

## (F) THE BALANCE OF PAYMENTS AND EXTERNAL ASSETS

Detailed statistics of Ceylon's balance of payments and external assets are given in Tables 27 to 31 in Appendix II. Balance of payments data are calculated according to actual receipts and payments obtained from exchange control records.

### Principal Trends

In 1965 there was a change in the general trend that had prevailed for some years in Ceylon's Balance of Payments. With the exception of isolated surpluses in the 'Invisibles Account' in 1962 and 1964, Ceylon had experienced persistent deficits in its Merchandise and Invisibles Accounts and in the 'Basic Balance'.<sup>1</sup> The deficit on merchandise account in 1965 was only Rs. 5.0 million, as compared with a deficit of Rs. 193.0 million in 1964.<sup>2</sup> In 1964 Ceylon's balance on Invisibles Account (inclusive of gifts in kind) showed a surplus of Rs. 33.0 million which increased to a surplus of Rs. 52.0 in 1965. The combined improvement in the merchandise and invisibles accounts of Ceylon's balance of payments in 1965 helped to transform the current account deficit from Rs. 160.0 million in 1964 to a surplus of Rs. 47.0 million in 1965. The basic balance which reflects the country's net external position on both commercial and long-term capital transactions showed a surplus of Rs. 106.0 million in 1965, as compared with a deficit of Rs. 92.0 million in the previous year. Consequently Ceylon's external assets (excluding Sterling Loan Sinking Funds) increased by Rs. 103.0 million to Rs. 408.0 million in 1965 as compared with a decline of Rs. 54.0 million in 1964; the increase in the external assets in 1965 also reflected net drawings amounting to Rs. 53.4 million from the International Monetary Fund; the increase was also partly due to the continuation, though in a modified form, of the moratorium on remittances of profits and dividends. The favourable view of the trade position in 1965 would need to be modified in view of the fact that a good proportion of the licences for imports were issued in the last quarter of 1965 and consequently payments on this account were not fully reflected in the accounts for the period under review. Moreover, this favourable trade position has not been achieved without cost to the economy. Towards the end of the year there were growing shortages and a marked rise in prices in a number of commodities. In this situation the Central Bank gave authority to issue another Rs. 35.0 million of licences pending conclusion of bilateral aid agreement.

- 
1. That is the net position in the balance of payments after setting off the current and capital account positions-
  2. If the merchandise imports in respect of tied aid are excluded the actual trade balance on Ceylon's commercial transactions showed a surplus of Rs. 132 million in 1965 as compared with a deficit of Rs. 39 million in 1964.

**TABLE II (F) 1**  
**Ceylon's Balance of Payments (a)**  
(In Rupees Million)

Year	(1) Exports (Total)	(2) Imports (Total)	(3) Trade Balance		(4) Net Invisibles	(5) Balance on current account (Net of 3 (i) and 4)	(6) Net Long- term capital (c)	(7) Basic Balance (Net of (5) and (6))	(8) Net Short- term Capital (d)	(9) Errors and Omis- sions	(10) Changes in total external Assets (Increase) +	(11) Total External Assets at end of period	(12) Assets (excluding Sterling loan sinking funds)
			(i) (Total)	(ii) of which (Commer- cial trancctions) (b)									
1957 ..	1,669	1,764	- 95	( - 45)	- 100	- 195	-18	- 213	- 1	-	- 214	1,062	973
1958 ..	1,624	1,713	- 89	( - 11)	- 64	- 153	+ 8	- 145	+ 32	- 16	- 129	933	838
1959 ..	1,773	1,958	- 185	( - 49)	- 23	- 208	+ 32 (e)	- 176	-	+ 1	- 175(e)	734	655
1960 ..	1,796	2,006	- 210	( - 127)	- 10	- 220	+ 22	- 198	- 24	+ 29	- 193	541	458
1961 ..	1,707	1,794	- 87	( - 5)	- 7	- 95	+ 11	- 84	+ 93(f)	- 19	- 9	532	441
1962 ..	1,763	1,906	- 143	( - 47)	+ 3	- 140	+ 39	- 101	+ 42(f)	+ 31	- 28	504	407
1963 ..	1,708	1,869	- 161	( - 27)	- 7	- 168	+ 80	- 88	+ 42	+ 4	- 42	462	359
1964 ..	1,767	1,960	- 193	( - 39)	+ 33	- 160	+ 69(e)	- 92	+ 33	- 8	- 51(e)	351	305
1965 (g)	1,911	1,916	- 5	(+ 132)	+ 52	+ 47	+ 59(e)	+ 106	+ 1(f)	+ 8	+ 114(e)	440	408

(a) Based on exchange control data on foreign exchange receipts and payments.

