(F) BALANCE OF PAYMENTS AND EXTERNAL ASSETS

Detailed statistics of Ceylon's balance of payments and external assets are available in Tables 28 to 32 in Appendix II. Balance of payments data are derived from exchange control records of actual receipts and payments during the year. These data differ from the statistics used in the Foreign Trade Sector, which are based on Customs Returns.

Principal Trends

In the report for the year 1966 it was pointed out that the balance of payments of Ceylon showed a marked deterioration as compared with the year 1965. Export earnings from merchandise had declined by Rs. 235 million to Rs. 1,674 million while import payments had increased by Rs. 96 million to Rs. 2,018 million. The invisibles account had also deteriorated, as compared with the previous year. The basic deficit in the balance of payments approximated Rs. 153 million and was financed by inflows of long term capital and the accumulation of short term liabilities and further recourse to borrowings from the International Monetary Fund.

The adverse trends in Ceylon's external payments situation which had been a marked feature in 1966 continued in 1967. Export earnings from merchandise fell by a further Rs. 28 million to Rs. 1646 million, the lowest in many years, while import payments at Rs. 1997 million did not differ significantly as compared with 1966. The deficit on merchandise trade in 1967 amounted to Rs. 351 million (as compared with Rs. 344 million in 1966). Ceylon's earnings on invisibles account also fell markedly in 1967 while payments increased; consequently the invisibles surplus of Rs. 53 million in 1966 was reduced to Rs. 22 million in 1967. When the merchandise deficit is adjusted for the smaller surplus on invisibles account in 1967, the current account of Ceylon's balance of payments shows a deficit of Rs. 329 million in 1967, as compared with a corresponding deficit of Rs. 290 million in the previous year.

Ceylon's external reserves (net of Sterling Loans Sinking Funds) had declined by almost Rs. 126 million in the course of 1966, and in view of its low level it was impossible to conceive financing a current account deficit of the magnitude of Rs. 329 million out of these resources. In the event, however, Ceylon's ability to finance a volume of payments far in excess of currently earned income in 1967 was due to a larger inflow of aid and short term borrowings abroad, mainly from the International Monetary Fund. If such resources were not available to the Ceylon economy in 1967, the only choice would have been to countenance a lower level of economic activity and a lower rate of economic growth. In fact the rate of economic growth in the past few years has been barely sufficient to cope with the annual increase in population and to absorb the increase in the country's workforce. An encouraging feature in 1967, however, has been the fact that increased amounts of external resources have been diverted to productive uses and conscious attempts have been made in framing the import budget, to change the composition of imports in favour of investment and raw material goods, as explained in greater detail in subsequent sections.

External Resources and Their Use

In 1967, the total external resources available to Ceylon amounted to Rs. 2,393 million. This was Rs. 12 million less than the resources available in 1966. Since export incomes had declined to Rs. 1,646 million from Rs. 1,674 million in 1966, and as earnings from invisibles had declined from Rs. 204 million in 1966 to Rs. 198 million in 1967, the mobilization of external resources to a level approximating that of 1966 was made possible, principally as a result of an enchanced capital inflow. Long term capital inflows increased from Rs. 226 million in 1966 to Rs. 261 million

TABLE II (F) 1

Ceylon's Balance of Payments (*a*)

