(G) BALANCE OF PAYMENTS AND EXTERNAL ASSETS

Detailed statistics of Ceylon's balance of payments and external assets are available in Tables 30 to 34 in Appendix. Balance of payments data are derived from exchange control records of actual receipts and payments during the year. This data will differ from the statistics used in the Foreign Trade Section which are based on Customs Returns.

A. Policies

The trends in Ceylon's balance of payments as they emerged in 1968 were considerably influenced by two major exchange reforms which were instituted in 1967 and 1968. On 22nd November, 1967 the Ceylon rupee was devalued by 20 per cent. On May 6, 1968 the Government introduced a Foreign Exchange Entitlement Certificate Scheme which resulted in a further effective depreciation in the exchange rate for a range of transactions. Concurrently, various measures were taken to liberalize the rigid import and exchange control system. A considerable number of commodities were placed under open general licence[1] and certain classes of remittances such as remittance of profits and dividends were liberalized. Other complementary measures were implemented in the monetary, fiscal and production sectors, with a view towards providing the required incentives for increasing output and for exploiting domestic resources on a more rational basis. All these measures were in some sense designed with a view to rectifying the imbalance in Ceylon's external receipts and payments and consequently reducing the pressures on Ceylon's foreign exchange reserves, which had persisted for some time. The principal measures taken and their respective roles are discussed in greater detail in other sections of this report. The available evidence seems to indicate that the policies and measures initiated in the economic field in 1967 and 1968 exercised a favourable impact on the balance of payments.

Ceylon has experienced balance of payments deficits for over a decade. Payments deficits are basically a reflection of the fact that the volume of economic resources available to the economy are insufficient to meet the requirements of the country in relation to a given target rate of growth. There is therefore a need to supplement domestic resources by external resources, whether they be owned external assets, short-term borrowings or aid. The accelerated pace of investment in recent years has necessitated an element of self-sacrifice in the form of a curtailment of the range and volume of consumer goods imports, while increasing amounts of foreign exchange have been simultaneously devoted to the import of essential raw material and capital goods. However, the rapid increase in Ceylon's population combined with the expansion in domestic money incomes facilitated by monetary expansion and income redistribution policies has limited to some extent, the scope for large scale reduction of consumer goods imports. Hence, the incipient pressures on

1. Open General Licence category imports are imports which are freely permitted without the necessity for individual import licence.

the country's foreign exchange reserves expressed in the form of a demand for imports have had to be suppressed by rigorous controls and the rationing of the use of foreign exchange.

By 1967 it was apparent that the severe import and exchange controls which had been maintained for some time were having adverse effects on the economy. Quite apart from the burdensome administrative problem of policing a complicated import and exchange control system, and the rapid increase in the incidence of exchange malpractices, the adherence to a rigid quota system in the allocation of foreign exchange appeared to be at once an inefficient and inequitous technique. For example, the more dynamic sectors of industry and agriculture which were dependent on imported inputs for investment and production did not have adequate allocations of foreign exchange which they could have more profitably used. In the meanwhile the continuous decline in Ceylon's foreign exchange earnings due to unfavourable world prices for her principal exports combined with an expansion in the demand for imports, had resulted in a high *de facto* scarcity price for foreign exchange in terms of Ceylon rupees. The high scarcity price was however, not reflected in the official Exchange rate which was artifically suppressed by a rigid system of foreign exchange rationing.

The devaluation of the Ceylon rupee in November 1967 and the Foreign Exchange Entitlement Certificate Scheme introduced in May, 1968 therefore constituted important policy measures by which the economy of Ceylon was partially orientated to the true scarcity price of foreign exchange. However, in recognition of the fact that there is still considerable inequality in the distribution of incomes in Ceylon, and with a view to sheltering certain critical consumer and producer sectors in the economy, most essential imports and certain categories of invisibles and capital payments were exempted from the coverage of the Foreign Exchange Entitlement Certificate Scheme.

So long as the country's external payments continue to be regimented by severe controls, and in so far as a considerable segment of its payments continue to be insulated from the effects of the exchange reforms initiated in 1968, a satisfactory evaluation of the significance and impact of the corrective exchange measures is not possible. However, preliminary indicators of the performance of the Ceylon economy in 1968 and the corresponding impact on the country's balance of payments are indicative of the fact that there has been a rationalization of the use of foreign exchange reserves as a sequel to the exchange reforms.

The ultimate success of the effects of a devaluation of a country's currency in terms of foreign exchange is measured by the criterion that the payments deficit should improve as a consequence. Given the limitation that a major proportion of Ceylon's external payments and receipts are still subjected to import and exchange controls, this criterion was fulfilled in 1968. This is all the more noteworthy since it has been the practice for some years now to programme for a deficit in the balance of payments, in order to provide the required additional resources for furthering the process of economic growth without diminishing welfare. Tables II (G) 1 and II (G) 2 gives details of Ceylon's balance of payments in Rupee and U.S. Dollar values respectively. Since the rupee values in the year 1968 are inflated by the effect of the devaluation of the currency in November 1967, the foreign exchange equivalent measured in terms of U.S. Dollars is chosen as being the more appropriate measure for ascertaining the effect of the devaluation on the country's external transactions. By this criterion, the overall trade deficit of Ceylon (i.e. including aid financed imports) was reduced from U.S. Dollars 70 million in 1967 to U.S. Dollars 61 million in 1968. These indicators are particularly important in view of the fact that the value of import licences issued in 1968 actually exceeded the value of licences issued in 1967 by Rs. 836·0 million. An even more appropriate measure is to exclude aid financed imports, and in this case the trade deficit shows a decline from U.S. Dollars 18 million in 1967 to U.S. Dollars 5 million in 1968, that is to say, an improvement of 72 per cent. The overall current account deficit on commercial transactions (i.e. including transactions on invisibles) fell from U.S. Dollars 18 million in 1967 to only U.S. Dollars 9 million in 1968.

An interesting feature, however, is that earnings from merchandise exports and the sale of services actually declined from U.S. Dollars 391 million in 1967 to U.S. Dollars 368 million in 1968. Income in foreign exchange from merchandise exports declined from U.S. Dollars 347 million in 1967 to U.S. Dollars 332 million in 1968, while income from the export of services fell by U.S. Dollars 9 million from U.S. Dollars 45 million in 1967. The principal reason for the decline in merchandise export income in 1968 when expressed in terms of foreign exchange has been a fall in the average unit price of tea and rubber exports combined with a fall of 3·6 per cent in the volume of tea exports in 1968, as compared with the previous year. The fall in foreign exchange income from the sale of services is the result of a marked deterioration in earnings from Port and Harbour dues, partly due to the charges not being revised consequent upon the devaluation of the Ceylon rupee. Earnings from all other sectors in the services account improved in foreign exchange terms. A detailed evaluation of the factors influencing the behaviour of exports in 1968 is given later on in this section. However, it may be briefly noted here that the effects of a change in the exchange rate are likely to manifest themselves more quickly in the import sector through a direct impact on costs than in the export sector, due to supply lags, particularly where primary products play a significant role in export structure.

Another important argument adduced in favour of a change in the exchange rate of an overvalued currency derives from the impact of such a change on the import substitution activity of the domestic sector, arising from the high price of imports and the attractiveness of exports in terms of local currency, particularly where excess capacities exist. The Ceylon economy afforded such opportunities in 1968 because the enhanced price for foreign exchange was concurrently linked with a scheme for liberalization of imports of raw material, intermediate and capital goods required for agriculture and industry consequent upon the implementation of the Foreign Exchange Entitlement Certificate Scheme. These exchange measures were supported by appropriate monetary, fiscal and production policies, detailed elsewhere in this report.

2. Trends[1]

The provisional estimate of export earnings for 1968 at Rs. 1,975 million shows a substantial increase of Rs. 325 million over 1967. This excludes re-exports of Rs 59.1 million. The increase in export value was partly due to increases in average rupee prices of tea and coconut products and partly due to an increase in the volume of rubber and coconut products. The value of imports estimated at Rs. 2,341 million was Rs. 356 million more than the level of imports in 1967. In rupee terms, these figures of export earnings and import payments were the highest ever recorded in Ceylon's balance of payments. The higher levels of export and import values in 1968 were principally a result of the devaluation of the Ceylon rupee by 20 per cent in November 1967. Import values in 1968 were also considerably increased as a result of an increase in the c.i.f. prices of all major categories of imports and partly because of larger import arrivals under the "Aid Club" arrangements. Some part of the higher level of imports in 1968 has resulted from the removal of direct restrictions on imports of certain commodities by their transfer to the open general licence category[2] consequent upon the implementation of the Foreign Exchange Entitlement Certificate Scheme in May, 1968. The deficit on the Merchandise Account in 1968 provisionally estimated at Rs. 366 million shows an increase of 9·2 per cent over the deficit of Rs. 335 million in 1967. In interpreting these figures however, due allowance must be made for the difference between the exchange rates in 1968 and those prevailing in the first eleven months of 1967, owing to the devaluation of the Ceylon rupee. For instance, when export and import values are converted to U.S. Dollar terms, the value of exports showed a decline of U.S. Dollars 15 million to U.S. Dollars 332 million, while import values fell even more, by U.S. Dollars 24 million from U.S. Dollars 417 million in 1967 to U.S. Dollars 393 million in 1968. Consequently, the merchandise trade deficit in dollar terms improved from U.S. Dollars 70 million in 1967 to U.S. Dollars 61 million in 1968.

