million to SDR 115 million between these two years. The current account deficit decreased from SDR 410 million in 1985 to SDR 357 million in 1986 and, as a ratio of Gross Domestic Product declined to 6.5 per cent from 6.9 per cent in 1985. However, the overall balance was in deficit to the tune of SDR 74 million which had to be financed by utilizing net external assets.

Following the drop of 9.2 per cent recorded in 1985 export earnings decreased by 21.0 per cent in 1986, from SDR 1,296 million to SDR 1,029 Mn. between the two years. This was mainly due to the slump in commodity prices. Export volumes of all major commodities, except rubber, increased in 1986. In value terms agricultural exports, excluding petroleum products, increased by 11.0 per cent during the year. On a gross earnings basis, the garments and textiles category became the single largest foreign exchange earner in 1986.

Closely following the trend in export earnings, import payments too declined from SDR 2007 million in 1985 to SDR 1673 million in 1986 indicating a fall of 17.0 per cent. This decline in imports was also attributed largely to a downward movement in import prices.

The overall import price index, in SDR terms, declined by 20.9 per cent during the year. Notwithstanding this decline in import prices, the overall price movements in international markets were not favourable to Sri Lanka and the terms of trade deteriorated by 5.0 per cent during the year.

The deficit in the services account declined from SDR 133 million in 1985 to SDR 115 Mn. in 1986, attributed largely to lower net outflows in respect of interest payments, government expenditure and miscellaneous services. The downward movement in international interest rates and the reduction in the level of outstanding commercial debt helped to bring down the interest liabilities on foreign loans. Interest payments on foreign loans including those on drawings from the IMF amounted to SDR 162 million

-as compared with

SDR 196 million in 1985. However, it is noteworthy that interest payments continued to be the single largest item in the services account.

In the background of an unfavourable environment for tourism, tourist arrivals declined by 11.0 per cent in 1986. Gross earnings from tourism estimated at SDR 70 million showed a 13.0 per cent drop as compared with the level of gross receipts from tourism in 1985.

Foreign exchange receipts on account of private transfers recorded a decline of 4.0 per cent in SDR terms from SDR 288 million in 1985 to SDR 277 million in 1986 while official transfers decreased sharply from SDR 172 million to SDR 152 million. The total net receipts on account of both private and official transfers fell from SDR 434 million in 1985 to SDR 402 million in 1986. The net inflows on account of transfers were sufficient to cover 53.0 per cent of the deficit in the goods, and services account. As a result, the current account was in deficit to the tune of SDR 357 million which had to be financed through non-monetary capital and running down of net external assets.

The total net inflows of non-monetary capital at SDR 302 million recorded a decrease of 8.0 per cent in 1986. This was due to a reduction in the net inflows to both private and public sectors. The net inflows of capital to the private sector were SDR 55 million as against SDR 58 million in 1985. The net capital inflows to the government sector amounted to SDR 247 million as compared with SDR 270 million in the previous year, representing a drop of 9.0 per cent in 1986. Total amortization payments on government loans amounting to SDR 99 million in 1986 was 37.0 per cent higher than the corresponding amount in the previous year. Increase in amortization payments reduced the amount of net resources available in the form of government sector capital to finance the current account deficit.

Gross external assets declined by 19.0 per cent in 1986. The level of gross external assets at the end of 1986 stood at SDR 492 million and was sufficient to finance 3.4 months of imports projected for 1987.

The Sri Lanka Rupee depreciated against all major currencies except the Indian Rupee in 1986. It depreciated against both the Deutsche Mark and the Japanese Yen by 24 per cent, against the French

Franc by 13.4 per cent and by 5.3 per cent against the U.K. Pound. The Sri Lankan Rupee appreciated by 4.3 per cent against the Indian Rupee.

The total external debt outstanding increased by 3.0 per cent in SDR terms and stood at SDR 3,262 million at the end of 1986. The ratio of outstanding external debt to GDP rose from 54.0 per cent in 1985 to 60.0 per cent in 1986. Increased utilization of medium-term and long-term loans particularly by the government was the main source of growth in external debt in 1986. It is also noteworthy that the outstanding debt on account of commercial borrowings by the government decreased by SDR 13 million during the year.