Rupees Million

Year	(1) Exports (Total)	(2) Imports (Total)	(3) Trade Balance (i) (Total)	(3) Trade Balance (ii) (of which commercial transactions) (b)	(4) Net Invisibles (including gifts in kind)	(5) Balance On current accounts (net of 3(i) & 4	(5) Balance (of which Balance on current account on commercial transactions)	(6) Net long term capital (c)	(7) Basic balances (net of 5 & 6)	(8) Net short-term capital (d)	(9) Errors and Omissions	(10) Change in total External Assets (increase +)	(11) Total External Assets at end of period	(12) Assets (excluding Sterling Loan Sinking Funds)
1957 ..	1,669	1,764	— 95	— 45	—100	—195	—127	— 18	—213	— 1	—	—214	1,062	973
1958 ..	1,624	1,713	— 89	— 11	— 64	—153	—119	+ 8	—145	+ 32	— 16	—129	933	838
1959 ..	1,773	1,958	—185	— 49	— 23	—208	— 66	+ 32(e)	—176	—	+ 1	—175(e)	734	655
1960 ..	1,796	2,006	—210	—127	— 10	—220	— 63	+ 22	—198	— 24	+ 29	—193	541	458
1961 ..	1,707	1,794	— 87	— 5	— 7	— 95	— 48	+ 11	— 84	+ 93(f)	— 19	— 9	532	441
1962 ..	1,763	1,906	—143	— 47	+ 3	—140	— 81	+ 39	—101	+ 42(f)	+ 31	— 28	504	407
1963 ..	1,708	1,869	—161	— 27	— 7	—168	— 78	+ 80	— 88	+ 42	+ 4	— 42	462	359
1964 ..	1,767	1,960	—193	— 39	+ 33	—160	— 82	+ 69(e)	— 92	+ 33	— 8	— 51(e)	351	305
1965 ..	1,909	1,922	— 13	+128	+ 72	+ 59	+136	+ 58(e)	+117	+ 3(f)	— 6	+114(e)	440	408
1966 ..	1,674	2,018	—344	—119	+ 53	—290	—132	+137	—153	+ 53(f)	— 22	—122	318	282
1967(g)	1,646	1,997	—351	— 89	+ 22	—329	—117	+160	—169	+269(f)	+ 31	+131	449	407

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

(*b*) Consists of the following (1) commercial banks' foreign exchange transactions; (2) comercial banks' non-resident accounts; (3) Central Bank's foreign exchange operations; (4) Payments Agreement Transactions; and (5) Transactions conducted by firms enjoying special account facilities viz. sterling plantation companies and traders' accounts.

(*c*) Includes net movements of private and official long-term. The credit figures are as follows: Rs. 23 million in 1957; Rs. 23 million in 1958; Rs. 42 million in 1959; Rs. 27 million in 1960; Rs. 24 million in 1961; Rs. 46 million in 1962; Rs. 82 million in 1963; Rs. 79 million in 1964; Rs. 80 million in 1965; Rs. 189 million in 1966 and Rs. 219 million in 1967.

(*d*) Consists of changes in liabilities under bilateral trade and payments agreements, PL 480 counterpart funds, commercial banks' liabilities to non-residents and net drawings from the International Monetary Fund. The figure for 1964, 1965, 1966 and 1967 also include amounts due to Burma on account of import of rice.

(*e*) Excludes 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*) Includes drawings from the International Monetary Fund of Rs. 53.8 million each in 1961 and 1962; Rs. 109.4 million in 1965 and Rs. 144.0 million in 1966; and Rs. 122.6 million in 1967; less repayments of Rs. 35.7 million in 1965, Rs. 53.6 million in 1966 and Rs. 17.9 million in 1967, on earlier drawings and gold contributions of Rs. 20.2 million in 1965 and Rs. 19.0 million in 1966 on account of increases in Ceylon's quota at the International Monetary Fund from U. S. $ 45 million to U. S. $62 million in 1965 and to U.S. $ 78 million in 1966.

(*g*) Provisional.

in 1967 and provided 11 per cent of Ceylon's external resources in that year, as compared with 6 per cent and 9 per cent in 1965 and 1966, respectively. Of this total, the value of loan finance increased from Rs. 173 million in 1966 to Rs. 212 million in 1967, while grants declined in value from Rs. 51 million in 1966 to Rs. 46 million in 1967. In fact, a noticeable feature of the pattern of capital inflows into Ceylon in recent years has been the increasing share of loans and the declining share of grants in total aid inflows, with corresponding implications for Ceylon's debt servicing capacity in future years. Thus the share of loans in total capital inflows has increased from 55 per cent in 1965 to 81 per cent in 1967 while the share of grants has decreased from 45 per cent to 18 per cent, over the same period.