In 1968 Ceylon's balance on Invisibles Account, inclusive of transfer payments, showed a surplus of Rs 20 million as against a surplus of Rs. 46 million in 1967. The deterioration in the Invisibles Account was due to the combined effect of a fall in earnings and a rise in payments. Total invisible earnings declined from Rs. 262 million in 1967 to Rs. 254 million in 1968, while total invisible payments increased from Rs. 216 million to Rs. 234 million over the same period. The decline in the surplus has been primarily due to a substantial decrease in Port and Harbour dues, and to a lesser extent to increases in investment income payments consequent upon the liberalization of moratorium releases and to an increase in government expenditures. When the merchandise deficit is adjusted for the smaller surplus on invisibles account in 1968, the current account of Ceylon's balance of payments showed an overall deficit of Rs. 346 million in 1968 as compared with a deficit of Rs. 289 million in 1967. The 'basic balance' which is derived by setting off the current account balance against net transactions on long-term capital decreased from

1. This analysis is based on payments data derived from exchange control records of actual receipts and payments during the year.
2. Open General Licence category imports are imports which are freely permitted without the necessity for individual import licence.

Rs. 128 million in 1967 to Rs. 122 million in 1968. In dollar terms the basic deficit declined from U.S. Dollars 26 million in 1967 to U.S. Dollars 20 million in 1968. This deficit therefore represented the sum requiring financing in 1968.

Ceylon's external reserves (net of Sterling Loan Sinking Funds) as at the end of December 1968 amounted to Rs. 417 million; this was Rs. 10 million higher than the amount at the end of the previous year. The basic deficit of Rs. 122 million (U.S. Dollars 20 million) in the balance of payments was financed by recourse to various short-term borrowing arrangements. A net sum of Rs. 165 million (U.S. Dollars 27·7 million) was drawn from the International Monetary Fund and Rs. 29 million (U.S. Dollars 4·9 million) was obtained from foreign banking sources.

C. External Resources and their Use

The total external resources available to Ceylon in 1968 amounted to Rs. 2811 million (U.S. Dollars 472 million) as compared with Rs. 2,402 million (U.S. Dollars 504 million) in 1967. It will be observed that in foreign exchange terms the value of resources available actually fell by U.S. Dollars 32 million. There was therefore a marked decline in Ceylon's capacity to import in 1968. Earned foreign exchange amounted to only Rs. 2,187 million (U.S. Dollars 367 million) in 1968 as compared with Rs. 1,866 (U.S. Dollars 391 million) in 1967. Earnings from domestic exports increased in rupee terms by Rs. 325 million to Rs. 1,975 million but fell in U.S. Dollar terms by U.S. Dollars 15 million. Receipts from services, excluding official transfers, declined marginally from Rs. 216 million in 1967 to Rs. 212 million in 1968.

During 1968 Ceylon's use of external resources at Rs. 2,811 million (U. S. Dollars 472 million) was (U. S. Dollars 105 million) higher than currently earned income. The mobilisation of external resources of this magnitude was made possible as a result of a substantial increase in the inflow of foreign assistance and to a moderate increase in short-term liabilities. Long-term capital inflows both official and private increased from Rs. 261 million (U.S. Dollars 55 million) in 1967 to Rs. 340 million (U.S. Dollars 57 million) in 1968 and contributed 12 per cent of total external resources in 1968 as compared with 11 per cent in 1967.

It was pointed out in the Annual Report for 1967 that a noticeable feature of the pattern of official capital inflows in recent years has been the increasing share of loans and declining share of grants in total aid inflows, with corresponding implications for Ceylon's debt servicing capacity in future years. This less favourable trend in official capital inflows continued in 1968. Of the total official capital inflows amounting to Rs. 337 million (U.S. Dollars 57 million), the value of loans amounted to Rs. 295 million (U.S. Dollars 50 million). This represented 87 per cent of total official capital inflows in 1968 as compared with 81 per cent in 1967. The total value of grants progressively declined from Rs. 64 million (U. S. Dollars 13·4 million) in 1965 to Rs. 42 million (U.S. Dollars 7·1 million) in 1968. The share of grants in total official capital inflows has decreased from 45 per cent to 12 per cent over the same period. Of the total value of loans received in 1968 the value of Commodity Aid amounted to Rs. 273 million (U.S. Dollars 45·8 million) while the value of Project Aid amounted to Rs. 40 million (U.S. Dollars 6·7 million.)

The resources made available to Ceylon in the course of 1968 from long-term capital inflows were insufficient to finance a payments deficit of a magnitude that occurred in 1968. Consequently, these resources had to be supplemented by increasing Ceylon's short-term liabilities. The principal source of such short-term accommodation has been the International Monetary Fund. The total amount drawn from the International Monetary Fund in 1968 amounted to Rs. 213 million (U.S. Dollars 36 million). Drawings from the International Monetary Fund comprised Rs. 114.9 million (U.S. Dollars 19·3 million) in terms of the Scheme for Compensatory Financing of fluctuations in export earnings while the conventional drawing facilities at the I.M.F. enabled Ceylon to obtain an additional Rs. 98 million(U.S. Dollars 16·5 million) within the year. However, of the total drawing of Rs. 213 million (U.S. Dollars 35·7 million) from the I.M.F. the net amount available for financing the deficit was only Rs. 165 million (U.S. Dollars 27·7 million) as Ceylon had to make repurchases amounting to Rs. 48 million (U.S. Dollars 8·1 million) from the Fund during the year. In recent years drawings from the International Monetary Fund have continued to provide a substantial volume of short-term external resources.

In addition to drawings from the I.M.F, external resources were further augmented by indebtedness to bilateral payments agreement countries and short-term borrowings from foreign banking sources. The net amounts provided by these sources in 1968 were Rs. 42 million (U.S. Dollars 7·1 million) and Rs. 29 million (U.S. Dollars 4·9 million), respectively.

In sum, of the total external resources available to Ceylon in 1968 for meeting various payment commitments, 78 per cent was contributed by currently earned foreign exchange, 12 per cent by various capital inflows and 10 per cent by increasing short-term liabilities.

As indicated earlier, total external resources available to Ceylon in 1968 amounted to Rs. 2,811 million (U.S. Dollars 472 million). Of this sum Rs. 2,341 million (or 84 per cent) was utilised for purchasing merchandise imports; 12 per cent of these imports were financed out of aid as against 11 per cent in 1967. In the Report for the year 1967 it was indicated that the orientation in the import programme in 1967 was more marked towards investment goods and raw materials. The performance in 1968 has been even better in this sphere. Total investment goods imports increased from Rs. 532 million in 1967 to Rs. 644 million in 1968, while the value of intermediate goods rose from Rs. 319 million to Rs. 368 million. Marked increases were noticed in the import of agricultural inputs such as fertilizers and tractors on the one hand, and industrial inputs, such as machinery, raw materials, chemicals and transport equipment, on the other. The effects of this change in the pattern of imports resulted in a greater utilisation of capacity in 1968, which was evident from the increases in agricultural and industrial production. Total external resources utilised for payment on account of services amounted to Rs. 234 million (U.S. Dollars 39·3 million), while the amortisation of foreign loans and capital repatriation absorbed Rs. 99 million (U.S. Dollars 16·6 million). Of the external resources utilised for service payments, Rs. 34 million (U.S. Dollars 5·7 million) was used for repatriation of investment income, Rs. 40 million (U.S. Dollars 6·7 million) for interest payments and Rs. 27 million (U.S. Dollars 4.5 million) for migrants' transfers. The volume of transfers in each of these sectors has declined in dollar terms in 1968. Of the resources used for capital repatriation and amortisation of loans, repatriation of private capital amounted to Rs. 10 million (U.S. Dollars 1·7 million), which includes a figure of Rs. 9 million (U.S. Dollars 1·5 million) being compensation paid to Oil Companies. Repurchases at the International Monetary Fund amounted to Rs. 48 million (U.S. Dollars 8·1 million), while repayment of official loans to foreign governments absorbed Rs. 59 million (U.S. Dollars 9·9 million). The balance resources were utilised to repay a loan amounting to Rs. 57 million (U.S. Dollars 9·6 million) to foreign banking sources and Rs. 14 million (U.S. Dollars2·4 million) to reduce short-term liabilities.