Sri Lanka's debt obligations to the IMF decreased in 1986 as no new drawings were made during the year. The level of outstanding debt to IMF stood at SDR 234 million at the end of 1986.

The debt service payments increased from SDR 340 million in 1985 to SDR 356 million in 1986. Amortization payments including repayments in respect of IMF loans rose from SDR 166 million to SDR 210 million during this period. However, interest and other service payments declined from SDR 175 million to SDR 146 million between these two years.

The total debt service payments as a ratio of exports of goods and services increased to 26.3 per cent in 1986 from 21.0 per cent in 1985. This was the combined effect of a fall in export earnings and increased debt service payments. The debt service ratio excluding IMF transactions also recorded an increase from 17.2 per cent to 20.5 per cent between the two years. The overall debt service payments as a ratio of receipts from exports, services and private transfers rose from 17.6 per cent in 1985 to 22.0 per cent in 1986.

### 1.1 PROSPECTS FOR 1987

In terms of the merchandise and current account balances, the balance of payments position is expected to show some improvement in 1987. However, the overall balance would indicate a deficit leading to a further draw-down of external assets as in 1986.

The deficit in the merchandise account is expected to decline from SDR 644 million in 1986 to SDR 557 million in 1987. The services account will show a larger deficit in 1987 than in 1986. The deficit in the services account in 1987 is estimated at SDR 152 million as

against SDR 115 million in 1986. Net transfer receipts for 1987 is estimated at SDR 380 million, a decline of 5.5 per cent over the 1986 level. Consequently, the deficit in the current account will reduce from SDR 357 million in 1986 to SDR 330 million in 1987. The current account deficit as a ratio of Gross Domestic Product will also decline to 6.2 per cent in 1987 from 6.5 per cent in 1986. The non-monetary capital inflows will be lower by 11.0 per cent in 1987 thereby leaving a deficit of SDR 86 million to be financed by using net external assets.

Earnings from exports are expected to increase from SDR 1,029 million in 1986 to SDR 1,113 million in 1987 reflecting a 8.0 per cent growth in exports. Agricultural exports and industrial exports are projected to increase by 5.0 per cent and 10.0 per cent respectively in 1987. Import payments are expected to increase marginally from SDR 1,664 million in 1986 to SDR 1,670 million in 1987. While consumer goods and investment goods are expected to decline by 9.0 per cent and 11.0 per cent respectively, intermediate goods are expected to increase by 8.0 per cent in 1987.

Foreign exchange earnings on account of services are expected to decrease by 12.0 per cent while payments are projected to be around the same level as in 1986. The decline in services receipts will be mainly due to lower earnings from tourism. Interest payments in 1987 will be higher by 6.0 per cent than the amount of interest payments in 1986.

Gross inflow of private transfers are expected to decrease marginally, from SDR 277 million in 1986 to SDR 270 million in 1987. Official transfers consisting of project and commodity grants will decline from SDR 152 million in 1986, to SDR 139 million in 1987.

Net inflows of non-monetary capital to the private sector will increase from SDR 29 million in 1986 to SDR 64 million in 1987 due largely to higher inflows in the form of trade credits. Net inflows of non-monetary capital to government is expected to decline from SDR 247 million in 1986 to SDR 180 million in 1987 due to both a reduction in gross inflows of non-monetary capital and the scheduled larger repayments in respect of past loans.

Debt service payments including IMF transactions are estimated at SDR 420 million in 1987 as compared to SDR 360 million in 1986. Amortization payments are expected to increase from SDR 214 million in 1986

to SDR 267 million in 1987 while interest payments are estimated to increase from SDR 146 million to SDR 155 million between the two years. The total debt service payments as a ratio of exports of goods and services are estimated at 30.1 per cent in 1987 as compared to 26.3 per cent in 1986. The debt service ratio excluding IMF transactions will be 23.8 per cent as against 20.5 per cent in 1986. (Statement on Sri Lanka's balance of payments during 1985 and 1986 as at AnnexureA)

## 2. FOREIGN TRADE RELATIONS :

### 2:1 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, as amended by the Amendment Acts No. 48 of 1985 and No. 28 of 1987. Under this Act the 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 is 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 Govt. Gazettes.