Another important facet of the financing of Ceylon's payments deficits in recent years has been the increasing resort to the accumulation of short term liabilities, mostly with a maturity pattern of less than five years. The principal component of such short term liabilities has been drawings from the International Monetary Fund, of which the outstanding total amounts to U.S. Dollars 79.0 million; of this sum U.S. Dollars 19.5 million consists of drawings under the International Monetary Fund's Compensatory Financing Scheme for fluctuations in export incomes. Drawings from the International Monetary Fund have continued to provide a substantial volume of external resources in the last three years; they amounted to U.S. $ 22.9 million in 1965, U.S. $ 30.2 million in 1966 and U.S. $ 25.7 million in 1967. In 1967, Ceylon's external resources were further supplemented by increasing the indebtedness on bilateral payments agreements account by Rs. 80 million and short term borrowings from foreign banking sources of Rs. 57 million. In sum, therefore, of the external resources available to Ceylon in 1967, only 77 per cent was obtained from earned resources while 23 per cent of resources were secured through various short and long term borrowing arrangements. This picture compares unfavourably with the years 1965 and 1966, when 89 per cent and 79 per cent respectively of Ceylon's external resources were secured from earned income. This however, was inevitable in the context of a pronounced decline in export incomes—principally due to a decline in average export prices—and a rise in imports necessitated by the need to increase the tempo of economic activity in the country, after the very low levels reached in 1964, which in itself was to a large extent due to a marked decline in import capacity, caused mainly by adverse movements in Ceylon's terms of trade.

Of the external resources of Rs. 2,393 million available to Ceylon in 1967, as in previous years, more than four fifths was used for the purchase of merchandise imports. Thirteen per cent of such imports were financed out of aid, as compared with 11 per cent in 1966 and only 7 per cent in 1965. However, in 1967, the orientation in the import programme was more marked towards investment goods and raw materials, both in terms of expenditure out of owned and aid resources. The effects of such changes in the pattern of imports on the structure of production were evident in increases in output for home use, both in non-export agriculture and in industrial production. For example, there was a marked increase in 1967 in the import of agricultural inputs such as fertilizer, tractors, and other transport equipment, machinery and industrial raw material. Quite apart from the fact that increased aid inflows in 1967 facilitated the import of investment and raw material imports, considerable relief was also obtained on capital account since the volume of resources devoted to servicing old loans and payments on invisibles account were moderate in 1967. In the case of payments in respect of invisibles, while there were increases in outflows in respect of investment income, and interest payments, they were offset somewhat by a fall in migrants' transfers. There was also a marked decline in the volume of resources devoted to the amortization of old loans; this was however, mainly due to the fact that there was a substantial decline in 1967 in the payments due on drawings from the International Monetary Fund.