D. Detailed trends in 1968

(a) Merchandise Account

Detailed trends in respect of the merchandise account are analysed in the Foreign Trade section of the Annual Report.

(b) Invisibles Account

The performance of the invisible account of Ceylon's balance of payments in recent years has not been altogether satisfactory. In 1965, Ceylon had a surplus of Rs. 72 million on account of invisibles. This surplus declined progressively over the years and according to provisional estimates the surplus amounted to only Rs. 20 million in 1968. Total receipts on invisibles account declined by Rs. 8 million in 1968, while the total payments increased by Rs. 18 million as compared with 1967. Consequently, the invisibles account deteriorated by Rs. 26 million in 1968, as compared with the previous year.

A number of factors contributed towards the increase in the volume of payments on invisibles account in 1968. The outflow on account of investment income increased from Rs. 65 million in 1967 to Rs. 74 million in 1968. The relaxation of the moratorium on investment income resulted in an outflow of Rs. 26 million in 1966 and Rs. 34 million in 1967. The outflow was further intensified in 1968 by a complete lifting of the moratorium, in respect of current incomes, with the introduction of the Foreign Exchange Entitlement Certificate Scheme. The outflow on this account fell in Dollar terms however, from U.S. $ 7 million in 1967 to U.S. $ 6 million in 1968. Remittances of dividends and profits now require the surrender of Foreign Exchange Entitlement Certificates. Another important feature emerging from the invisible account of Ceylon's balance of payments is the cumulative increase in interest payments required to service the foreign debt. Total payments on this account increased from Rs. 33 million in 1967 to Rs. 40 million in 1968, a natural outcome of the increased use of foreign economic assistance in recent years. However, expressed as a proportion of total foreign exchange receipts the amount is still relatively small.

Minor increases were also observed in Ceylon's outlay on government expenditures in 1968. Payments on account of migrants' transfers declined marginally. On the receipts side of the invisible account, the deterioration was due to a substantial decrease in the receipts on the Port Transportation Account. The value of receipts on this account decreased from Rs. 130 million in 1967 to Rs. 117 million in 1968, while the traditional surplus on this account decreased from Rs. 115 million to Rs. 102 million over the same period. Another factor responsible for the adverse movement in invisible earnings is the fall in the value of grants, which decrased from Rs. 46 million in 1967 to Rs. 42 million in 1968.

Receipts from tourist expenditure have increased from Rs. 6 million in 1967 to Rs. 10 million in 1968. With the introduction of the Foreign Exchange Entitlelement Certificate Scheme in May 1968, Tourist earnings were made eligible to a premium exchange rate. An examination of the data on tourist arrivals and earnings for the period May–December 1968 reveals a 25.2 per cent increase in U.S. Dollar earnings per head, as compared with the same period of 1967. Total earnings from tourists in the period May-December were 54 per cent higher than the amounts earned in the same period of 1967, when measured in U.S. Dollars. Thus, for the period May-December 1968 earnings from tourists amounted to U.S. $ 1.2 million whereas the earnings for the corresponding period of 1967 amounted to only U S. $ 0. 76 million. Likewise, the earnings per head for the period May-December 1968 amounted to U.S. $ 65.1 whereas earnings per head in the same period of 1967 amounted to only U.S. $ 52.2.

The available evidence seems to indicate that some part of the tourist earnings which would otherwise have gone into the blackmarket has been diverted to official channels in view of the more attractive exchange rate now offered to tourists. The Foreign Exchange Entitlement Certificate Scheme represents one step in attacking, the illicit traffic in tourist earnings. In view of the measures that have been taken currently to increase Ceylon's tourist infra-structure combined with the more attractive rate of exchange now offered to tourists, the volume of earnings from this source should increase in the coming years.

However, it should be recognised that there are limits to the possibility of minimizing the diversion of tourist earnings to the blackmarket by the offer of a premium on foreign exchange surrendered, unless such a premium is constantly revised. This arises from the fact that so long as rigorous controls on foreign payments are maintained, particularly in respect to invisible payments the demand for foreign exchange brought by tourists would manifest itself in the form of a highly competitive blackmarket exchange rate.

In implementing the Foreign Exchange Entitlement Certificate Scheme a considerable range of invisible earnings were offered a premium over the official exchange rate. This was a step towards increasing the flow of invisible earnings into Ceylon. According to provisional data available, some items of invisible earnings have reacted very favourably to the new incentives, while in the case of others the response so far observed is very little, and consequently the improvement so far observed in invisible earnings has not had a significant effect on the total foreign exchange position. However, as a scheme of this nature generally involves a considerable time lag before its full effects are felt, the performance on the invisible front may prove to be more satisfactory in the coming years.

E. Capital Account

(a) Long-term Capital

The outturn on capital account reflects the successful effort exerted to sustain the flow of external resources in 1968. By enhancing Ceylon's import capacity these external resources mitigated the balance of payments constraint on the pace of Ceylon's economic growth. In 1968, the net inward flow of long-term capital was Rs. 224.8 million. This represents a 39 per cent increase over the 1967 net figure of Rs. 160.9 million. The increase is due to greater utilization of commodity and project aid of Rs. 272.8 million and Rs. 40.2 million respectively in 1968 as compared to Rs. 201.8 million and Rs. 33.5 million respectively in 1967. Increases were recorded in aid-financed imports of fertilizers and flour: the increased imports of flour helped to mitigate the hardships caused by the steep rise in the c. & f. price of rice from £ 48 per ton to £ 70 per ton, while the increased imports of fertilizer assisted Ceylon in stepping-up domestic food production. The balance commodity aid was largely used to finance capital goods, e. g. machinery and transport equipment.

It can be shown that these increases in aid disbursements as between 1967 and 1968 were not merely due to the higher rupee value of a given quantity of goods as a consequence of devaluation. For instance, when measured in terms of U. S. dollars, the value of commodity and project aid arrivals increased to U. S. $52.6 million in 1968 from U. S. $ 49.4 million in 1967.

The value of goods received under the four Commodity Aid Programmes has amounted to Rs. 606.3 million as at the end of 1968. These loans have been largely used to procure capital goods or raw material or to relieve shortages in essential foodstuffs, as in the case of flour imports in 1968. The commodity aid received in 1968 (including grants) amounted to Rs. 272.8 million (U. S. $ 45.8 million) of which loans amounted to Rs. 255.4 million (U. S. $ 42.9 million) and grants Rs. 17.4 million (U. S. $ 2.9 million). Generally these loans were tied to purchases in the donor country. Of the commodity aid received in 1968 Rs. 55.9 million was from the United Kingdom, Rs. 122.9 million from the U.S.A., Rs. 25.4 million from the Federal Republic of Germany, Rs. 13.9 million from France, Rs. 28.8 million from Japan, Rs. 6.4 million from India and Rs. 13.0 million from Canada.

Project aid received in 1968 was estimated at Rs. 40.2 million and represents an increase over the 1967 figure of Rs. 33.5 million. A large proportion of the project aid received in 1968 was used for financing industrial investment in contrast to 1967 when it was largely used for financing infra-structure investments. The major projects financed in 1968;were the Tulheriya Textile Mill (Rs. 19.6 million), Maskeliya Oya Project (Rs. 5.4 million), Hardware and Small Industries (Rs. 2.1 million), Paperboard factory, Valaichenai, Cast-Iron Foundry, Port-Development and Cement Industries (Rs. 7.1 million), Fisheries Corporation, trawlers etc. (Rs. 1.2 million), and Steel, Tyre and Flour Mills (Rs. 1.4 million). Thus, there has been a shift in the allocation of project aid away from infra-structure and towards more directly productive investments with early prospects of output increases.

Loan repayments in 1968 were higher than in 1967. Repayments on account of project loans were Rs 59.0 million (U.S. $ 9.9 million) in 1968 as compared to Rs. 44.4 million (U. S. $ 9.3 million) in 1967. Repayments on account of commodity loans amounted to Rs. 7.3 million (U.S. $ 1.2 million) in 1968.

In respect of private capital flows, inward direct investment fell to Rs 6.8 million in 1968 from Rs. 8.4 million in 1967 as a consequence of smaller inflows of funds for investment in non-resident controlled tea companies. Direct disinvestment increased from Rs. 13.1 million in 1967 to Rs. 18.8 million in 1968.

Thus, while there was a net inflow of official long-term capital of Rs. 236.6 million in 1968, this was partly offset by a net outflow of private long-term capital of Rs. 11.8 million, so that the net inward flow was Rs. 224.8 million (U.S. $ 37.7 million) in 1968. In 1967, the net inward flow on long-term capital account was Rs. 160.9 million (U.S. $ 33.8 million) so that even after allowing for the change in the rate of exchange in 1967 there was an improvement on long-term capital account in 1968 as compared to 1967.