(b) Consist of the following: (1) Commercial Banks' foreign exchange transactions; (2) Commercial Banks non-resident Accounts; (3) Central Bank's foreign exchange operations; (4) Payments Agreement transactions and (5) Transactions conducted by firms enjoying special accounts facilities, viz. sterling plantation companies and Traders' accounts.

(c) Include net movements of private and official long-term capital. The credit figures are as follows: 1957 - Rs. 23 million, 1958 - Rs. 23 million, 1959 - Rs. 42 million, 1960 - Rs. 27 million, 1961 - Rs. 24 million, 1962 - Rs. 46 million, 1963 - Rs. 82 million, 1964 - Rs. 79 million and Rs. 72 million in 1965. These amounts represent almost entirely withdrawals on account of long-term foreign loans obtained from the I.B.R.D., U.S.A., Canada, Federal Republic of Germany, U.S.S.R., China, U.K. etc.

(d) Consist of changes in liabilities under bilateral trade and payments agreements, PL 480 counterpart funds, commercial banks liabilities to non-residents and drawings from the Fund. The figures for 1964 and 1965 also include amounts due to Burma on account of import of rice.

(e) Exclude sterling loan repayments, mainly out of available sterling loans sinking funds, of Rs. 24 million in 1959, Rs. 60 million in 1964 and Rs. 25 million in 1965.

(f) Include drawings from the International Monetary Fund of Rs. 53.8 million each in 1961 and 1962 and Rs. 109.4 million in 1965; less repayments in 1965 of Rs. 35.7 million on earlier drawings and gold contribution of Rs. 20.2 million on account of an increase in Ceylon's Quota from \$ 45 million (Rs. 214.2 million) to \$ 62 million (Rs. 295.1 million).

(g) Provisional.

## Merchandise Account

The balance on merchandise account (including both commercial and aid financed transactions) showed a deficit of Rs. 5.0 million, as compared with a deficit of Rs. 193.0 million in 1964. Export values increased from Rs. 1767.0 million in 1964 to Rs. 1911.0 million in 1965. Import values fell from Rs. 1960.0 million in 1964 to Rs. 1916.0 million in 1965. The value of imports tied to aid declined from Rs. 154.9 million in 1964 to Rs. 137.2 million in 1965. Untied imports declined in value from Rs. 1805.2 million in 1964 to Rs. 1779.0 million in 1965.

The principal factors affecting the favourable trade position in 1965 were a fall in the volume of imports combined with a substantial increase in the volume of exports. The increased volume of exports was made possible by an increased output of some of Ceylon's major export commodities, particularly of tea. The volume of tea exports increased in 1965 as seen by the increase in its index from 111 in 1964 to 120 in 1965. Rubber and liquid latex exports increased in volume and the index reflected an increase from 122 in 1964 to 137 in 1965. The volume of exports of coconut products and of the eighteen other minor products, however, declined substantially in 1965, the respective indices fell from 181 in 1964 to 142 in 1965 and from 126 in 1964 to 108 in 1965.

The favourable effect on export values arising out of an increased volume of tea exports in 1965 was modified by a fall in tea prices. The export price index of tea fell by two points from 91 in 1964 to 89 in 1965. The export price of rubber, however, remained unchanged on the average in 1965. The decline in the export volume of coconut products was partly compensated by an increase in average price; the price index of coconut products which stood at 93 in 1964 rose to 119 in 1965. The price index of the other minor products showed an increase from 114 in 1964 to 117 in 1965.

The total value of merchandise imports in 1965 amounted to Rs. 1916.0 million as compared with Rs. 1960.0 million in 1964. Of this sum, Rs. 646.5 million consisted of Government imports, reflecting a slight increase over 1964. Private imports and those of Government Corporations amounted to Rs. 1157.7 million showing a decline of Rs. 35.5 million as compared with the previous year. The value of payment on account of rice imports in 1965 amounted to Rs. 267.8 million or Rs. 32.6 million higher than the value of rice imports in 1964. Flour import payments increased in value by Rs. 12.1 million to Rs. 82.8 million. The value of sugar import payments declined by Rs. 86.8 million from Rs. 161.9 million in 1964 to Rs. 75.1 million in 1965, mainly reflecting the fall in the international price of sugar in 1965.