TABLE II (F) 2

External Resources and their Use

	Rupees Million			Percentage Share		
	1965	1966	1967	1965	1966	1967
A. RESOURCES						
1. **Merchandise Exports f.o.b.**	1,909	1,674	1,646	81	70	69
2. **Current Invisibles**	199	204	198	8	9	8
3. **Capital inflow**	141	226	261	6	9	11
of which:						
(*a*) Loans(1)	77	173	212	55	77	81
(*b*) Grants(1)	64	51	46	45	23	18
(*c*) Private capital ..	—	2	3	—	—	1
4. **Short-term liabilities** ..	109	175	288	5	7	12
of which:						
(*a*) Gross Drawings from the International Monetary Fund(2)	109	144	123	100	82	43
(*b*) Increase in bilateral payments agreement balances	—	31	80	—	18	28
(*c*) Borrowings from foreign banks:	—	—	57	—	—	20
(*d*) Others	—	—	28	—	—	9
5. **Decline in external assets (net of sterling loans sinking funds)**	—	126	—	—	5	—
Total ..	2,359	2,405	2,393	100	100	100
B. USE						
6. **Merchandise Imports c.i.f.** ..	1,922	2,018	1,997	81	84	83
of which aid	142	224	258	7	11	13
7. **Current invisibles**	199	213	224	8	9	9
(*a*) Investment income ..	4	26	34	2	12	15
(*b*) Migrants' transfers ..	31	32	30	16	15	13
(*c*) Interest Payments ..	22	21	31	11	10	14
8. **Capital Amortisation or repatriation**..	75	114	71	3	5	3
(*a*) Private	3	8	8	4	7	11
(*b*) Official	16	30	45	21	26	63
(*c*) Repurchase and gold subscription at the international monetary fund	56	76	18	75	67	26
9. **Short-term liabilities**(3) ..	69	62	—	3	2	—
10. **Increase in external assets (net of sterling loan sinking funds)**	103	—	125	5	—	5
11. **Balancing item**	—9	—2	—24	—	—	—
Total ..	2,359	2,405	2,393	100	100	100

(1) Includes assistance received in the form of Project Aid and Commodity Aid.

(2) Includes special drawings from the International Monetary Fund of Rs. 20 million in 1965 and Rs. 19 million in 1966 to pay the gold subscription on account of the increases in Ceylon's quota from U.S. $ 45 million to U.S. $ 62 million in 1965 and to U.S. $ 78 million in 1966.

(3) Short-term liabilities consist of a decrease in bilateral payments agreement balances in 1965, change in balances of firms enjoying special account facilities, and deferred payments on account of food imports by the Government.

Detailed Trends in 1967

(*a*) *Merchandise Account*(1)

The balance on merchandise account in 1967 showed a deficit of Rs. 351 million, as compared with a deficit of Rs. 344 million in 1966. The higher trade deficit was financed primarily by aid flows, which increased by Rs. 34 million to Rs. 258 million in 1967. The deficit on commercial transactions on merchandise account amounted to Rs. 89 million, as compared with Rs. 119 million in 1966. Since Ceylon's external assets were not drawn down in 1967, the deficit on commercial account was financed mainly by an increase in short term liabilities, principally by the accumulation of liabilities on bilateral payments account.

The value of merchandise exports had declined by Rs. 235 million, to Rs. 1,674 million in 1966. In 1967 there was a further decline of Rs. 28 million to Rs. 1,646 million. The decline in export values in 1967 was due largely to a decline in the average price of Ceylon's major exports, viz., tea, rubber and coconut, as compared with 1966. The average f.o.b. price of tea declined further by 4·7 per cent to Rs. 2·22 per pound and the f.o.b. price of rubber declined by 14·2 per cent to 97 cents per pound, in 1967. The average f.o.b. price of coconut oil fell by 11·7 per cent to Rs. 1,314 per ton in 1967. Small declines in price were also observed in the case of copra and desiccated coconut. These price declines for Ceylon's major exports were to a large extent a reflection of the poor world market conditions for primary commodities in 1967. Political disturbances abroad, the availability of large stocks in some of the principal buying centres and the recession in economic activity in some of the leading industrial countries superimposed on global increases in supplies of these commodities and of near substitutes, and in some cases, an acceleration of stockpile disposals, all contributed in some measure towards the disturbing price trends for Ceylon's primary product exports in 1967.

In the past few years Ceylon had been able to partially compensate for the adverse price trends in respect of her major exports by output increases, chiefly due to increases in productivity. In 1967, however, output failed to respond sufficiently to compensate for adverse price declines in the case of tea and coconut, partly because of adverse weather conditions. In the case of tea, however, the volume of exports increased as compared with 1966, but mainly due to a reduction of stocks. In the absence of such a reduction in stocks the value of tea exports would have fallen significantly below the levels reached in 1966. Coconut exports declined both in volume and value, as a result of a decline in output superimposed on a fall in price. The cyclone experienced in the principal coconut growing areas in 1967 was a major contributory factor to the decline in export volume. In the case of rubber, however, there was an increase of 9·3 per cent in output in 1967, as compared with the previous year. Yet the volume of exports declined by nearly 2·3 per cent partly due to an increase in local consumption and partly due to the build up of exportable stocks as a result of labour and shipping difficulties.