(F) Monetary Movements

Table 11 (G) 6 shows Ceylon's Gross Official External Liabilities as at the end of each of the years 1967 and 1968 and the net change during the year 1968. In the course of the year, drawings from the International Monetary Fund played a significant part in sustaining the volume of payments as well as providing additional support at the time when the Foreign Exchange Entitlement Certificate Scheme was launched in May 1968. Gross drawings amounted to Rs. 213.2 million (U.S. $ 35.8 million), while repurchases totalled Rs. 47.7 million (U. S. $ 8.0 million) so that the net increase in the amount due to the International Monetary Fund was Rs. 165.5 million (U. S. $ 27.8 million). The first drawing for the year was made on April 17. A sum of Rs. 114.9 million (or U. S. $ 19.3 million) was drawn being the second drawing under the International Monetary Fund's Compensatory Financing Facility for fluctuations in export earnings. Soon after the import liberalisation scheme was implemented, a further drawing was made on May 15, of Rs. 62.5 million (U S. $ 10.5 million) being the first instalment under the Third Standby Arrangement. On October

10, and December 20, 1968, the second and third instalments of Rs. 17.9 million (U.S. $ 3.0 million) each were drawn under this Standby Facility. After allowing for repurchases made during the year, the total outstanding amounted to Rs. 541.6 million (U. S. $ 91.0 million). As at the end of December 1968 the International Monetary Fund's holdings of Ceylon rupees amounted to 167.8 per cent of Ceylon's quota.

Ceylon's indebtedness on bilateral payments agreement balances increased by Rs. 87.4 million from 110.4 million as at the end of 1967 to Rs. 197.8 million as at the end of 1968. The larger changes occurred in the China and U. S. S. R. accounts. There was an increase in balances due to China of Rs. 110.9 million, partly offset by a decline in balances due to the U. S. S. R. of Rs. 22.2 million. The increase in liabilities in respect of China was the result of increased imports from Rs. 169.9 million in 1967 to Rs. 263.3 million in 1968. Imports of rice amounted to Rs. 191.4 million and imports of textiles Rs. 44.5 million in 1968 as compared with imports amounting to Rs. 121.2 million and Rs. 24.6 million in 1967; the value of exports to China remained at almost the the same level as in 1967. The change in liabilities of Rs. 22.2 million in respect of the U. S. S. R. is largely a result of the Swing credit settlement of Rs 28.6 million made in April 1968.

G. External Reserves.

The gross external assets of Ceylon increased from Rs. 448.9 million as at the end of 1967 to Rs. 463.0 million as at the end of 1968. The Sterling Loan Sinking Fund balances increased from Rs. 41.9 million as at the end of 1967 to Rs. 45.6 million as at the end of 1968. Thus, the external assets, net of Sterling Loan Sinking Funds stood at Rs. 417.4 million at end of 1968. The International Reserve of the Central Bank amounted to Rs. 235.5 million, the total reserves of Government and Government Agencies and Institutions were Rs 70.2 million and the foreign balances of commercial banks amounted to Rs. 157.3 million at the end of 1968.

The increase in Ceylon's external reserves despite a basic deficit of Rs. 122 million was solely due to the various borrowing arrangements which Ceylon was able to utilize during the year. For instance, as already referred to elsewhere, net drawings from the International Monetary Fund amounted to Rs. 165.5 million in 1968.

The low-level of Ceylon's external reserves has caused some anxiety in recent years. Dislocations arising from emergencies such as strikes, etc. in addition to the normal leads and lags in payments and receipts has made the management of Ceylon's external assets a rather delicate matter. In view of these difficulties, the Central Bank has negotiated foreign exchange credit facilities with a number of banks abroad.

H. The Foreign Exchange Entitlement Certificate Scheme

On May 6, 1968 the Government, on the recommendation action of the Central Bank, introduced a Foreign Exchange Entitlement Certificate Scheme. The Scheme is operated by the Central Bank on behalf of the Government. Under the provisions of this scheme, Foreign Exchange Entitlement Certificates are issued to those who surrender foreign exchange to commercial banks against the export of certain goods and services and against certain inward remittances. Receipts of foreign exchange from the export of tea, rubber, coconut oil, desiccated coconut, copra and fresh coconuts are not eligible to the benefits of the Scheme. Holders of Certificates are entitled, subject to Import and Exchange Control requirements, to purchase foreign cxchange from commercial banks at their selling rates, on surrender of Certificates of equivalent face value, for the payment of certain items of imports and other remittances as specified.

Merchandise imports are classified into 'A' and 'B' categories. All payments for A category imports are to be made at the official rate while the B category is sub-divided into two groups. One group is subject to quota allocations in the foreign exchange budget but requires in addition, the surrender of Certificates. The second Group comprises Open General Licence imports[1] which also require the surrender of Certificates to the full value of the foreign exchange payment. The previously levied licence fees on commercial imports have been abolished. Aid imports falling within the A category are exempted from licence fees. But aid imports falling within the second group of the B category (i.e. Open General Licence imports) are subject to an import licence fee of 20 per cent. Payments for such imports do not however require the surrender of Foreign Exchange Entitlement Certificates. Certain countervailing changes have also been made in the import tariff structure consequent upon the implementation of the Foreign Exchange Entitlement Certificate Scheme. All other payments, except for certain classes specifically exempted, require the surrender of Certificates of equivalent value.

Full details of the scheme as published in the Government Gazette are annexed.

The economic rationale of the Foreign Exchange Entitlement Certificate Scheme has been briefly discussed in the introductory section of the report on the Balance of Payments. Briefly the scheme resulted from the realization that the severe regimentation of the country's foreign exchange transactions and the continued decline in the volume of foreign exchange earnings had resulted in a considerable reduction in the ability of industry and other productive economic activity to exploit existing capacity to the fullest possible extent. It was felt that a liberalization of imported inputs, particularly of industrial and agricultural raw material and investment goods, at a price approximating closely to the true scarcity value of foreign exchange would enable the more efficient and more dynamic industries in the economy to increase output.

1. Open General Licence category imports are imports which are freely premitted without the neccssity for individual import licence.

It was also felt that there were many minor export products, particulraly industrial products which were sufficiently competitive in export markets but where the ability to export was handicapped by the smallness of the industrial raw material inputs they obtained under the rigid quota system that had obtained at that time. The minor agricultural product export sector had for some time in the past found it increasingly difficult to export at profitable exchange prices and this factor had limited or reduced the attractiveness of increasing investment in these industries. In view of the fact that large segments in the minor agricultural product sector were organized on a non-corporate basis it was also felt that the increase in incomes in this sector deriving from the higher premium attached to earnings in foreign exchange would lead to a more socially desirable distribution of incomes. Likewise, many of the import substituting industries established in recent years in which there was a high proportion of Ceylonese entrepreneurship were prevented from expanding their activity, and in fact existing activity was considerably curtailed by the rigid control system which was based to a large extent on allocations of foreign exchange based on past production, or imports. It was felt that a scheme which afforded such firms a greater access to essential inputs might enable them to accelerate output, with consequent effects on employment and incomes. In other cases, there was reason to believe that the progressive alignment of the price of foreign exchange with its true cost would result in an acceleration of domestic production of import substitutes, particularly in the case of raw materials or intermediate goods which may have not been worthwhile at the prevailing official exchange rate.

It was also recognized that the prevailing exchange rate was inconsistent with the true scarcity value of foreign exchange and that one of the consequences was a considerable diversion of foreign exchange resources into the blackmarket. The blackmarket itself emerged from the severe controls that had been a feature of Ceylon's external transactions for a considerable period of time. Hence, there was an inducement to divert foreign exchange earnings to the blackmarket, particularly in respect of a number of service items such as tourist exchange. It was felt that the offer of a premium that corresponded fairly closely with the true scarcity value of foreign exchange would minimize the incentive to engage in exchange malpractices.

The Foreign Exchange Entitlement Certificate Scheme has been in operation for only eight months in 1968, and it is too early therefore to make a final judgement on the scheme, but as mentioned briefly in the introductory statement on the emerging trends in the balance of payments of Ceylon, there is considerable evidence that the Scheme, taken in conjunction with the other measures in the monetary, fiscal and production sectors has shown encouraging results.

An analysis of the detailed trends in the behaviour of various categories of exports and imports and the performance of domestic industry, particularly those industries which had access to increased quantities of raw material, intermediate, and capital goods consequent upon the implementation of the scheme, seems to indicate that a genuine improvement in performance resulted from the implementation of the scheme. At the same time the rapid increase in output helped to mitigate the initial increase in costs that resulted. Consequently, for many goods, the improvement in output enabled price reductions and the competition infused into the production sector through the liberalization of imports enabled the rationalization of the country's scarce exchange resources. Further, the confidence engendered through the availability of imports, should help to smoothen the flow of import orders, with a consequent reduction in the bunching of payments, as compared with previous years when the grant of a licence has led to an immediate rush for placement of orders with resultant heavy pressure on the country's foreign exchange reserves.

