

(H) 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 1964 mixed trends were reflected in Ceylon's balance of payments as compared with the previous year. The balance on merchandise account deteriorated by Rs. 32.0 million to Rs. 193.0 million but because of an improvement in the invisible balance from a deficit of Rs. 6.6 million to a surplus of Rs. 45.3 million, the total current account deficit was reduced from Rs. 167.6 million in 1963 to Rs. 147.6 million in 1964. The "basic balance" which is derived by setting off the current account balance against net long-term capital receipts, however, showed no significant improvement in 1964 due to the decline in net long-term capital receipts from Rs. 80.0 million in 1963 to Rs. 66.0 million in 1964. The net official long-term capital receipts in 1964 amounted to Rs. 67.4 million as compared with a receipt of Rs. 75.4 million in 1963. Ceylon's "basic balance" in the balance of payments account showed a deficit of approximately Rs. 82.0 million in 1964 as compared with the deficit of Rs. 88.0 million in 1963. This 'basic deficit' was financed by incurring

TABLE II (H) 1
Ceylon's Balance of Payments^(a)

Year	Exports	Imports	Trade Balance	Net Invisibles	Balance on Current Account	Net Long-term Capital (b)	Basic Balance	Net Short-term Capital (c)	Errors and Omissions	Change in Total External Assets (Minus sign denotes decline)	Total External Assets as at end of period	Assets (net of Sterling loans sinking funds)
1957	1,669	1,764	- 95	- 100	- 195	-18	-213	- 1	-	- 214	1,062	973
1958	1,624	1,713	- 89	- 64	- 153	+ 8	-145	+32	- 16	- 129	933	838
1959	1,773	1,958	- 185	- 23	- 208	+32(e)	-176	-	+ 1	- 175(e)	734	655
1960	1,796	2,006	- 210	- 10	- 220	+22	-198	-24	+ 29	- 193	541	458
1961	1,707	1,794	- 87	- 7	- 94	+11	- 83	+93(d)	- 19	- 9	532(d)	441
1962	1,763	1,906	- 143	+ 3	- 140	+39	-101	+42(d)	+ 31	- 28	504(d)	407
1963	1,708	1,869	- 161	- 7	- 168	+80	- 88	+42	+ 4	- 42	462	359
1964	1,764	1,957	- 193	+ 45	- 148	+66(e)	- 82	+40	- 9	- 51(e)	351	305

- (a) Based on Exchange Control data on foreign exchange receipts and payments.
- (b) 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. 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.
- (c) Consist of changes in liabilities under bilateral trade and payments agreements, PL 480 counterpart funds, commercial banks liabilities to foreigners and drawings from the Fund. The figure for 1964 also includes amounts due to Burma on account of import of rice.
- (d) Include drawings of Rs. 53.8 million each in April 1961 and February 1962.
- (e) Excludes repayment of sterling loans of Rs. 24 million in 1959 and Rs. 60 million in 1964 out of available sterling loans sinking funds.

Rs. 40.0 million in external short-term liabilities and by a decline of Rs. 51.0 million in Ceylon's external assets (excluding repayment of a sterling loan of Rs. 60.0 million from available sterling loans sinking funds). In 1964 external assets financed 62 per cent of the basic deficit whereas in 1962 and 1963 external assets financed 28 per cent and 48 per cent of the basic deficit respectively.

Merchandise Account

Ceylon's balance on merchandise account (according to payments data) deteriorated by a further Rs. 32.0 million to Rs. 193.0 million in 1964. This was chiefly due to an adverse movement of 3.4 per cent in the terms of trade, arising primarily from a rise of 1.9 per cent in import prices; export prices remaining unchanged on average. The rise in import prices was mainly concentrated on 'food and drink' and, 'other consumer goods' categories. The value of exports increased by Rs. 56.0 million to Rs. 1,764.0 million fundamentally as a result of an increase of 7.2 per cent in the volume of exports, the average price of all exports remaining unchanged at the level of the previous year. The value of aggregate exports in 1964 would probably have increased even much more if the volume of tea exports which account for about two-thirds of Ceylon's total foreign exchange earnings had not remained static chiefly due to a shortfall in production particularly in the first three quarters and due to the cyclone which struck the North and East coast of Ceylon at the close of the year resulting in a loss of several cargoes of tea. Further, an increase of 21 per cent in the volume of rubber exports was moderated by a fall of 7 per cent in average price. An increase of 33 per cent in the volume of coconut product exports was assisted by a 3 per cent increase in average price.