The value of merchandise imports in 1967 at Rs. 1,997 million was Rs. 21 million less than the value of imports in 1966. The need for curtailing imports in 1967 arose because the forecast for exports in 1967 was less favourable as compared with 1966 and also because the free foreign exchange reserves available in 1967 were at a level which did not permit of further utilization. Thus the value of merchandise imports out of earned foreign exchange resources in 1967 amounted to only Rs. 1,739 million as compared with imports of Rs. 1,794 million in 1966. In the event, however, the volume of payments on merchandise account in 1967

(1) This analysis is based on exchange control records of actual receipts and payments during the year.

exceeded the volume of current earnings from exports and net invisibles. The deficit was financed by aid inflows and the accumulation of liabilities under bilateral payments agreements and other short term borrowing arrangements.

An encouraging feature of the structure of imports in 1967, has been a marked shift in favour of imports of investment goods and raw materials and a reduction in the proportion of imports of consumer goods, particularly those with a high potential for import substitution. This has been brought about by deliberate foreign exchange budgeting and partly as a result of an expansion in the volume of output in the import substituting industrial and agricultural sectors themselves. The enhanced output in these sectors has been made possible by an increase in the import allocations for raw materials and investment goods in 1967 and earlier years. Thus food and drink imports in 1967 declined in value by almost Rs. 15 million to Rs. 797 million. In this category, rice imports alone declined by Rs. 43 million to only Rs. 225 million. Currystuff imports also declined by Rs. 24 million to Rs. 69 million, though flour imports increased by Rs. 80 million to Rs. 217 million. The value of imports of dairy products, fish and fish preparations, and beverages also declined by varying amounts. The value of textile imports declined by as much as Rs. 72 million to Rs. 111 million, while imports of drugs declined by Rs. 12 million to Rs. 22 million. In contrast, the value of intermediate goods increased by Rs. 15 million and that of investment goods rose by Rs. 8 million. Increases were recorded in the value of imports of fertilizers, chemicals, iron and steel and machinery.

Ceylon's ability to maintain the value of imports in 1967 at almost the previous years level was facilitated by larger aid inflows which rose from Rs. 224 million in 1966 to Rs. 258 million in 1967. A substantial proportion of this aid was oriented to imports of capital and raw material, though in some cases essential consumer goods, particularly food items were also obtained. Thus machinery imports financed by aid in 1967 totalled almost Rs. 92 million, of which Rs. 33·5 million consisted of project aid imports while Rs. 58 million consisted of commodity aid. Fertilizer imports to the value of Rs. 43 million (or approximately half the value of such imports in 1967) were also obtained under commodity aid programmes. The value of transport equipment obtained under commodity aid programmes totalled Rs. 55 million. Other commodities obtained under such programmes included flour (Rs. 24 million), fish and fish preparations (Rs. 4 million) and drugs (Rs. 1 million).

(*b*) *Invisibles Account*

In 1965 Ceylon had a surplus of approximately Rs. 72 million in respect of invisibles. This surplus declined to Rs. 53 million in 1966 and it contracted further to Rs. 22 million in 1967. While total receipts on invisibles account have generally remained stable in recent years, yet certain components in this account such as the volume of grants has continued to decline for example, from Rs. 64 million in 1965 to Rs. 46 million in 1967. The marked contraction in respect of grants received has only been partially offset by increases in receipts from " other services."