A superficial examination of the aggregate values on exports and imports in 1968 would not reveal a true picture of the changes that have occurred in that year. While aggregate export values actually declined from U.S. $347 million in 1967 to U.S. $332 million in 1968 and while import values declined even more from U.S. $ 417 million to U.S. $ 393 million over the same period, there were important changes in the composition of exports and imports which afford a reasonably favourable index for assessment of the scheme, though of course, as indicated earlier, it is not possible to determine precisely the beneficial effects flowing from the other complementary measures initiated in 1968 to ensure greater productivity and efficiency.

Tables II (G) 7 and II (G) 8 show the volume and value of Ceylon's minor product exports including new industrial manufactures for the years 1967 and 1968, respectively. The values are expressed in U.S. Dollar terms in order to facilitate an evaluation of the possible effect of the exchange reforms of November 1967 and May 1968. The tables analyse data for thirty primary products and 17 manufactured items which were exported during these years.

1. **Merchandise exports**

It is observed that in aggregate terms the U.S. Dollar export values for these products did not increase significantly, but the rate of increase was more marked in the case of manufactures as compared with primary products. Within these broad categories there were inverse movements in quantity and value as between different commodities. These declines modified the favourable effects on aggregate value of minor product exports in 1968 as compared to 1967.

The increase both in output and value was most marked in the manufactured goods sector. The sectors which expanded most in value terms were articles of iron and steel, aluminium products, boots and shoes, chocolate and cocoa products, clothing, tinned or bottled fruits, glycerine and tea machinery. The net addition to Ceylon's dollar earnings as a result of the expansion of exports of manufactures amounted to U.S. $ 1.2 million. The substantial complementary increases in the volume of output in these commodities as is evident from Table II (G) 7 offers considerable evidence that such industries were able to exploit unutilized capacity to a larger extent consequent upon the availability of a greater quantity of raw materials and essential inputs as a result of the Foreign Exchange Entitlement Certificate Scheme.

In the case of primary products the inevitable problem of supply lags in the short run may have handicapped the capacity of many commodities to respond to the incentives provided by the two exchange reforms. Hence it is observed that the percentage increase in the volume of exports of many primary products was more modest as compared with the rate of growth in the volume of exports of manufactures. Nevertheless, even in the case of primary products there have been a number of commodities where exports increased very substantially between 1967 and 1968; thus pepper exports increased sevenfold in value and a number of other products such as cinnamon leaf oil, cinnamon chips, cocoa, kapok fibre and nutmeg, showed increases in volume varying from 50 per cent to over 100 per cent. In some of these cases, however, it is difficult to isolate the effects of weather and other factors such as improvements in cultivation and better transport, organization and management, from the effects of the incentives provided by the Foreign Exchange Entitlement Certificate Scheme *per se*. However, there is some evidence to confirm the hypothesis that the price incentives provided by the exchange reform of May, 1968, did encourage additional exports of some of the new primary products. For example, it is noted that while there were no exports of fish in chilled or frozen form in 1967, in 1968 such exports amounted to U.S. $ 76 thousand. Similarly, the value of exports of cocoa increased from U.S. $ 870 thousand to U.S. $ 1.2 million, while exports of Ilmenite increased from U.S. $ 319 thousand to U.S. $ 435 thousand.

A disappointing feature of the minor products export picture in 1968 has been in respect of precious and semi-precious stones While in volume terms the quantity increased from 25 thousand carats in 1967 to 196 thousand carats in 1968, their value declined from U.S. $729 thousand to U.S. $ 341 thousand.

2. Invisible Earnings and Private Capital Inflows

In the case of invisible earnings, the sectors which would be most responsive to an exchange reform offering greater incentives constitute tourist earnings, private capital and professional earnings. Other sectors in the invisibles account such as insurance premia, agency and head office expenses and pensions are of a contractual nature and are therefore independently determined. In the case of tourist earnings, the evidence is more promising. The Table below shows the earnings from tourist expenditure for the period May to December in the years 1967 and 1968, respectively. It will be observed that the amounts earned in the months of 1968 have progressively increased.

Tourist Earnings-May-December 1967 and 1968

U S $ Thousand

	May	June	July	August	Sep.	Oct.	Nov.	Dec.	Total
1967	111	86	86	70	131	81	124	94	783
1968	117	82	141	125	113	172	197	280	1,227
% Change	5	-5	64	79	- 14	112	59	198	57

Source: Central Bank of Ceylon

Receipts from tourist expenditure have increased during the period from U.S. $ 0.78 million to U. S. $ 1.2 million in 1968. Although in value terms this increase is small, in relative terms it is substantial and represents an increase of 57 per cent over the 1967 level. With the introduction of the Foreign Exchange Entitlement Certificate Scheme in May 1968, tourist earnings were made eligible to a premium exchange rate. An examination of the relevant data indicates that for the period May-Deccember 1968, there has been an increase of 25.2 per cent in U.S. Dollar earnings per head, as compared with the same period of 1967; the earnings per head for the period May-December 1968 amounted to U.S. $ 65.1 whereas earnings per head in the same period of 1967 amounted to only U.S. $ 52.2

In respect of private capital movements, which are all eligible to the benefits of the Foreign Exchange Entitlement Certificate Scheme, the second half of 1968 showed an increase of Rs. 2.3 million over the corresponding period of 1967. In foreign exchange terms; the increase amounted to U.S. $ 349,515. It is difficult, however, to attribute the increase in inward flows of private capital to the incentives provided by the Foreign Exchange Entitlement Certificate Scheme, since such funds may have been dircted to already approved industrial projects. In the miscellaneous group, inflows on account of professional services and earnings from employment abroad, commissions and Agency expenses improved.

In some, of the invisible earnings entitled to Foreign Exchange Entitlement Certificates, some sectors have responded very favourably. Accordingly, invisible earnings on account of these sectors improved substantially in the second half of 1968. However, in the case of other items, the reponse has not been as good. This may be due to the fact that remittances in these categories are of a contractual nature and are therefore independently determined.

3. Merchandise Imports

Table II (G) 9 summarises the total payments made in respect of imports under the B category quota and Open General Licence items in 1968. The payments total Rs. 184.9 million according to provisional data. On the basis of a classification of imports by economic categories, the percentage share of intermediate goods amounted to 51.1 per cent and investment goods to 26 per cent of the total, while the share of consumption goods amounted to 23 per cent. The principal categories of imports constituted machinery and transport equipment (25.9 per cent) manufactured goods (41.8 per cent) and chemicals (11.2 per cent). Miscellaneous manufactured articles and food imports amounted to 5.9 per cent and 7.9 per cent, respectively.

It is observed therefore that of the imports that flowed in under the B category, over 77 per cent consisted of intermediate and investment goods as against 23 per cent of consumption goods. The data have the limitation that B category imports under quota are not identified separately. If such imports are eliminated from the statistics the actual imports under Open General Licence would have been much smaller than the statistics seem to indicate.

Table II (G) 10 gives broad details of the classes of Letters of Credit opened during May-December 1968 in respect of commodities placed in the Open General Licence Category, consequent upon the implementation of the Foreign Exchange Entitlement Certificate Scheme. The total value of Letters of Credit opened in respect of such imports amounted to Rs. 306.2 million (U.S. $ 51.4 million). An economic classification indicates that consumption goods accounted for 16.6 per cent. of the total, while intermediate gcods and investment goods accounted for 56.2 per cent. and 27.1 per cent, respectively.

An interesting feature of the data is that, after the peak period of demand in July and August, when the average value of Letters of Credit opened amounted to Rs. 58 million, their value thereafter has tended to diminish. In the period after August 1968, the value of Letters of Credit opened has tended to fluctuate between Rs. 30 million to Rs. 40 million per month. On this basis, it is possible that if no major changes are initiated in the monetary and fiscal sectors the annual demand for Letters of Credit in respect of Open General Licence imports would not perhaps exceed Rs. 500 million in a year. This would amount to approximately 21 per cent. of the value of payments on merchandise imports on the basis of data for the year 1968.