The value of imports in 1964 increased by Rs. 89.0 million to Rs. 1,957.0 million, reflecting mainly an increase in imports arising from gifts in kind (an increase of Rs. 34.0 million) and private sector (including Government corporations) imports (an increase of Rs. 50.0 million) combined with an increase of Rs. 37.0 million in imports of rice, flour and sugar. This was partly offset by a decline of Rs. 27.0 million in other Government imports, reflecting in part lower imports against foreign loans. Gifts in kind mainly consisted of textiles received from China (Rs. 20.0 million) and CARE flour and milk received from the U.S.A. (valued at Rs. 25.0 million). The increase in private sector and Government corporation imports reflected increases in textile imports, in imports of fish and fish preparations and curry stuffs and also in fertilizers. These increases were partly offset by a decline in the value of imports of capital goods and raw materials (including iron and steel, transport equipment and some machinery).

As stated earlier the adverse movement in Ceylon's terms of trade was an important contributory factor to Ceylon's adverse balance of payments situation in 1964. The average level of export prices remained unchanged at their 1963 level which was 11 per cent lower than in 1960. Average import prices on the other hand rose by a further 2 per cent to the highest level since 1957. The rise in import prices was concentrated in particular on a major section of the aggregate import bill, viz. food and drink which in 1964 accounted for over half the value of total imports. The average prices of food and drink

were 8 per cent in excess of the level in 1963 and chiefly reflected increased c.i.f. prices mainly in respect of sugar and to a lesser extent in those of rice and flour. However, there were partly compensating declines in the average prices of textiles (3%), intermediate goods (5%) and investment goods (2%). But in view of the stringent import controls which have resulted in substantial declines in the total outlays on consumer goods imports in recent years, the net contribution to the balance of payments as a result of price declines in these items would not be very significant. Import prices in respect of consumer goods other than food and drink and textiles also increased by 2.4 per cent in 1964. This was a further contributory factor to the rise in Ceylon's import bill and balance of payments difficulties in 1964. Ceylon's experience in 1964 indicates that the terms of trade still continue to play a dominant role in determining the level of the trade balance and is capable of nullifying the increased efforts made by the country to balance its payments position through measures directed towards an increase in exports and a reduction in imports by increased production and quantitative restrictions, respectively.

Invisibles Account

TABLE II (H) 2
Current Invisibles 1963 and 1964

Rupees Million

	1963		Net	1964 (a)		Net
	Credit	Debit		Credit	Debit	
Services	210.5	230.3	-19.8	181.2	175.5	+ 5.7
Non monetary gold movement (net)	-	1.9	- 1.9	-	1.6	- 1.6
Transportation	108.3	33.1	+75.2	102.9	30.3	+72.6
Travel	5.9	22.0	-16.1	5.6	13.5	- 7.9
Investment income	15.7	68.2	-52.5	12.2	46.3	-34.1
Govt. Expenditures	25.8	25.4	+ 0.4	23.2	19.9	+ 3.3
Other services	54.8	79.7	-24.9	37.3	63.9	-26.6
Transfer payments	49.5	36.3	+13.2	82.0	42.4	+39.6
Private payments	5.9	36.3	-30.4	5.6	42.4	-36.8
Official	43.6	-	+43.6	76.4	-	+76.4
Total	260.0	266.6	- 6.6	263.2	217.9	+45.3

(a) Provisional.