The volume of payments on invisibles account has tended to increase in recent years. The relaxation of the moratorium on investment income has resulted in an increase in outflows from Rs. 4 million in 1965 to Rs. 26 million in 1966 and to Rs. 34 million in 1967. Actual releases of blocked funds in the years 1965, 1966 and 1967 have amounted to Rs. 6 million, Rs. 29 million and Rs. 42 million respectively. The increase in Ceylon's external indebtedness has also resulted in an increase in interest payments. In 1967, such payments amounted to Rs. 31 million. The annual average value of migrants' transfers has been Rs. 30 million. It would appear that Ceylon's ability to finance an increasing volume of transfers on account of investment income, migrants' remittances and interest payments, is dependent upon a corresponding increase in earnings from transportation, tourism, and the provision of resources in the form of grants.

The major foreign exchange earner in Ceylon's invisibles account has continued to be receipts on account of port and harbour dues. The decline in the volume of traffic calling at the Port of Colombo in recent years had resulted in a diminished volume of income from this source, but there are indications that earnings are once more tending to increase. For example, receipts on account of port and harbour dues increased from Rs. 100 million in 1965 to Rs. 107 million in 1967. The surplus on this account has increased from Rs. 96 million in 1965 to Rs. 108 million in 1966 but fell to Rs. 106 million in 1967. Improvements in the facilities provided combined with greater efficiency in the handling of cargo has no doubt helped to minimize demurrage payments to foreign shipping and to thereby save foreign exchange. The relatively moderate earnings in 1967 in respect of port and harbour dues as compared with the previous year, could be attributed to the lower volume of shipping calling at Colombo as a result of the Middle East crisis in 1967 and the subsequent diversion of passenger lines *via* the Cape route.

The income from tourism has also tended to increase in recent years, though by very small amounts, though in percentage terms the increase has been substantial, since the base is very small. Thus earnings on this account amounted to Rs. 5·6 million in 1964 and in 1965, but there was a 16 per cent increase to Rs. 6·5 million in 1966 and a further 15 per cent increase to Rs. 7·5 million in 1967. The current measures being taken to increase Ceylon's tourist infra-structure combined with related measures designed to make it more attractive for tourists to surrender foreign exchange through authorised channels should help to increase the volume of earnings from this source.

TABLE II (F) 3

Current Invisibles 1966 & 1967

Rupees Million

	1966			1967 Provisional		
	Credit	Debit	Net	Credit	Debit	Net
Services	203·4	186·8	+16·6	194·3	193·9	+ 0·4
Non-monetary gold movement (net) ..	—	1·8	— 1·8	—	1·7	— 1·7
Transportation ..	116·5	23·6	+92·9	111·7	21·4	+90·3
Travel	6·5	15·9	— 9·4	7·5	16·8	— 9·3
Investment income ..	12·9	49·7	—36·8	10·9	65·3	—54·4
Direct investment ..	1·8	24·6	—22·8	0·7	32·2	—31·5
Other	11·1	25·1	—14·0	10·2	33·1	—22·9
Government expenditure	29·1	16·7	+12·4	24·9	12·6	+12·3
Other services ..	38·4	79·1	—40·7	39·3	76·1	—36·8
Transfer Payments ..	68·9	32·3	+36·6	52·5	30·5	+22·0
Private transfers ..	6·0	32·3	—26·3	6·6	30·5	—23·9
Official transfers ..	62·9	—	+62·9	45·9	—	+45·9
Total ..	272·3	219·1	+53·2	246·8	224·4	+22·4

(*c*) *Official External Liabilities*

Long term capital receipts (excluding grants) in 1967 amounted to Rs. 211·8 million, as compared with Rs. 173·7 million in 1966. Of this sum, project aid totalled Rs. 33·5 million (Rs. 55·0 million in 1966) and Commodity aid (excluding grants) totalled Rs. 178·3 million (Rs. 118·7 million in 1966). Repayments on account of previous loans amounted to Rs. 44·5 million, as compared with Rs. 30 million in 1966. The net balance on long term capital (excluding grants) therefore, amounted to Rs. 167·3 million in Ceylon's favour, as compared with Rs. 143·5 million in the previous year. The Project aid received in 1967 was utilized principally for financing infra-structure investment. These included the Gransdpass Thermal Project (Rs. 4 million), the Maskeliya Oya Hydro Electricity Project (Rs. 10·1 million), the Katunayake Airport Scheme (Rs. 5·7 million) and the Kandy Water Supply Scheme. In addition, project aid was also allocated to the Steel and Tyre Corporations, the Fisheries Corporation, for the purchase of trawlers, the Hardware Corporation, and the Department of Telecommunications, for the purchase of telephone equipment. The Cement and Cast Iron Factories and the Port of Colombo also received project assistance in 1967.