The actual value of Letters of Credit opened in respect of Open General Licence imports in the period May-December 1968, amounted to 13 per cent. of Ceylon's total merchandise imports in that year. Since the greater proportion of imports in the Open General Licence Category consists of essential intermediate and investment goods and a modest volume of incentive goods, the availability, of such goods at prices close to their true scarcity value has important financial and economic effects. In the first place, it syphons off the scarcity profits which had been enjoyed in the past by those importers who were recipients of quota privileges. In the second place, it ensures that such imports would occur only where the enterprise to which these inputs are oriented are worthwhile and profitable. Finally, in the generality of cases the availability of imports without restriction and regimentation would encourage users to economize on the use of foreign exchange since they would prefer to smoothen the flow of imports rather than stock up inventories in anticipation of any tightening of import and exchange controls. They would also be encouraged to purchase from the cheapest source when greater amounts of time are available for examining the competitiveness of alternative sources of supply.

It is too early to say whether the Foreign Exchange Entitlement Certificate Scheme and the consquential effects on the cost of foreign exchange in terms of Ceylon Rupees has led to a reduction of demand for imports. The scheme has been in operation for only eight months in 1968 and the value of imports under the Open General Licence category has not amounted to more than 13 per cent. of Ceylon's merchandise import payments in an entire year. It also amounts to only 2.9 per cent of Ceylon's Gross Domestic Expenditure in 1968 at current market prices. Further the value of imports has tended to be relatively stable as between different months and has not shown a tendency to increase.

TABLE II (G) 1

Ceylon's Balance of Payments*(a)*

Rupees Million

Year	(1) Domestic* 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 account (net of 3(i)& 4	(5) Balance (of which Balance on current account on commercial transactions)	(6) Net long-term capital *(c)*	(7) Basic balance (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	1,650	1,985	−335	− 85	+ 46	−289	− 85	+161	−128	+271 *(f)*	− 12	+131	449	407
1968 *(g)*	1,975	2,341	−366	− 29	+ 20	−346	− 51	+224	−122	+162 *(f)*	− 26	+ 14	463	417

Source: Central Bank of Ceylon

(a) Based on Exchange Control data on foreign receipts and payments.

(b) Consists 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 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; Rs. 221 million in 1967; Rs. 303 million in 1968.

(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, 1967 and 1968 also include amounts due to Burma on account of import of rice.

(e) Excludes sterling loan repayments, mainly out of available sterling loan 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; Rs. 144·0 million in 1966; Rs. 122·6 million in 1967 and Rs. 213·2 million in 1968; less repayments of Rs. 35·7 million in 1965; Rs. 53·6 million in 1966; Rs. 17·9 million in 1967 and Rs. 47·7 million in 1968 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.

* Excludes—re-exports.

TABLE II (G) 2

Ceylon's Balance of Payments (*a*)

(U. S. $ Million)

Year	(1) *Domestic 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 account net of 3 (i) & 4	(5) Balance (of which Balance on current account on commercial transactions	(6) Net long-term capital (*c*)	(7) Basic balance (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 ..	350	370	— 20	— 9	— 21	— 41	— 27	— 4	— 45	-	-	— 45	223	204
1958 ..	341	360	— 19	— 2	— 13	— 32	— 25	+ 2	— 30	+ 6	— 3	— 27	196	176
1959 ..	372	411	— 39	— 10	— 5	— 44	— 14	+ 7 (*e*)	— 37	-	-	— 37 (*e*)	154	138
1960 ..	377	421	— 44	— 27	— 2	— 46	— 13	+ 5	— 41	— 5	+ 6	— 40	114	96
1961 ..	358	377	— 19	— 1	— 1	— 20	— 10	+ 2	— 18	+ 20 (*f*)	— 4	- 2	112	93
1962 ..	370	400	— 30	— 10	+ 1	— 29	— 17	+ 8	— 21	+ 9 (*f*)	+ 6	— 6	106	85
1963 ..	358	392	— 34	— 6	— 1	— 35	— 16	+ 17	— 18	+ 9	-	— 9	97	75
1964 ..	371	411	— 40	— 8	+ 7	— 33	— 17	+ 14 (*e*)	— 19	+ 7	— 1	— 11 (*e*)	74	64
1965 ..	401	404	— 3	+ 27	+ 15	+ 12	+ 29	+ 12 (*e*)	+ 24	+ 1 (*f*)	— 1	+ 24 (*e*)	92	86
1966 ..	352	424	— 72	— 25	+ 11	— 61	— 28	+ 29	— 32	+ 11 (*f*)	— 5	— 26	67	59
1967 ..	347	417	— 70	— 18	+ 10	— 60	— 18	+ 34	— 26	+ 57 (*f*)	— 3	+ 28	94	85
1968 (g) ..	332	393	— 61	— 5	+ 3	— 58	— 9	+ 38	— 20	+ 26 (*f*)	— 4	+ 2	78	70

Source. Central Bank of Ceylon

(*a*) Based on Exchange Control data on foreign receipts and payments.

(*b*) Consists 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 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: $ 4·8 million in 1957; $ 4·8 million in 1958; $ 8·8 million in 1959; $ 5·7 million in 1960; $ 5·0 million in 1961; $ 9·7 million in 1962; $ 17·2 million in 1963; $ 16·6 million in 1964; $ 16·8 million in 1965; $ 39·7 million in 1966; $ 46·4 million in 1967 and $ 50·9 million in 1968.

(*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 figures for 1964, 1965, 1966, 1967 and 1968 also include amounts due to Burma on account of import of rice.

(*e*) Excludes sterling loan repayments, mainly out of available sterling loan sinking funds, of $ 5.0 million in 1959; $ 12.6 million in 1964 and $ 5.3 million in 1965.

(*f*) Includes drawings from the International Monetary Fund of $ 11·3 million each in 1961 and 1962; $ 23·0 million in 1965; $ 30·2 million in 1966; $ 25·7 million in 1967 and $ 35·8 million in 1968; less repayments of $ 7·5 million in 1965 $ 11·3 million in 1966, $ 3·8 million in 1967 and $ 8·0 million in 1968, on earlier drawings and gold contributions of $ 4·2 million in 1965 and $ 4·0 million in 1966 on account of increases in Ceylon's quota at the International Monetary Fund from $ 45 million to $ 62 million in 1965 and to $ 78 million in 1966.

(g) Provisional.

* Excludes re-exports

TABLE II (G) 3

External Resources and their Use

Item	Rupees Million 1965	1966	1967	1968	Percentage Share 1965	1966	1967	1968
A. RESOURCES								
1. Merchandise exports f.o.b. ..	1909	1674	1650	1975	81	70	70	70
2. Current invisibles ..	199	204	216	212	8	9	8	8
3. Capital inflow ..	141	226	261	340	6	9	11	12
of which								
(a) Loans (1) ..	77	173	212	295	3	7	9	10
(b) Grants (1) ..	64	51	46	42	3	2	2	2
(c) Private Capital ..	—	2	3	3	—	—	—	—
4. Short-term liabilities ..	109	175	275	284	5	7	11	10
of which								
(a) Gross drawings from the International Monetary Fund (2)	109	144	123	213	5	6	5	8
(b) Increase in bilateral payments agreement balances	—	31	80	42	—	1	3	1
(c) Borrowings from foreign banks	—	—	57	29	—	—	2	1
(d) Others	—	—	15	—	—	—	1	—
5. Decline in external assets net of sterling loan sinking funds) ..	—	126	—	—	—	5	—	—
Total ..	2359	2405	2402	2811	100	100	100	100
B USE.								
6. Merchandise imports c.i.f. ..	1922	2018	1985	2341	81	84	83	84
of which aid ..	142	224	258	337	6	11	11	12
7. Current Invisibles ..	199	213	216	234	9	9	9	8
(a) Investment income ..	4	26	32	34	—	1	1	1
(b) Migrant transfers ..	31	32	31	27	1	1	1	1
(c) Interest payments ..	22	21	33	40	—	1	1	1
8. Capital Amortisation or repatriation ..	75	114	73	117	3	4	3	4
(a) Private	3	8	10	10	—	—	—	—
(b) Official	16	30	45	59	—	1	2	2
(c) Repurchase and gold subscription at the International Monetary Fund	56	76	18	48	2	3	1	2
9. Short-term liabilities (3) ..	69	62	—	78	3	3	—	3
10. Increase in external assets (net of sterling loan sinking funds)	103	—	125	10	4	—	5	—
11. Balancing item	— 9	— 2	+ 3	+31	—	—	—	— 1
Total ..	2359	2405	2402	2811	100	100	100	100

Source: Central Bank of Ceylon.

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

(2) Includes special drawing of Rs. 19 million in 1966 to pay the gold subscription on account of the increase in Ceylon's quota from U.S. \$ 62 million to U.S. \$ 78 million, in 1966.

(3) Short-term liabilities consist of changes in bilateral payments agreement balances, change in balances of firms enjoying special account facilities, and deferred payments on account of imports of the Food Commissioner.

TABLE II (G) 4
Current Invisibles 1967 and 1968

Rupees Million.