Ceylon's balance on invisibles account showed a significant improvement in 1964. In 1964 there was a surplus of Rs. 45.3 million on invisibles account as compared with a deficit of Rs. 6.6 million in 1963 and a surplus of Rs. 3.0 million in 1962. The improvement in the balance on invisibles account in 1964 mainly derived from a reduction of Rs. 18.4 million to Rs. 34.1 million in the net deficit on investment income and an increase in the surplus on transfer payments. The investment income account benefited from the moratorium on the transfer of dividends, profits and capital instituted in August 1964, moderated partly by a fall in the income earned on Ceylon's declining external assets. Grants from foreign governments also increased by Rs. 32.8 million to Rs. 76.4 million in 1964 mainly reflecting assistance from China (Rs. 32.8

million), Canada (Rs. 14.0 million) and the U.S.A. (Rs. 25.0 million). These grants were in the form of goods. The gains on invisible account were modified by a decline of Rs. 2.6 million in earnings from Ceylon Ports on account of fewer ships calling and bunkering and an increase of Rs. 6.1 million to Rs. 42.4 million in migrants transfers.

Financing the deficit

TABLE II (H) 3

Ceylon's Official External Liabilities outstanding¹ (Gross)

Rupees Million

	1963	1964	Change
1. Payments agreement balances due from Ceylon ..	49.6	69.3	+ 19.7
2. I. M. F. drawing ..	107.6	107.6	—
3. Sterling loans ..	167.9	107.9	— 60.0
4. Other foreign loans drawn and outstanding ² ..	263.2	330.6	+ 67.4
5. Deferred payments (rice) ..	—	37.3	+ 37.3
Total ..	588.3	652.7	+ 64.4

- Liabilities payable in foreign exchange excludes balances of PL. 480 counterpart funds and non-resident balances with commercial banks. Such balances decreased by Rs. 3.1 million from Rs. 86.8 million to Rs. 83.7 million in 1964.
- Consist of drawings from loans obtained from IBRD, USA, USSR, China, West Germany, Canada, etc.

As stated earlier the deficit on current account amounted to Rs. 148.0 million in 1964 as compared with Rs. 168.0 million in 1963. Part of this deficit was financed by a net inflow of long-term capital amounting to Rs. 66.0 million, resulting in a basic deficit of Rs. 82.0 million which had to be financed by an increase in short-term liabilities and the utilization of external assets. Gross long-term capital received in 1964 amounted to Rs. 78.5 million as compared with Rs. 81.7 million in 1963. All long-term loans were tied to specific projects or to imports from the creditor country.

Long-term loans utilized in 1964 were received from the I.B.R.D. (Rs. 14.8 million) U.S.S.R. (Rs. 33.0 million) China (Rs. 14.2 million) West Germany (Rs. 7.3 million) U.K. (Rs. 6.2 million) U.S.A. (Rs. 1.1 million) Canada (Rs. 1.4 million) Yugoslavia (Rs. 0.5 million). The I.B.R.D. loan of Rs. 14.8 million in 1964 comprised part of a total allocation of Rs. 185.0 million negotiated to finance the Norton Bridge Hydro-electric project and the second Grandpass Thermal Power Plant. The U.S.S.R. loan was intended for a wide variety of development projects which included among others, River Basin Development, jungle clearing for cultivation and for the proposed Fertiliser factory. The Chinese loan was extended for the purpose of financing additional rice imports. The West German and U.K. loans were used for the Ceylon Cement Corporation and the expansion of Telecommunication facilities, respectively.

In regard to private long-term capital the gross inflow in 1964 amounted to Rs. 4.3 million as compared with Rs. 8.7 million in 1963. The gross outflow in 1964, amounted to Rs. 5.9 million as compared with Rs. 3.5 million

in 1963. Consequently the net balance on private long-term capital showed a deficit of Rs. 1.6 million as compared with a surplus of Rs. 4.9 million in 1963. The inflow of private capital in 1964 continued to be mainly in respect of approved industries in the private sector. The outflow of private capital in 1964 represented the repatriation of working capital borrowed from the Principals of expatriate firms established in Ceylon for the purpose of executing various current projects.

