

(g) The Balance of Payments and External Assets*

Ceylon's balance of payments accounts (according to Exchange Control data) for 1961 as set out in Tables 25 A, B and C in Appendix II show that the external balance continued to be adverse in that year. Yet, there was a marked improvement in the external payments position. Although a deficit of Rs 75.4 million was recorded on current account in 1961, the fifth consecutive annual deficit, it was considerably lower than the deficits in 1958, 1959 and 1960 of Rs. 152.9 million, Rs. 208.0 million and Rs. 220.5 million respectively. The most striking aspect of the 1961 performance was the fact that the improvement in the balance of payments was achieved despite a sizeable decline in export earnings in that year. Imports, which had been progressively increasing up to 1960 declined substantially more than exports in 1961, bringing about a sharp contraction in the merchandise deficit, from Rs. 202.8 million in 1960 to Rs. 62.7 million in 1961. In 1961 the deficit on invisibles account also registered a small decline from Rs. 17.7 million in 1960 to Rs. 12.7 million contributing in a small degree towards the overall improvement in the current account balance.

*Two important changes have been introduced in the presentation of the balance of payments statistics as from this Annual Report.

- (a) The first change has been in regard to the basis of reporting of merchandise exports and imports, which previously were reported on a partly c. i. f. and partly f. o. b. basis and which are now reported, following usual international practice, on an entirely f. o. b. basis for exports and an entirely c. i. f. basis for imports. This means that in the case of such exports which were earlier reported on a c. i. f. basis, the connected transportation and insurance costs have been excluded from merchandise receipts. Since such costs have, in nearly all cases, been collected by the exporter to be paid out to foreign carriers and insurers the earlier presentation had unnecessarily tended to inflate figures of Ceylon's merchandise exports and of "transportation and insurance" payments. This is now eliminated.

In the case of those imports which were earlier reported on an f. o. b. basis, the connected transportation and insurance costs paid out are known. These costs which were earlier reported under "transportation and insurance" payments are now being included under merchandise imports, which thus become enlarged.

The net result of this revision is thus (i) to reduce exports and enlarge imports thereby increasing the merchandise deficit and (ii) to reduce transportation and insurance payments and thereby the invisibles deficit by the same amount.

The overall balance on current account is unaffected by this regrouping of receipts and payments on merchandise and transportation and insurance.

- (b) The second change relates to external reserves. External assets have been revised to reflect the reserve position according to local records whereas previously they had been computed on the basis of records kept by foreign correspondents. The main result of this change has been to make the coverage of the reserve data more comprehensive, by including in these data on external reserves, (i) the gross balances due to Ceylon under bilateral payments agreements and (ii) export bills held by local banks for encashment by foreign banks. With this change in the reserve data all the statistics on the balance of payments are computed uniformly on the basis of local records. This also accords with the normal international practice of computing international reserve data from the local accounts of banks and other financial institutions

Ceylon's external assets declined only by Rs. 8.3 million in 1961 in contrast with the declines of Rs. 199.2 million and Rs. 192.7 million in 1959 and 1960. The reduced current account deficit in 1961 was the main contributing factor to the smaller reserve decline. In addition the larger receipts from external borrowings, in particular the drawing of Rs. 53.8 million from the International Monetary Fund, helped to restrict the use of external reserves in 1961.

The reasons for the decline in exports and imports in 1961 have been analysed in detail in the previous section on "Foreign Trade". As pointed out there, the decline in the value of exports was wholly due to a sharp drop in prices of export commodities, with the volume of exports showing some increase. In contrast, the main cause for the decline in import payments was the substantial contraction in import volumes; the import price index declined fractionally. The contraction in import volumes occurred in all three broad categories of imports, viz. consumer goods, intermediate goods and investment goods, but was most marked in the case of those consumer goods which had been subject to tariff and quantitative restrictions in late 1960 and early 1961; such commodities could broadly be classified as luxuries and non-essentials.

The slight improvement in the current invisibles account was due to reduced net payments on foreign travel, investment income and Government expenditures, which was however offset for the most part by increased net payments on miscellaneous account and by the deterioration in the net receipt on transportation and insurance.

The drop in out-payments on travel, following the marked decline registered in 1960, is attributable to a further tightening on exchange control measures in late 1960. Gross payments of investment income declined from Rs. 76.0 million in 1960 to Rs. 61.7 million in 1961, mainly as a result of smaller dividend remittances. The beneficial impact on the balance of payments of the decline in dividend payments was only in part offset by a fall in the interest earned on Ceylon's external assets which were further run down in 1961. Government expenditures abroad also showed a marked decline reflecting the reduced expenditures in 1961 of government corporations and of diplomatic missions overseas.

The deterioration in the net balance on transportation and insurance was the result of the decline in earnings from the Port of Colombo. Earnings on bunkers declined as a result of fewer ships calling in Colombo during the year. Payments on transportation and insurance too declined, due to reduced payments on passages and charter hires, but by less than the fall in receipts.