In 1965 the value of loan financed imports amounted to Rs. 77.2 million as compared with Rs. 78.4 million in 1964. The value of grants in kind was Rs. 60.0 million as compared to Rs. 76.4 million in the previous year. The loan component of imports in 1965 chiefly consisted of disbursements under monies provided by the World Bank (Rs. 10.5 million), U. S. S. R. (Rs. 23.0 million), Canada (Rs. 12.4 million), West Germany (Rs. 10.0 million), China (Rs. 9.5 million), and France (Rs. 6.4 million) for the financing of various development

projects. The grant component of imports mainly consisted of wheat flour from Canada and Australia and CARE flour and milk powder from the U. S. A.

### Invisibles Account.

**TABLE II (F) 2**  
**Current Invisibles 1964 and 1965**

	1964			1965		
	Credit	Debit	Net	Credit	Debit	Net
<b>Services</b>	<b>181.9</b>	<b>189.1</b>	<b>- 7.2</b>	<b>185.7</b>	<b>169.7</b>	<b>+ 16.0</b>
Non-monetary gold movement (net)	-	1.6	- 1.6	-	1.8	- 1.8
Transportation	102.5	33.9	+68.6	103.8	28.9	+74.9
Travel	5.5	14.3	- 8.8	5.7	12.9	- 7.2
Investment income	11.6	47.3	-35.7	13.0	28.2	-15.2
Govt. expenditure	26.0	25.2	+ 0.8	28.9	25.3	+ 3.6
Other services	36.3	66.8	-30.5	34.3	72.6	-38.3
<b>Transfer Payments</b>	<b>82.8</b>	<b>42.7</b>	<b>+40.1</b>	<b>67.3</b>	<b>31.5</b>	<b>+35.8</b>
Private	6.4	42.7	-36.3	7.3	31.5	-24.2
Official	76.4	-	+76.4	60.0	-	+60.0
<b>Total</b>	<b>264.7</b>	<b>231.8</b>	<b>+32.9</b>	<b>253.0</b>	<b>201.2</b>	<b>+51.8</b>

Ceylon's balance on invisibles account showed an improvement in 1965, reflecting a surplus of Rs. 51.8 million as compared with a surplus of Rs. 32.9 million in 1964, and a deficit of Rs. 6.6 million in 1963. Considering the fact that the value of grants received in 1965 was Rs. 16.4 million less than in 1964, the improvement in the invisibles account is mainly attributable to a reduction in remittances on account of investment income arising out of the continuation of the moratorium except for a release of a sum of Rs. 2.0 million and a reduction of Rs. 12.1 million in the deficit on private transfers as a result of lower remittances for the maintenance of dependants abroad and of migrants' transfers. The surplus on transportation account in the invisibles balance showed an increase in 1965 chiefly due to a reduction in demurrage payments. Receipts from tourist expenditure in Ceylon showed a very slight increase.

### Gross Official External Liabilities

**TABLE II (F) 3**  
**Ceylon's Gross Official External Liabilities<sup>(1)</sup>**  
**(In Rupees Million)**

	Outstanding at end of:		
	1964	1965	Change
1. Payments agreement balances due from Ceylon ..	69.3	0.7	-68.6
2. I. M. F. drawings ..	107.6	181.3	+73.7(2)
3. Sterling loans ..	107.9	83.3	-24.6
4. Other foreign loans drawn and outstanding(3) ..	330.6	391.6	+61.0
5. Deferred payments (rice) ..	37.3	60.3(4)	+23.0
<b>Total ..</b>	<b>652.7</b>	<b>717.2</b>	<b>+64.5</b>

(1) Liabilities payable in foreign exchange exclude balances of PL. 480 counterpart funds and non-resident balances with commercial banks. Such balances increased by Rs. 5.9 million from Rs. 89.0 million to Rs. 94.9 million in 1965.

(2) Consist of drawings of Rs. 109.4 million and repayments of Rs. 35.7 million.

