

(H) THE BALANCE OF PAYMENTS AND EXTERNAL ASSETS

Ceylon's balance-of-payments accounts (according to Exchange Control data) for 1962 are set out in Tables 27 to 31 in Appendix II.

On the basis of very provisional estimates for 1962 Ceylon's external balance continued to be adverse in that year too. There was in fact a small deterioration in the external payments position in 1962 as compared with 1961. The deficit of Rs. 124.0 million recorded on current account in 1962, though slightly higher than the deficit of Rs. 93.8 million for 1961, was still 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.

TABLE II H-1
Merchandise Transactions 1957-1962

	Rupees Million					
	1957	1958	1959	1960	1961	1962
Exports, f.o.b.	1,669	1,624	1,773	1,796	1,707	1,765
Imports, c.i.f.*	1,764	1,713	1,958	2,006	1,794	1,898
Balance	— 95	— 89	—185	—210	— 87	—133

*Include "gifts in kind" received by the Government of Ceylon (e.g. CARE milk and flour, machinery) nearly the whole of which is not reflected in import data according to Customs Returns. Such gifts amounted to Rs. 47.1 million and Rs. 35.9 million in 1960 and 1961 and are estimated at Rs. 40.0 million in 1962.

The increase in the balance of payments deficit occurred despite an increase in export receipts by Rs. 58.1 million as compared with 1961. The balance on invisibles accounts which was in deficit by Rs. 7.4 million in 1961, was in surplus by Rs. 8.8 million in 1962. However, imports which had declined substantially in 1961 had increased by Rs. 104.5 million over 1961¹ thus enlarging the merchandise deficit in 1962 by Rs. 46.4 million. This increase despite the intensification of import restrictions requires an explanation.

1. The contrasting performance of imports according to Customs Returns which showed a decline of Rs. 43 million in imports in 1962, is explained by three factors. First, the customs returns show a decline of Rs. 41 million in the total of imports of rice, flour and sugar, in contrast with increased payments of Rs. 42 million for the same commodities in 1962. The difference is to be explained by the administrative delays in the recording in the Customs Returns even of food shipments which had already arrived in Ceylon and secondly by the lagged arrival in Ceylon of some of the foodstuffs paid for in 1962. Second, payments for other government imports which showed a substantial rise of Rs. 45 million according to balance of payments data, also stand in marked contrast with a decline of Rs. 12 million revealed in government imports classified in the Customs Returns as "imports, civil and defence". In their case too the difference between the two sets of figures is to be explained by the same factors as in the case of government's food imports.

Third, as far as private imports are concerned, a considerable amount of them are paid for only after the goods are received in Ceylon. With this lag in payments, when there is a declining trend in imports in evidence, the amount of the decline in each time period will be less marked according to the payments data. The total decline in import payments will be even less, if the normal time lag in payments tends to be reduced. The latter too occurred in 1962, as a result of imports through bilateral accounts becoming a larger proportion of total imports. When imports are made through bilateral accounts, the 'payment' i.e., the credit to the exporting country is made in the account, normally when the goods are placed on board ship by the exporter. This means that the usual lag in payments is reversed and the import payments have been made even before the arrival of the goods in Ceylon.

The increase in import payments, according to balance of payments data, was in government imports of essential foodstuffs and of capital and other goods which are not subject to import restrictions. The higher payments for foodstuffs, principally rice, was due to the higher volume of rice paid for, and the higher average price paid as a result of increased purchases outside the bilateral agreements with Burma and China. The volume of rice paid for in 1961 and 1962 was 419,000 tons and 524,000 tons respectively. In the case of flour the respective amounts were 177,000 tons and 207,000 tons. The private sector's import payments financed mainly through commercial banks and through special account facilities, showed a decline, but not by much.

The relatively small fall in private import payments in 1962 needs some comment. The major new restrictive measures or higher import tariffs on imports in 1962 were introduced late in the year from July to October. The main instalment of import restrictions in the form of quantitative restrictions and higher import tariffs prior to July 1962, had been introduced in 1960 and early 1961. The full impact of these early measures on imports, had therefore been reflected in the substantial decline in import payments which had occurred in 1961 as compared with 1960. The import curbs of 1962, particularly those of October 1962 came too late in the year to make any sizeable impact on import payments within the year. Payments for imports which had been either in transit or for which firm orders had been placed, prior to the 1962 restrictions, continued to be made in the closing months of the year.

Ceylon's external assets declined by Rs. 27.8 million in 1962 as compared with the small decline of Rs. 9.6 million in 1961. The increased current account deficit in 1962 was the main contributing factor to the increased reserve decline. As in the year 1961 large receipts from external borrowings, in particular a second drawing of Rs. 53.8 million from the International Monetary Fund, helped to restrict the use of external reserves.