TABLE II—50

Current Invisibles 1960 and 1961

Rupees Million

	1960		Net	1961(a)		Net
	Credit	Debit		Credit	Debit	
Services	246.4	285.7	-39.3	214.5	248.2	-33.7
Non-monetary gold movement (net)	—	1.9	-1.9	—	1.9	-1.9
Foreign travel	8.9	33.2	-24.3	7.6	25.3	-17.7
Transportation and insurance*	130.1	54.8	+75.3	114.6	45.9	+68.7
Investment income	31.8	76.0	-44.2	21.3	61.7	-40.4
Government expenditures	29.0	50.3	-21.3	27.3	42.6	-15.3
Miscellaneous	46.6	69.5	-22.9	43.7	70.8	-27.1
Donations	60.3	38.7	+21.6	58.6	37.6	+21.0
Private remittances and migrants' transfers	7.8	38.7	-30.9	8.3	37.6	-29.3
Official donations	52.5	—	+52.5	50.3	—	+50.3
Total	306.7	324.4	-17.7	273.1	285.8	-12.7

Source: Central Bank of Ceylon.

(a) Provisional

*This presentation is different from that in previous Reports. The revision is explained in footnote 1 (a) in page 103, and also in the footnotes to the new Table 25 (d) in Appendix II. This Table presents a summary version of the balance of payments data on the revised basis for each year from 1950.

Private Capital Movements

On private capital account there was a net outflow of Rs. 5.7 million in 1961 compared with a net outflow of Rs. 5.3 million in 1960. There was a renewed net outflow of capital on direct investment in contrast with an inflow recorded for 1960; as mentioned in the last year's Report, the latter was due to a special factor viz., the repatriation of Ceylon's capital invested abroad, mainly Malaya. Short-term capital movements reflecting mainly the movements in balances of firms enjoying special account facilities¹ registered a net inflow of Rs 3.1 million in contrast with the net outflow of Rs 7.5 million in 1960

¹ Transactions under these facilities reflect operations by Sterling Companies and by other large trading firms with their Head Offices and principals directly and under the supervision of exchange control. Outstanding balances are settled periodically through the banking system.

TABLE II—51

*Balance of Payments in Financing form for 1959
1960 and 1961*

Rupees, Million

	1959	1960	1961 (a)
Goods	—182.9	—202.8	— 62.7
Services	— 13.5	— 39.3	— 33.7
Net private remittances and migrants' transfers ..	— 55.9	— 30.9	— 29.3
Net private capital account			
(a) Direct investment	— 8.0	+ 2.2	— 8.8
(b) Net changes in Special Account Balances ..	+ 9.7	— 7.5	+ 3.1
Repayment of loans	— 26.6	— 2.8	— 4.9
Gold contribution			
I. M. F.	— 35.7	—	—
I. D. A.	—	—	— 0.9
I. B. R. D.	—	—	— 1.4
Total financing deficit	—312.9	—281.1	—138.6
Financing Account.			
A. Official and banking capital*			
1. Change in gross external assets	+199.2	+192.7	+ 8.3
(a) Foreign exchange holdings	+197.9	+207.3	— 1.9
(b) Payments agreement balances "Due to Ceylon" ..	+ 1.3	— 14.6	+ 10.2
2. Change in gross external liabilities	+ 66.9	+ 6.0	+ 92.9
(a) Payments agreement balances "Due from Ceylon" ..	— 18.8	— 0.1	+ 21.3
(b) Long-term liabilities†	+ 42.2	+ 26.3	+ 23.8
(c) I. M. F. drawing	—	—	+ 53.8
(d) Other ††	+ 43.5	— 20.2	— 6.0
B. Official donations†††	+ 44.3	+ 52.5	+ 50.3
C. Errors and omissions	+ 2.5	+ 29.9	— 12.9

Source: Central Bank of Ceylon.

(a) Provisional.

*A plus sign in the financing account signifies a decrease in assets or an increase in liabilities; a minus sign, an increase in assets or a decrease in liabilities.

†Consists, entirely of drawings on I. B. R. D., D L.F., U.S.S.R., and other loans.

††Includes changes in non-resident account balances of the Central Bank and Commercial Banks, balances of PL480 counterpart funds, and balances of Ceylon's embassies abroad.

†††Official donations refer to gifts received by the Government of Ceylon. Such gifts are received principally in the form of goods, the main components being CARE milk and flour and Colombo Plan aid from Canada and Australia.

Financing Account

The financing deficit in 1961 was considerably lower than in the previous years reflecting the improvement in the current account balance. In 1961 along with the reduction in the financing deficit there was a significant change in the method of financing of the deficit. In 1959 and 1960 the bulk of the deficit was financed out of a decline in external reserves. In 1961, however, the financing deficit was very largely financed through an increase in Ceylon's foreign liabilities and through foreign grants, necessitating only a very small fall in external reserves. The main increase in Ceylon's foreign liabilities occurred as a result of the purchase of foreign exchange amounting to Rs. 53.8 million from the International Monetary Fund in April, 1961. Other increases were Rs. 21.3 million in the short-term debt under Ceylon's bilateral payments agreements and Rs. 23.8 million in long-term borrowings from the I.B.R.D., Development Loans Fund and U.S.S.R.