(3) Consist of drawings from loans obtained from I.B.R.D., U.S.A., U.S.S.R., China, West Germany, Canada, etc.

(4) Provisional.

The current account in the balance of payments of Ceylon showed a surplus of Rs. 47.0 million in 1965 as compared with a deficit of Rs. 160.0 million in 1964. During the year 1965, a number of transactions were concluded with the International Monetary Fund with a view to strengthening the external financial position of the country, and particularly with a view to building an adequate cushion of reserves for the purpose of meeting any unforeseen fluctuations in receipts and payments. In March, 1965, Ceylon made a repurchase of the equivalent of \$3.75 million (Rs. 17.9 million) at the International Monetary Fund, being the first of three repurchase instalments agreed in respect of the first drawing of \$11.25 million (Rs. 53.8 million) in April, 1961. On April 7, 1965, Ceylon's quota was increased to \$62 million (Rs. 295.1 million) in accordance with the Fund's decision on 'Compensatory Financing of Export Fluctuations, adopted on February 27, 1963. Twenty five per cent of the increase in Ceylon's quota, \$4.25 million (Rs. 20.2 million) was paid in gold in May, 1965. In April, 1965, Ceylon purchased from the Fund the equivalent of \$8 million (Rs. 38.2 million). In July, 1965, Ceylon borrowed a further sum in different currencies equivalent to \$15 million (Rs. 71.3 million) from the International Monetary Fund, being the first instalment of a Standby Arrangement for \$30 million (Rs. 142.8 million). In October, 1965, Ceylon made a repurchase at the International Monetary Fund, amounting to \$3.75 million (Rs. 17.9 million) being the second instalment repayment in respect of the first drawing of \$11.25 million (Rs. 53.8 million) in April, 1961. These transactions led to a net accretion of foreign exchange totalling \$11.2 million (Rs. 53.4 million). In addition to these Fund transactions a number of short term arrangements were also made with foreign commercial banks to obtain much needed temporary finance during the year 1965.

The net inflow of long term official capital in 1965 amounted to Rs. 61.0 million as compared with Rs. 67.4 million in 1964. Borrowings in 1965 amounted to Rs. 77.2 million and repayments (excluding disbursements from Sterling Loan Sinking Funds) amounted to Rs. 16.2 million. As stated earlier, loan funds disbursed in 1965 were utilized for a variety of development projects. The World Bank loans were utilized for further work on the Second Grandpass Thermal Project. The U.S.S.R. loan was used mainly for the establishment of a factory for motor car tyres and tubes. The Canadian loan was utilised for the Maskeliya-Oya Valley project. Loans from West Germany were used to finance work on the Ceylon Cement Factory and for Port Development. The assistance from China was principally for the textile industry, while the French assistance was utilized for the Kandy Water Supply Scheme. A United Kingdom loan of Rs. 2.3 million was used for telephone equipment.

In regard to short term liabilities the position as at the end of 1965 showed that Ceylon had reduced her liabilities on account of transactions with Payments Agreements countries by Rs. 68.6 million to Rs. 0.7 million. In addition, in 1965, Ceylon obtained a settlement of Rs. 31.7 million in Sterling on account of balances in Ceylon's favour in excess of the swing credit in her merchandise transactions under the Payments Agreements. At the end of 1964, in contrast, Ceylon had accumulated short term liabilities amounting to Rs. 69.3 million in merchandise transactions under Payments Agreements.

## Regional Pattern

TABLE II (F) 4

## Current Account Position by Currency Areas

(in Rupees Million)

	1964			1965 (Provisional)		
	Credit	Debit	Net.	Credit	Debit	Net.
1. Dollar Area .. ..	283.2	119.5	+163.7	278.6	127.5	+151.1
2. Sterling Area .. ..	947.5	1,110.6	-161.1	1,010.9	1,032.8	-21.9
(i) U.K. .. ..	548.3	539.3	+ 9.0	557.4	485.6	+ 71.8
(ii) India .. ..	70.7	226.1	-155.4	53.1	163.2	-110.1
(iii) Other .. ..	330.5	345.2	-14.7	400.4	384.0	+ 16.4
3. Non-dollar, Non-Sterling Area ..	798.8	961.8	-163.0	874.8	957.1	-82.3
(i) Other OECD Countries* ..	191.6	252.7	-61.1	193.0	288.3	-95.3
(ii) China .. ..	154.9	182.8	-27.9	183.9	136.4	+ 47.5
(iii) Soviet Bloc .. ..	163.8	210.1	-46.3	204.8	190.8	+ 14.0
(iv) Other .. ..	288.5	346.2	-27.7	293.1	341.6	-48.5
Total .. ..	2,031.5	2,191.9	-160.4	2,164.3	2,117.4	+ 46.9

\* Consisting of Austria, Belgium, Denmark, France, Federal Republic of Germany, Greece, Italy, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland.