Invisibles Account

As shown in the following table the current invisibles account in 1962 registered a surplus of Rs. 8.8 million in contrast to the deficit of Rs. 7.4 million recorded in 1961. This improvement was principally due to the deficit on the item Government expenditure in 1961 turning into a surplus in 1962. Gross receipts on Government account increased by Rs. 9.2 million due entirely to increased foreign government embassy expenses in 1962. The deficits on foreign travel and on miscellaneous payments (for advertisements, export commissions and agency and head office expenses) were lower in 1962, as compared with 1961, while the deficit on investment income increased slightly in 1962. The small enlargement of the Rs. 3.1 million in the investment income deficit was due mainly to lower earnings on Ceylon's external assets.

TABLE II H-2
Current Invisibles 1961 and 1962

Rupees Million

	1961		Net	1962(a)		Net
	Credit	Debit		Credit	Debit	
Services	221.7	240.0	-18.3	230.0	232.1	- 2.1
Non-monetary gold movement (net)	—	1.9	- 1.9	—	1.9	- 1.9
Foreign travel	7.6	25.3	-17.7	5.3	19.5	-14.2
Transportation and Insurance	118.6	45.3	+73.3	121.5	48.4	+73.1
Investment Income	21.8	61.7	-39.9	19.4	62.4	-43.0
Government Expenditure	27.3	36.5	- 9.2	36.5	35.2	+ 1.3
Miscellaneous	46.4	69.3	-22.9	47.3	64.7	-17.4
Donations	48.8	37.9	+10.9	47.4	36.5	+10.9
Private remittances and migrants' transfers	8.2	37.9	-29.7	6.7	36.5	-29.8
Official donations	40.6	—	+40.6	40.7	—	+40.7
Total	270.5	277.9	- 7.4	277.4	268.6	+ 8.8

(a) Provisional.

Source: Central Bank of Ceylon.

Private Capital Movements

On private capital account there was a net outflow of Rs. 6.0 million in 1962, compared with a net inflow of Rs. 6.1 million in 1961. The net outflow of Rs. 0.7 million on direct investment was smaller than the net outflow of Rs. 7.8 million in 1961. On the other hand short-term capital movements reflecting mainly the movements in balances of firms enjoying special account facilities,† registered a net outflow of Rs. 5.3 million in contrast with the net inflow of Rs. 13.9 million in 1961.

TABLE II H-3
Balance of Payments in Financing Form for 1960, 1961 and 1962

Rupees Million

	1960	1961	1962(a)
Goods	-209.9	- 86.4	-132.8
Services	- 32.2	- 18.3	- 2.1
Net private remittances and migrants' transfers	- 30.9	- 29.7	- 29.8
Net private capital account			
(a) Direct investment	+ 2.2	- 7.8	- 0.7
(b) Net changes in Special Account Balances	- 7.5	+ 13.9	- 5.3
Repayment of loans	- 2.8	- 4.9	- 6.2
Gold contribution			
I. M. F.	—	—	—
I. D. A.	—	- 0.9	- 0.2
I. B. R. D.	—	- 1.4	—
Total financing deficit	-281.1	-135.5	-177.1
Financing Account			
A. Official and banking capital*			
1. Change in gross external assets	+192.7	+ 9.6	+ 27.8
(a) Foreign exchange holdings	+207.3	- 0.6	+ 34.7
(b) Payments agreement balances "Due to Ceylon"	- 14.6	+ 10.2	- 6.9
2. Change in gross external liabilities	+ 6.0	+104.9	+ 94.2
(a) Payments agreement balances "Due from Ceylon"	- 0.1	+ 21.3	- 11.6
(b) Long-term liabilities ¹	+ 26.3	+ 23.8	+ 45.9
(c) I.M.F. Drawing	—	+ 53.8	+ 53.8
(d) Other ²	- 20.2	+ 6.0	+ 6.1
B. Official donations ³	+ 52.5	+ 40.6	+ 40.7
C. Errors and omissions	+ 29.9	- 19.6	+ 14.4

(a) Provisional.

Source: Central Bank of Ceylon.

* 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.

1 Consists entirely of drawings on I.B.R.D., D.L.F., U.K., the Federal Republic of Germany and the U.S.S.R.

2 Includes changes in non-resident, account balances of the Central Bank and commercial banks, balances of PL. 480 counter-part funds and balances of Ceylon's embassies abroad.

3 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.

† Transactions under these facilities reflect operations by Sterling Companies and 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.

Financing Account

The financing deficit in 1962 was higher by Rs. 41.6 million than the deficit in 1961, reflecting the deterioration in the current account balance. In 1962, the method of financing the deficit followed the same pattern as in 1961. The major portion of the deficit was financed through a further increase in Ceylon's foreign liabilities, necessitating only a relatively small fall in external assets. The main increase in Ceylon's foreign liabilities occurred as a result of the drawing of Rs. 53.8 million in foreign exchange from the International Monetary Fund, in February 1962. Gross long-term borrowings from I.B.R.D., Development Loan Fund, the United Kingdom, the Federal Republic of Germany and the U.S.S.R., also amounted to Rs. 45.9 million. On the other hand, the major part (of Rs. 11.6 million) of the increase (of Rs. 21.3 million) in Ceylon's short-term liabilities which had occurred in 1961, was repaid in 1962.