Item	1967			1968 (Provisional)		
	Credit	Debit	Net	Credit	Debit	Net
Services ..	**209.9**	**185.6**	+ 24.3	**203.8**	**206.5**	— 2.7
Non—monetary Gold (net) ..	—	1.7	— 1.7	—	2.6	— 2.6
Transportation ..	129.8	15.0	+114.8	117.1	15.4	+101.7
Travel ..	5.9	16.8	— 10.9	10.3	20.0	— 9.7
Investment Income ..	11.1	64.6	— 53.5	13.5	74.0	— 60.5
Direct Investment ..	0.7	32.1	— 31.4	1.5	34.0	— 32.5
Other ..	10.4	32.5	— 22.1	12.0	40.0	— 28.0
Government Expenditure ..	24.1	12.0	+ 12.1	24.0	16.0	+ 8.0
Other services ..	39.0	75.5	— 36.5	38.9	78.5	— 39.6
Transfer Payments ..	**52.5**	**30.7**	**+ 21.8**	**50.1**	**27.1**	**+ 23.0**
Private transfers ..	6.6	30.7	— 24.1	7.7	27.1	— 19.4
Official transfers ..	45.9	—	+ 45.9	42.4	—	+ 42.4
Total ..	262.4	216.3	+ 46.1	253.9	233.6	+ 20.3

Source: Central Bank of Ceylon.

TABLE II (G) 5

Statement of Aid Arrivals 1967 and 1968

Item	COMMODITY AID						PROJECT AID					
	Rupees Million			US Dollars Million			Rupees Million			US Dollars Million		
	1967	1968	Change	1967	1968	Change	1967	1968	Change	1967	1968	Change
1 CONSUMPTION GOODS[1]												
Wheat flour	23·5	114·4	+90·9	4·94	19·22	+14·28	–	–	–	–	–	–
Dairy Products	–	0·4	+ 0·4	–	0·07	+ 0·07	–	–	–	–	–	–
Fish & fish preparations	4·4	–	– 4·4	0·92	–	– 0·92	–	–	–	–	–	–
Other Food	–	3·0	+ 3·0	–	0·50	+ 0·50	–	–	–	–	–	–
Drugs	1·0	0·6	– 0·4	0·21	0·10	– 0·11	–	–	–	–	–	–
Textiles	15·4	–	–15·4	3·23	–	– 3·23	–	–	–	–	–	–
Tyres and tubes	14·3	5·3	– 9·0	3·00	0·89	– 2·11	–	–	–	–	–	–
	58·6	123·7	+65·1	12·30	20·78	+ 8·48	–	–	–	–	–	–
2 INTERMEDIATE GOODS												
Fertiliser	43·0	62·3	+19·3	9·03	10·47	+ 1·44	–	–	–	–	–	–
Seed Potatoes	–	0·5	+ 0·5	–	0·08	+ 0·08	–	–	–	–	–	–
Paper & Newsprint	0·9	0·4	– 0·5	0·19	0·07	– 0·12	–	–	–	–	–	–
Engineering Stores	4·5	2·2	– 2·3	0·94	0·37	– 0·57	–	–	–	–	–	–
Industrial raw materials	20·9	12·6	– 8·3	4·39	2·12	– 2·27	–	–	–	–	–	–
	69·3	78·0	+ 8·7	14·55	13·11	– 1·44	–	–	–	–	–	–
3 INVESTMENT GOODS												
Machinery	37·5	30·7	– 6·8	7·87	5·16	– 2·71	33·5	40·2	+ 6·7	7·03	6·75	–0·28
Tractors & spares	15·5	6·3	– 9·2	3·26	1·06	– 2·20	–	–	–	–	–	–
Transport equipment	14·7	29·8	+15·1	3·09	5·00	+ 1·91	–	–	–	–	–	–
Building materials	6·2	3·9	– 2·3	1·30	0·66	– 0·64	–	–	–	–	–	–
Feasibility Studies	–	0·4	+ 0·4	–	0·07	+ 0·07	–	–	–	–	–	–
	73·9	71·1	– 2·8	15·52	11·95	– 3·57	33·5	40·2	+ 6·7	7·03	6·75	–0·28
Total ..	201·8	272·8	+71·0	42·37	45·84	+ 3·47	33·5	40·2	+ 6·7	7·03	6·75	–0·28

Sources: Ministry of Planning and Economic Affairs;
Public Debt Dept of the Central Bank.

1 Excludes imports of Flour of Rs. 4·5 million and Maize of Rs. 1·4 million received under U.S. P.L. 480 Agreement in 1967. The 1968 figures have been adjusted for ocean freight differentials.

TABLE II (G) 6

Ceylon's Gross Official External Liabilities*

Rupees Million

Item	(i) Amount at end 1967	(ii) Amount at end 1968	(iii) Change
1. I. M. F. drawings ..	376·1	541·6	+ 165·5
2. Sterling loans ..	89·3	89·3	...
3. Other foreign loans drawn and outstanding ..	517·8	533·7	+ 15·9
4. Consortium aid ..	333·5	606·3	+ 272·8
5. Food Commissioner's deferred liabilities ..	53·7	39·7	– 14·0
6. Payments Agreement balances due from Ceylon ..	110·4	197·8	+ 87·4
7. Borrowings from banks abroad ..	57·1	28·6	– 28·5
Total ..	1537·9	2037·0	+ 499·1

* Liabilities payable in foreign exchange exclude balances of P. L. 480 counterpart funds and non-resident balances with commercial banks.

(1) I. M. F. transactions during the year include drawings of Rs. 213·2 million and repayments of Rs. 47·7 million. Excludes service charges paid in Ceylon Rupees.

(2) & (3) The figures for 1968 have been adjusted to include an increase in liabilities, in rupee terms, consequent to devaluation of the Ceylon rupee in November 1967.

(4) Consists of commodity aid received under the first, second, third and fourth Commodity Aid Programmes, from the U. S. A., U. K., Federal Republic of Germany, Japan, India, Canada and France; adjusted for P.L. 480 flour and maize in 1967 and ocean freight differential in 1968.

(5) Includes liabilities of the Food Commissioner for import on deferred payment terms of (1) rice from Burma, (2) flour from Australia and France.

(6) The increase of Rs. 87·4 million is made up of an increase on account of transactions during the year 1968 of Rs. 41·8 million plus an amount of Rs. 45·6 million credited to China in September 1968 in respect of rubber shipped under the 1967 contract.

TABLE II (G) 7

Volume of Ceylon's Minor Exports – 1967 and 1968

Item	Qty. in '000	Increase			Decrease		
		1967	1968	% Change	1967	1968	% Change
I. Primary Products							
Arecanut ..	Cwt.				5·5	5·1	– 7
Betel leaves ..	,,				1·4	1·3	– 7
Cardamoms ..	,,	2·4	2·5	4			
Charcoal coconut shell ..	,,	273·0	319·0	17			
Cinnamon chips ..	,,	7·9	16·6	110			
Cinnamon quills ..	,,	52·8	61·8	17			
Cinnamon bark oil ..	lbs.				1·5	1·4	– 7
Cinnamon leaf oil ..	,,	43·5	79·2	82			
Citronella oil ..	,,				337·7	297·8	–12
Cloves ..	Cwt.	·85	·95	12			
Cocoa beans ..	,,	23·2	34·8	50			
Coir fibre bristle ..	,,	538·0	563·9	5			
Coir fibre mattress ..	,,	1065·0	1260·3	18			
Coir yarn ..	,,				7·0	5·7	–19
Fish chilled or frozen ..	,,	—	309·5				
Fish dried or smoked ..	,,				3·7	1·5	–59
Ilmenite ..	,,				1764·4	1455·0	–18
Kapok fibre ..	,,	4·3	7·1	65			
Leather (goat) ..	,,	2·5	3·3	32			
Leather tanned ..	,,	7·7	10·1	31			
Mica ..	,,	2·1	2·6	24			
Nutmeg ..	,,	·76	2·1	176			
Papain (white) ..	,,				·18	·13	–28
Papain (brown) ..	,,	·19	·26	36			
Pepper ..	,,	2·0	16·2	710			
Plumbago graphite ..	,,	204·1	212·6	4			
Precious & semi-precious stones ..	Carats	24·9	196·0	687			
Shark fins ..	Cwt				1·6	1·1	–31
Tobacco unmanufactured ..	lbs.	942·2	1340·2	42			
Vegetable extracts ..	Cwt.				25·8	7·6	–71
II. Manufactured Goods							
Articles of Aluminium .	Cwt.	·17	·92	441			
Articles of Iron & Steel ..	,,				3·5	2·3	–34
Bakery products ..	,,	·25	·26	4			
Boots—shoes rubber soled ..	Doz.	4·8	10·4	117			
Chocolate & cocoa products ..	lbs.	·49	4·6	839			
Clothing ..	Doz	3·7	32·3	773			
Cotton made up articles ..	,,	10 9	25·0	129			
Fruit tinned or bottled ..	Cwt.	·8	4·5	463			
Glycerine ..	,,	—	20·9	—			
Glycerol ..	,,	21·8	24·8	13			
Jewellery & goldsmiths ware ..							
Lead foil powder and flakes ..	,,	10·7	15·4	44			
Manufactured articles of wood ..	,,	·58	·74	28			
Soap ..	,,	1·3	1·5	15			
Splash proof accumulator* ..		·03	·03	—			
Tea machinery drier parts ..	,,	·13	·78	500			
Wicker work ..							