Ceylon's regional balance of payments on current account (inclusive of loans and grants) showed a surplus of Rs. 46.9 million in 1965, in contrast to a deficit of Rs. 160.4 million in 1964. The principal features of the improved current account balance in 1965 were a substantial reduction in the deficit with Sterling Area and an improvement in the trading balance with Payments Agreements Countries. The traditional surplus with the Dollar Area was reduced further in 1965, from Rs. 163.7 million in 1964 to Rs. 151.1 million in 1965. Since the increase in import values from the Dollar Area in 1965 was counter-balanced almost proportionately by increased aid, the adverse trade position in 1965 was almost entirely due to a fall in export earnings. The deficit of Rs. 161.1 million incurred with the Sterling Area in 1964 was reduced to a deficit of only Rs. 21.9 million in 1965, mainly due to an increase in export earnings by Rs. 61.4 million to Rs. 1010.9 million and a fall in import payments by Rs. 77.8 million to Rs. 1032.8 million. The current account surplus with the United Kingdom increased from Rs. 9.0 million in 1964 to Rs. 71.8 million in 1965, chiefly due to a fall of Rs. 53.7 million in import payments accompanied by a small increase in export earnings. There was also a reduction of Rs. 45.3 million in the trade deficit with India mainly due to a reduction of Rs. 62.9 million in import payments, even though export earnings fell by Rs. 17.6 million. Ceylon's transactions with payments Agreements countries showed a surplus of Rs. 61.5 million in 1965 as compared with a deficit of Rs. 74.2 million in 1964. The current account surplus with China amounted to Rs. 47.5 million while the balance with the Soviet Bloc showed a surplus of Rs. 14.0 million. Exports to China rose by Rs. 29.0 million as compared with 1964 while import payments declined by Rs. 46.4 million. Export earnings in respect of the Soviet bloc increased by Rs. 41.0 million while import payments fell by Rs. 19.3 million. The balance

on transactions with the O.E.C.D. group of countries showed a deficit of Rs.95.3 million as compared with a deficit of Rs. 61.1 million in 1964, the principal factor being an increase of Rs. 35.6 million in import payments, approximately a third of which constituted aid financed imports.

### Foreign Reserves

The gross external assets of Ceylon increased by Rs. 88.9 million to Rs. 439.9 million in 1965. External assets net of Sterling Loan Sinking Funds amounted to Rs. 408.0 million at the end of 1965, as against Rs. 305.0 million at the end of 1964. Gross external assets at the end of December 1964 had amounted to Rs. 351.0 million. In the first quarter of 1965 these assets declined by Rs. 9.7 million, notwithstanding foreign borrowings amounting to Rs. 51.2 million. The second quarter of 1965, however, showed an increase of Rs. 10.1 million mainly due to an easing of payments on imports. The improvement in reserves continued in the third quarter and was chiefly assisted by a drawing of Rs. 71.3 million from the International Monetary Fund, a decline in remittances of profits and dividends resulting from the moratorium, and a favourable movement in the balance on merchandise account principally due to delays in the licensing of imports. Up to the end of the third quarter gross external assets had risen by Rs. 165.3 million. The position was however, reversed in the fourth quarter when external assets fell by Rs. 76.4 million as a result of a number of factors. In the first place there was a Sterling Loan repayment amounting to Rs. 24.6 million combined with a repurchase obligation of Rs. 17.9 million at the International Monetary Fund. Secondly the issue of import licences in the second half of 1965 also resulted in an acceleration in payments on merchandise account. Finally, in the last quarter of 1965, a significant proportion of deferred liabilities in respect of Payments Agreements countries, mainly in respect of oil imports were settled. All these factors, therefore contributed partly towards modifying the general improvement in external assets that occurred in 1965.