The financing of Ceylon's basic deficit in 1964 was made possible by incurring foreign short-term liabilities to the amount of Rs. 40.0 million and reducing Ceylon's external assets by the equivalent of Rs. 51.0 million, (excluding repayment of Sterling loan of Rs. 60.0 million). The increase of Rs. 40.0 million in short-term liabilities primarily comprised an increase in Ceylon's obligations on account of payments agreements with China (Rs. 15.1 million) and U.S.S.R. (Rs. 7.6 million) and a deferred payment arrangement with Burma amounting to Rs. 37.3 million. On the other hand short-term private capital liabilities, representing mainly balances owed by firms in Ceylon to firms abroad decreased by Rs. 13.0 million. This was made possible as a result of a further decline in the imports of these firms in 1964, as the result of the severe import controls.

Regional Pattern

TABLE II (H) 4
Current Account Position by Currency Areas
1963 and 1964

	Rupees Million					
	1963			1964 (Provisional)		
	Credit	Debit	Net	Credit	Debit	Net
1. Dollar Area	275.1	106.1	+169.0	282.8	120.2	+162.6
2. Sterling Area	1,022.9	1,162.7	-139.8	970.4	1,089.9	-119.5
(i) U.K.	628.8	602.5	+26.3	573.7	526.3	+47.4
(ii) India	57.4	213.7	-156.3	70.1	228.4	-158.3
(iii) Other	336.7	346.5	-9.8	326.6	335.2	-8.6
3. Non-dollar, Non-Sterling Area	668.6	864.6	-196.0	773.8	964.5	-190.7
(i) Other OECD countries *	186.2	232.8	-46.6	195.1	269.0	-73.9
(ii) China	114.1	146.1	-32.0	155.3	182.4	-27.1
(iii) Soviet Bloc	109.3	159.3	-50.0	165.9	207.0	-41.1
(iv) Other	259.0	326.4	-67.4	257.5	306.1	-48.6
Total	1,966.6	2,133.4	-166.8	2,027.0	2,174.6	-147.6

* 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 followed the same pattern as in the previous year. The traditional surplus with the Dollar area, however declined by Rs. 6.4 million, and the deficit with the Sterling Area also declined by Rs. 20.3 million from Rs. 139.8 million in 1963 to Rs. 119.5 million in 1964. Within the Sterling Area, the surplus with the U.K. of Rs. 26.3 million in 1963 increased to Rs. 47.4 million in 1964 mainly due to lower payments to the U.K., arising from both merchandise and current invisibles

transactions. The deficits with India and the rest of the Sterling Area in 1964 remained practically unchanged as compared with 1963. The deficit with the non-dollar non-sterling area declined slightly by Rs. 8.4 million, from Rs. 196.0 million in 1963 to Rs. 187.6 million in 1964. There was an increase of Rs. 27.3 million in the deficit with other O.E.C.D. Countries. The aggregate deficit with the Soviet bloc and China registered a drop of Rs. 13.8 million to Rs. 68.2 million in 1964. This was the result of an increase in receipts by Rs. 97.8 million in 1964, although payments also increased by Rs. 84.0 million in this year.

Foreign Reserves

Ceylon's external reserves excluding Sterling Loan Sinking Funds declined by Rs. 54.1 million in 1964, as compared with the decline of Rs. 47.9 million in 1963. During the first half of the year, external assets declined substantially, to the extent of Rs. 68.6 million, due to the combined effect of larger payments for imports, particularly food, and lower earnings on exports. In contrast the external reserves registered an increase of Rs. 14.5 million in the second half, of the year reflecting the improvement in the balance of payments position during this period. Of the total external assets of Rs. 304.7 million (net of Sterling Loan Sinking Funds) at the end of 1964, the balance of the International Reserve of the Central Bank amounted to Rs. 135.9 million. The liquid funds of the International Reserve as at the end of the year amounted to Rs. 49.7 million, while the balance consisted mainly of holdings of foreign securities. The foreign balances of the commercial banks of Rs. 107.3 million at the end of 1964, represent the working balances of these institutions. Of this the foreign balances amounted to Rs. 53.7 million and export bills amounted to Rs. 53.6 million.