The foreign liabilities of Ceylon outstanding at the end of 1962 are summarised in the following table—

TABLE II H-4
Ceylon's External Liabilities¹

Liabilities	Balances outstanding		Change
	1961	1962	
1. Payments agreement balances "Due from Ceylon" ..	22.1	10.5	- 11.6
2. I. M. F. Drawing	53.8	107.6	+ 53.8
3. Sterling loans	167.9	167.9	—
4. Other Foreign loans drawn and outstanding ..	148.2	187.9	+ 39.7
Total ..	392.0	473.9	+ 81.9

Regional Pattern

Ceylon's balance of payments on current account followed the same pattern as in the previous year, registering a surplus with the Dollar Area and deficits with the other currency areas. The surplus with the Dollar Area at Rs. 199.7 million was somewhat higher than that in 1961. The deficit with the Sterling Area at Rs. 253.7 million was higher than the deficit of Rs. 228.8 million registered in 1961, but was lower than the annual average deficit of Rs. 290.0 million recorded during the previous five years. Within the Sterling Area the deficit with the United Kingdom increased by Rs. 18.0 million over that in 1961, while the deficit with India and Pakistan registered a drop of Rs. 54.3 million. The surplus with the rest of the Sterling Area countries, mainly Burma and Australia registered in 1961, turned into a deficit of Rs. 43.1 million in 1962. The deterioration in the current account position with the rest of the Sterling Area was due to higher import payments to the area as well as reduced export earnings from the area.

1. Liabilities payable in foreign exchange excludes balances of PL 480 counter-part funds and non-resident balances with commercial banks. Such balances increased by Rs. 6.9 million in 1962 from Rs. 77.5 million to Rs. 84.4 million.

The deficit with the non-dollar, non-sterling area countries declined from Rs. 73.1 million in 1961 to Rs. 67.3 million in 1962. There was an increase of Rs. 12.2 million in the deficit with the continental O.E.E.C.* group. The deficit with the non-O.E.E.C. countries, principally Japan, China, East European and Middle East countries, declined by Rs. 15.5 million despite increased import payments, mainly as a result of the higher export earnings under bilateral agreements.

TABLE II H-5
Current Account by Currency Areas 1961 and 1962

	Rupees Million					
	1961			1962		
	Credit	Debit	Net	Credit	Debit	Net
1. Dollar Area	312.0	115.2	+ 196.8	312.0	112.3	+ 199.7
2. Sterling Area	1,037.5	1,255.0	-217.5	1,048.1	1,301.8	-253.7
(i) U.K.	636.6	676.7	- 40.1	642.4	700.5	- 58.1
(ii) India & Pakistan	74.6	281.4	-206.8	103.7	256.2	-152.5
(iii) Rest	326.3	296.9	+ 29.4	302.0	345.1	- 43.1
3. Non-dollar non-Sterling Area	628.3	701.4	- 73.1	682.7	752.7	- 70.0
(i) Continental O.E.E.C.	181.8	216.1	- 34.3	183.3	229.8	- 46.5
(ii) Other	446.5	485.3	- 38.8	499.4	522.9	- 23.5
Total	1,977.8	2,071.6	- 93.8	2,042.8	2,166.8	-124.0

Foreign Reserves

Ceylon's external reserves declined by Rs. 27.8 million in 1962, as compared with a decline of only Rs. 9.6 million in 1961, reflecting the small deterioration in the balance of payments position. However, the decline of Rs. 27.8 million is considerably lower than the decline in the four years prior to 1961. Also as a result of the intensified import restrictions and increased import duties introduced in the second half of 1962, a rise, though small, in the external assets was registered in the last quarter of the year.

As in 1961, the decline in reserves was kept down by an increase in the country's short-term and long-term liabilities, of which the principal element was the second drawing of Rs. 53.8 million from the IMF. Since nearly the entire increase in these liabilities occurred in the first three quarters of 1962 the small rise in reserves in the last quarter reflected a basic improvement in the balance of payments position in the period.

Despite the small increase in external assets in November and December of 1962, external assets at the end of 1962, were Rs. 27.8 million lower than their level at the beginning of the year. Thus, the following comments made in the 1961 Report still remain appropriate ".....the external reserve position (at the end of the year) cannot be considered for a number of reasons to have been satisfactory. Firstly, because of the increased foreign liabilities incurred; secondly, because of the increased vulnerability of export prices; 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 stronger measures to curtail the domestic monetary expansion is required".

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