### 2:2 LIBERALISATION OF IMPORTS

From November, 1977, the Import and Export Control Department has successfully implemented the policy decisions 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. Requirement 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 importations 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 mere tariff protection could not be effective as a constraint on import.

The gift licence fee is 15% of the licence value. The maximum value for import of gift 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.

Since 1985, the import of the following items has been restricted/liberalised as indicated -

	<u>B.T. No.</u>	<u>Item</u>
(a)	47.02 (ii) (a)	... Old newspapers - restricted.
(b)	50.09	... Woven fabrics of silk, of noil or other waste silk - liberalised.
(c)	51.04 B (ii)	... Other synthetic fabric - liberalised.
	C (ii)	... -do- -do-
	E (ii)	... -do- -do-
	F (ii)	... -do- -do-
(d)	52.02	... Woven fabrics or metal thread or of metal thread or of metalised yarn of a kind used in articles of apparel, as furnishing fabrics or the like - liberalised.
(e)	53.11	... Woven fabrics of sheep's or lamb's wool or of fine animal hair - liberalised.
(f)	53.12	... Woven fabrics of horsehair or of other coarse animal hair - liberalised.
(g)	54.05	... Woven fabrics of flax or of ramie - liberalised.
(h)	55.08	... Terry Towelling and similar terry fabrics, of cotton - liberalised.

<u>B.T. No.</u>	<u>N. No.</u>	<u>item</u>	
(i)	55.09 (A)(i)	...	Other woven fabrics of cotton -liberalised.
	B(ii)	...	-do-
	C(ii)	...	-do-
	D(ii)	...	-do-
(j)	56.07A(ii)	...	Woven fabrics of man-made fibres. (Discontinuous or waste) - liberalised.
	B(ii)	...	-do-
	C(ii)	...	-do-
	D(ii)	...	-do-
	E(ii)	...	-do-
	F(ii)	...	-do-
	G(ii)	...	-do-
	H(ii)	...	-do-
	I(ii)	...	-do-
	J(ii)	...	-do-
(k)	58.04	...	Woven pile fabrics and chinille fabrics (Other than terry towelling or similar terry towelling or similar terry fabrics of cotton falling within heading No.55.08 and fabrics falling within heading No.58.05 - liberalised.
(l)	60.01	...	Knitted or crocheted fabrics, not elastic or rubberised - liberalised.
(m)	60.06A	...	Fabrics - -do-
(n)	90.10A(i)	...	Multi-colour Photo-copying apparatus- restricted.
(o)	57.10	...	Woven fabrics of Jute or of other textile last fibres of heading No.57.03-liberalised.
(p)	87.05	...	Bodies (including cabs) for the motor vehicles falling within heading No.87.01, 87.02 or 87.03 - liberalised.
(q)	25.24	...	Blue asbestos - restricted.
(r)	88.01 )	...	Aircraft and parts )
	.02 )	...	thereof; Parachuts )
	.03 )	...	Catepults and similar ) - restricted.
	.04 )	...	Aircrafts, launching )
	.05 )	...	gear; Ground flying )
		...	trainers )
(s)	07.05 (i)	...	Mysoor Dhal -do-
(t)	44.15A(i)	...	Teachest panels - liberalised.
(u)	48.01A	...	Newsprint - restricted.

2:3 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 21 items require export licences. (These items are listed in Annexure B).

The Floor price scheme has been streamlined with the Commercial Banks implementing this scheme at the same time they process the export documents.

2:4 STATE TRADING:

With the introduction of the liberalized trade policy since 1977, 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 items of imports / export regarding which State organizations have sole or partial monopoly are indicated at Annexure C.

2:5 GENERAL:

It is now possible to trade with any Country except Taiwan with which only the private sector in Sri Lanka conducts trade. At present Sri Lanka does not maintain Trade and Payments Agreements of a contractual nature with any country.