Regional Pattern

Ceylon's balance of payments on current account followed the same pattern as of the previous years, registering a surplus with the Dollar Area and deficits with the other Currency Areas. The surplus with the Dollar Area was somewhat higher than that of the past five years, while the deficit with the Sterling Area at Rs. 228.8 million was substantially lower than the average deficit of Rs. 290.0 million recorded during the period 1957 to 1960. Within the Sterling Area, the deficits with the United Kingdom and India and Pakistan decreased by Rs. 113.9 million and Rs. 40.5 million compared with 1960. On the other hand, the surplus with the rest of the Sterling Area countries, namely, Australia and Malaya registered a slight decrease. The improvement in the current account deficit with the Sterling Area was almost entirely due to lower import payments to this area. The deficit with the non-dollar, non-sterling area countries worsened slightly from Rs. 51.5 million in 1960 to Rs. 60.2 million in 1961, in continuation of the trend observed since 1957. This was due to the surplus registered in 1960 with non-O. E. E. C. countries, viz. China, Japan and Middle East countries turning into a deficit in 1961. The deficit with the Continental O. E. E. C.* countries at Rs. 29.8 million was, however, lower by Rs. 33.2 million than that in the previous year.

TABLE II-52

Current Account by Currency Areas for 1960 and 1961.

Rupees. Million

	1960			1961 (a)		
	Credit	Debit	Net	Credit	Debit	Net
1. Dollar Area	346.6	144.6	+202.0	336.1	122.5	+213.6
2. Sterling Area	1,041.5	1,412.4	-370.9	1,024.5	1,253.3	-228.8
(i) U. K... .. .	618.1	795.2	-177.1	615.3	678.5	-63.2
(ii) India and Pakistan	77.0	319.5	-242.5	75.3	277.3	-202.0
(iii) Rest... .. .	346.4	297.7	+48.7	333.9	297.5	+36.4
3. Non-dollar, non-sterling area	714.6	766.1	-51.5	632.2	692.4	-60.2
(i) Continental OEEC... .. .	210.0	273.0	-63.0	187.6	217.4	-29.8
(ii) Other	504.6	493.1	+11.5	444.6	475.0	-30.4
Total	2,102.7	2,323.2	-220.5	1,992.8	2,068.2	-75.4

Source: Central Bank of Ceylon.

(a) Provisional

The improved balance of payments performance revealed the same seasonal pattern as in the previous three years with the current account balance in the first and fourth quarters being more favourable than in the second and third quarters. This is explained by the fact that while export earnings have been

*Organisation for European Economic Cooperation-Continental OEEC group include Western Europe, Turkey and Greece.

usually high in the first and third quarters, import payments have tended to be large in the second and third quarters. The deficit in the third quarter has been particularly large in 1961, because of the bunching up of payments for government food imports in that quarter.

Foreign Reserves

Ceylon's external reserves declined by only Rs. 8.3 million in 1961 considerably lower than the decline in the four previous years. As noted earlier this reflected mainly the basic improvement in the balance of payments position, as evidenced by the contraction of Rs. 145 million in the current account deficit, and partly, the increase of Rs. 93 million in Ceylon's short-term and long-term liabilities. The principal element in the latter was the drawing of Rs. 53.8 million from the International Monetary Fund.

Despite the marked improvement in the overall balance of payments situation, the external reserve position at the end of 1961 at Rs. 533 million cannot be considered, for a number of reasons, to have been satisfactory. Firstly, because of the increased foreign liabilities incurred in 1961; secondly, because of the increased vulnerability of export prices shown in recent months; and thirdly, because of the increased demand for imports, particularly of capital goods, which will arise as the pace of economic development is intensified. Therefore, a continuation of the policy of restraints over imports and other foreign payments along with stonger measures to curtail the domestic monetary expansion are required.

NOTE: The Trade Balance and the Merchandise Account

The balance of payments statements are based on Exchange Control records of external receipts and payments. The merchandise balance shown in the balance of payments statement differs from the trade balance calculated from Customs Returns because of differences in timing and coverage; Timing: Generally there is a time lag in the payments as compared with the actual movement of goods. With a declining flow of physical imports, as has been evident from late 1960, payments for imports revealed a trend of decline with a lag. Thus payments for imports in 1961 have been higher than the actual receipt of merchandise in that year. This feature is also explained by large payments made to Burma in early 1961 in respect of rice imported in the previous year. Coverage: The main difference is in regard to exports. Exports according to trade returns includes re-exports, principally of oil and other fuel to ships calling in Colombo. This item of re-exports is shown, following the international classification, as transportation earnings in the balance of payments statement. Once adjusted for this the export figures according to trade returns as well as Exchange Control records, are reasonably close to each other.