The total Commodity Aid (including grants) received under the First, Second and Third Commodity Aid programmes has amounted to Rs. 335 million, as at the end of 1967. The major proportion of this aid has been oriented to investment and raw material goods, and this was particularly marked in 1967. The commodity aid received in 1967 (including grants) amounted to Rs. 208 million, of which loans totalled to Rs. 184 million and grants Rs. 24 million. As indicated earlier, the greater proportion of this aid was in the form of investment and raw material goods. The loans were generally tied to purchases in the donor country, with the exception of the commodity aid provided by the Federal Republic of Germany under the First Aid Programme, negotiated in 1965. Of the commodity aid received in 1967 Rs. 50·6 million (24 per cent) was from the United Kingdom, Rs. 49·3 million (23 per cent) from the U.S.A., Rs. 28·0 million (13 per cent) from the Federal Republic of Germany, Rs. 21·7 million (10 per cent) from France and Rs. 19·9 million (9 per cent) from Japan, Rs. 5·4 million from India and Rs. 3·1 million from Canada. The commodities provided consisted mainly of machinery, motor spares, building materials, engineering stores, industrial raw material, tractors and fertilizer.

In 1967, Ceylon's indebtedness on bilateral payments agreements increased from Rs. 30 million in 1966 to Rs. 110 million. The increase of Rs. 80 million in external liabilities on this account was principally a result of an increase in liabilities in respect to the U.S.S.R. Such liabilities increased from Rs. 26.5 million at the end of 1966 to Rs. 91·7 million at the end of 1967, or by Rs. 65.2 million. The increase in the payments deficit with the U.S.S.R. in 1967 arose as a result of a decline in their imports from Ceylon and an increase in Ceylon's imports. There was also a settlement to the U.S.S.R. of Rs. 11.5 million in respect of loan amortisation.

Gross drawings from the International Monetary Fund 1967, amounted to U. S. Dollars 25.7 million; the outstanding total of borrowings now amounts to U.S. Dollars 79.0 million. Repurchases in 1967 from the I.M.F. amounted to U.S. Dollars 3.7 million. The net drawings from the International Monetary Fund in 1967, therefore amounted to U.S. Dollars 22.0 million. Of the sums borrowed in 1967, U.S. Dollars 19 5 million was borrowed on March 21, 1967, and represented drawings under the Fund's Compensatory Financing Facility for fluctuations in export earnings. On March 29, 1967, Ceylon borrowed a further sum of U.S. Dollars 6.2 million being the last instalment under the Second Standby Arrangement concluded with the International Monetary Fund for a period of one year beginning June, 1966. Beginning with June, 1965, Ceylon has successively concluded two Standby Arrangements with the I.M.F. for U.S. Dollars 30 million and U.S. Dollars 25 million, respectively. Of the first Standby Arrangement Ceylon utilized only U.S. Dollars 22 5 million.