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**TABLE I**  
**BALANCE OF PAYMENTS 1985 - 1986**

Item	Rs. million		SDR million	
	1985	1986*	1985	1986*
A. Merchandise Account	- 19,801	- 21,017	- 711	- 644
Exports	35,728	33,881	1,296	1,029
Imports	55,529	54,898	2,007	1,673
B. Services Account	- 3,646	- 3,683	- 133	- 115
Receipts	8,926	10,594	323	323
Payments	12,572	14,277	456	438
C. Goods & Services	- 23,447	- 24,700	- 844	- 759
D. Transfers, net	12,040	13,239	434	402
Private	7,212	8,251	262	250
Official	4,828	4,988	172	152
F. Current Account	- 11,407	- 11,461	- 410	- 357
G. Non-monetary Capital, net	9,062	9,148	328	276
Private Sector	1,646	1,998	58	29
Public Sector	7,416	8,150	270	247
Receipts	9,422	11,403	342	346
Amortization	2,006	3,253	72	99
H. Valuation Adjustments	1,491	1,371	0	0
I. Errors & Omissions	- 206	- 1,182	- 29	7
J. SDR Allocations	0	0	0	0
K. Overall Balance	- 1,060	- 2,124	- 111	- 74
L. Monetary Movements	1,060	2,124	111	74
Average Exchange Rate, Rs./SDR			27.63	32.90

\* Provisional.

The 21 items which require export licence 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 Molluses, B.T.N. 03.03
4. Coral chanks and shells, B.T.N. 05.12
5. Vegetables 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 cocenut 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.
21. Fertilisers.

SRI LANKA'S BALANCE OF PAYMENTS CONSULTATIONS UNDER GATT

Items of import/Export over which state organizations have sole or partial monopoly.

(Sole monopoly unless otherwise stated)

1. State Mining and Mineral Development Corporation,  
Export - Graphite.
2. Sri Lanka National Salt Corporation,  
Export - Common Salt (edible and crushed salt)
3. State Gem Corporation,  
Import & Export - Gems.
4. Sri Lanka State Trading (Textiles) Corporation,  
Import - Secondhand Woollen Garments.
5. Parantham Chemicals Corporation,  
Import - Caustic Soda.
6. The Co-operative wholesale Establishment.  
Imports - Dried chillies,  
Infant milk foods (S.M.A. Brand 453Gr. tins)  
Masoor Dhal,  
Red Onions,  
Big Onions - (Sole monopoly from July 1984 to  
August, 1985 imports liberalized  
thereafter)
7. Food Commissioners Department,  
Import - Wheat,  
Rice - (The private sector imports small quantities  
of certain varieties of rice if the Food  
Commissioner issues letter of no objection.)
8. Ceylon Mineral Sands Corporation:  
Export - Ilmenite,  
Rutile,  
Zircon.

9. Sri Lanka State Trading (Consolidated Exports) Corporation,  
C.W.L. Markfed.

Export - Betal leaves exported to Pakistan.

10. Sri Lanka State Trading (General) Corporation:

Import - Black Blasting powder

Special Gelatine

Detonating cord

Detonators

Safety fuse (Wet and dry)

Exploders (Blasting machines)

Potassium Chlorate (For match Industry)

Potassium Nitrate )

Barium Nitrate )

Aluminium Powder )

for fire works industry.

Sulphuric Acid

Formic Acid

Hydrochloric Acid

Phosphoric Acid

Sodium Metasilicate

Sodium Nitrate

Sodium Silicate

Red Phosphorous

Hydrogen Peroxide

Shot Guns and shot Gun Repeaters:

Import of shot-guns is determined by the Ministry of  
Home Affairs and the Ministry of Defence.

Jute Hessian cloth - Partial Monopoly

Tarpaulin - Partial Monopoly

Cellulose Tapes and Cellulose paper - Partial Monopoly

Cartridges and other Ammunition & Arms - Partial Monopoly

11. National Film Corporation of Sri Lanka,

Import - Exposed Films.

12. Ceylon Petroleum Corporation:

Import - (i) Crude oil and other refined and processed petroleum  
products; including Base oil and Asphalt.

(ii) Lubricating oils, greases and other related products  
(Partial monopoly).

13. Sri Lanka Ayurvedic Drugs Corporation.

- Import : 1. Cowri lacunas.  
2. Gendagam.  
3. Munoseela.  
4. Black resins (with seeds)  
5. Manbinyal.  
6. Sudro pasanus.  
7. Modilunni (salt pecker)  
8. Sanda Kapuru (camphor)