TABLE II (F) 4

Ceylon's Gross Official External Liabilities (1)

Rupees Million

	Amounts drawn and outstanding at end of		
	1966	1967	Change
1. Payments Agreement balances due from Ceylon	30 ·2	110 ·3	+ 80 ·1
2. I.M.F. Drawings	271 ·4	376 ·1	+ 104 ·7(2)
3. Sterling loans	83 ·3	83 ·3	—
4. Other foreign loans drawn and outstanding..	438 ·3	428 ·6	— 9 ·7(3)
5. Consortium Aid	118 ·6	296 ·6	+178 ·0(4)
6. Food Commissioner's deferred liabilities ..	30 ·6	23 ·8	— 6 ·8
7. Borrowings from banks Abroad	—	57 ·1	+ 57 ·1
Total ..	972 ·4	1,375 ·8	+403 ·4

(1) Liabilities payable in foreign exchange exclude balances of PL480 Counterpart Funds and non-resident balances with commercial banks. Such balances declined by Rs. 10.5 million from Rs. 61.1 million to Rs. 50.6 million in 1967.

(2) Consists of drawings of Rs. 122 ·6 million and a repurchase of Rs. 17 ·9 million in respect of earlier drawings.

(3) Consists of drawings from loans obtained from the I.B.R.D., U.S.A., U.S.S.R., China, Federal Republic of Germany, Canada, Poland, France and Yugoslavia.

(4) Consists of Commodity Aid Received under the 1965, 1966 and 1967 Programmes from U.S.A., U.K., Federal Republic of Germany, Japan, India and Canada.

(*d*) *External Reserves*

Ceylon's gross external assets as at the end of December, 1967, amounted to Rs. 448.9 million. Of this sum Rs. 41 9 million consisted of Sterling Loan Sinking Funds.[1] The International Reserve of the Central Bank amounted to Rs. 260.4 million and the reserves of Government and Government Agencies and Institutions totalled Rs. 68.6 million. The foreign balances of Commercial banks amounted

(1) Assets in Sinking Funds are not available for financing the balance of payments.

to Rs. 119.9 million. In 1967, Ceylon's external assets (net of Sterling Loans Sinking Funds) increased by Rs. 125.1 million, notwithstanding a basic deficit of Rs. 169 million in the balance of payments. The fortuitous increase in reserves was entirely a result of the various borrowing arrangements that had been utilized in 1967, particularly in December 1967. For example, net drawings from the International Monetary Fund totalled Rs. 104.7 million during the year while in addition net borrowings from foreign banking sources amounted to a further Rs. 57.1 million and liabilities under payments agreements increased by Rs. 80.1 million at the close of the year. If allowance were made for these two liabilities there would in fact have been a decline in net external assets by Rs. 12.1 million.

The devaluation of the Ceylon Rupee by 20 per cent on 22nd November, 1967, and the consequent revaluation of the reserves in terms of Ceylon rupees was also a further factor accounting for the apparent increase in external assets over the year. Such revaluation in terms of Ceylon rupees added approximately Rs. 19.9 million to Ceylon's external assets, when denominated in Ceylon rupees. However, the quarterly average of reserves over the year 1967, was in general much lower than the corresponding average for the year 1966, with the exception of the fourth quarter of 1967. In this period, the reserves were built up, primarily in anticipation of a settlement of outstanding liabilities on current account.

(*e*) *The Devaluation of the Rupee*

The decision to devalue the Ceylon rupee by 20 per cent on 22nd November, 1967, arose partly as a result of long term factors that had resulted in an overvaluation of the Ceylon rupee, and partly as a result of the devaluation of the U.K. Pound in November 1967. From the long-term standpoint, the expansionary impact of the monetary-fiscal imbalance which had continued for some time in Ceylon had resulted in the imposition of severe import and exchange controls on the one hand and bred circumventions through the over-invoicing of imports and under-invoicing of exports, on the other, with a consequent loss in foreign exchange.

Rising domestic prices and costs, particularly in the export sector had also tended to diminish progressively Ceylon's competitive capacity. It had therefore, been increasingly appreciated that both with a view towards restricting the demand for imports, providing added incentive to import substitution agriculture and industry and with a view towards affording some relief to exporters, an adjustment of the overvalued exchange rate appeared to be necessary. It was felt that the devaluation of the U.K. Pound would have sooner or later brought out the weakness in Ceylon's exchange rate into sharper focus, with adverse consequences for export income.