Source: Ceylon Customs Returns.

*No Change

TABLE II (G) 8

Value of Ceylon's Minor Exports - 1967 and 1968

Value in U. S. $'000

Item	Increase 1967	Increase 1968	Increase % Change	Decrease 1967	Decrease 1968	Decrease % Change
1. Primary Products						
Arecanut	30·8	41·2	34			
Betel leaves				30·3	22·4	- 26
Cardamoms	688·3	690·9	0·38			
Charcoal coconut shell				1033·1	875·9	- 15
Cinnamon chips	255·3	394·2	54			
Cinnamon quills				6260·4	5522·3	- 31
Cinnamon bark oil				91·8	63·5	- 31
Cinnamon leaf oil	94·5	139·7	48			
Citronella Oil	173·1	199·5	15			
Cloves	18·7	20·8	11			
Cocoa beans	870·1	1233·0	42			
Coir fibre bristle				4626·1	4296·0	- 7
Coir fibre mattress	4079·9	4283·3	5			
Coir yarn				99·9	73·8	- 26
Fish chilled or frozen	–	76·5				
Fish dried or smoked				87·9	61·5	- 30
Ilmenite	319·9	434·6	36			
Kapok fibre	62·2	92·2	48			
Leather (goat)	179·1	187·3	5			
Leather tanned				327·3	306·3	- 6
Mica	5·4	7·3	35			
Nutmeg	29·8	61·4	106			
Papain (white)	48·1	50·7	5			
Papain (brown)	40·4	54·7	35			
Pepper	92·2	398·1	332			
Plumbago graphite				1406·9	1318·5	- 6
Precious & semi-precious stones				728·9	340·8	- 53
Shark fins				127·9	80·2	- 37
Tobacco unmanufactured	593·1	857·1	45			
Vegetable extracts				96·4	24·3	- 75
Total	7580·9	9222·5	+21·65	14916·9	12985·5	- 129·5
II. Manufactured Goods						
Articles of Aluminium	13·3	22·4	68			
Articles of Iron & Steel	13·6	72·9	436			
Bakery products	20·3			6·1	2·9	- 52
Boots & shoes rubber soled		50·5	149			
Chocolate & cocoa products	12·6	22·8	81			
Clothing	·88	700·9	79548			
Cotton made up articles				226·2	106·5	- 53
Fruit tinned or bottled	11·8	45·8	288			
Glycerine	–	328·4				
Glycerol				410·8	327·5	- 20
Jewellery & goldsmith ware				490·8	198·5	- 60
Lead foil powder & flakes				121·1	113·5	- 6
Manufactured articles of wood	47·5	51·5	8			
Soap				21·2	19·8	- 98
Tea machinery drier parts	31·5	90·3	187			
Wicker work	7·5	36·0	481			
Total	158·98	1421·5	+894·14	1276·2	768·7	- 39·77

Source: Ceylon Customs Returns

TABLE II (G) 9

Import Payments under the Foreign Exchange Entitlement Certificate Scheme 'B' Category Quota and Open General Licence Imports

(May–December 1968.)

ITEM	Rupees Million	Percentage Share in Group Total	Percentage Share of Group Total in Grand Total
0. **FOOD**	14.6	100.0	7.9
Dairy Products and Eggs	4.2	28.9	
Butter, Cheese	2.5	17.4	
Cereals	3.7	25.1	
Other	4.2	28.6	
1. **BEVERAGES AND TOBACCO**	1.5	100.0	0.8
Alcoholic Beverages	0.7	49.0	
Tobacco unmanufactured	0.8	51.0	
2. **CRUDE MATERIALS, EXCEPT FUELS**	9.0	100.0	4.9
Cotton	2.8	30.8	
Crude Vegetable materials	4.1	45.9	
Other	2.1	23.3	
3. **MINERALS, FUELS, LUBRICANTS**	1.33	100.0	0.7
Petroleum products	1.28	96.5	
Other mineral fuels, lubricants	0.05	3.5	
4. **ANIMAL AND VEGETABLE OILS AND FATS**	1.67	100.0	0.9
Animal oils and fats	1.51	90.7	
Other fixed vegetable oils	.11	6.3	
Other	.05	3.0	
5. **CHEMICALS**	20.7	100.0	11.2
Organic Chemicals	5.4	26.2	
Inorganic chemicals, oxides and salts	3.2	15.6	
Chemical materials and products	2.9	14.2	
Other	9.2	44.0	
6. **MANUFACTURED GOODS**	77.2	100.0	41.8
Paper and Paperboard	14.1	18.2	
Textile yarn and thread	11.3	14.6	
Articles of rubber	5.6	7.3	
Cultery and manufactures of metal	8.6	11.0	
Other	37.6	48.9	
7. **MACHINERY AND TRANSPORT EQUIPMENT**	48.0	100.0	25.9
Motor vehicles and other vehicles	18.1	37.8	
Agricultural machinery and implements	6.8	14.1	
Machinery aad Appliances	6.2	12.8	
Other	16.9	35.3	
8. **MISCELLANEOUS MANUFACTURED ARTICLES**	10.9	100.0	5.9
Photographic and Cinematographic equipment	2.3	21.6	
Clothing (except fur clothing)	2.0	18.3	
Printed matter	1.4	13.1	
Scientific apparatus	1.1	9.9	
Office and Stationery supplies	1.0	8.8	
Perambulators, toys, games and sporting goods	0.9	8.3	
Others	2.2	20.0	
GRAND TOTAL	184.9		100.0

Source: Central Bank of Ceylon.

Classification by Economic Categories

	May – Dec. 1968 Value Rs. Mn.	Percentage Share
Consumption Goods	42.4	22.9
Intermediate Goods	94.5	51.1
Investment Goods	48.0	26.0
Total	184.9	100.0

TABLE II (G) 10

Value of Letters of Credit Opened on O. G. L. Imports
May—December 1968

Rupees Thousand

Group Commodity	May		June		July		August		September		October		November		December		Total	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
0 Food ..	473·6	7·8	2,309·5	6·5	1,801·5	3·7	1,633·3	2·4	1,016·2	2·9	1,761·1	4·1	668·4	2·2	432·0	1·1	10,095·6	3·3
1 Beverage & Tobacco ..																		
2 Crude materials, inedible except fuels ..	194·8	3·2	1,422·8	4·0	2,211·9	4·5	837.2	1·2	1,634·2	4·7	2,278·2	5·4	666·6	2·2	2,006·1	5·0	11,251·8	3·7
3 Mineral fuels, lubricants and related materials ..	—	—	—	—	217·2	0·4	738·3	1·1	64·7	0·2	63·4	0·1	62·7	0·2	177·1	0·4	1,323·4	0·4
4 Animal and vegetable oils & fats	—	—	480·5	1·4	412·5	0·8	2,339·3	3·5	3,196·8	9·3	3,649·9	8·6	2,840·1	9·2	2,431·0	6·1	15,350·1	5·0
5 Chemicals ..	322·4	5·3	4,294·1	12·1	7,250·9	14·8	1,510·4	2·2	1,749·2	5·1	1,827·6	4·3	2,047·2	6·6	1,718·2	4·3	20,720·0	6·8
6 Manufactured goods classified chiefly by materials ..	3,063·3	50·5	17,476·4	49·4	20,934·6	42·7	48,932·7	72·5	15,020·0	43·5	19,352·2	45·5	13,208·4	42·6	17,545·4	43·8	155,533·0	50·8
7 Machinery & Transport equipment ..	1,522·9	25·1	6,160·9	17·4	13,632·0	27·8	9,501·4	14·1	9,402·0	27·2	9,762·0	23·0	8,321·6	26·9	13,303·0	.33·2	71,605·8	23·4
8 Miscellaneous manufactured articles ..	485·8	8·0	33,264·5	9·2	2,621·4	5·3	1,987·3	2·9	2,455·6	7·1	3,839·6	9·0	3,154·3	10·2	2,471·6	6·2	20,280·1	6·6
9 Tabulated total ..	6,062·8	100·0	35,408·7	100·0	49,082·0	100·0	67,479·9	100·0	34,538·7	100·0	42,534·0	100·0	30,969·3	100·0	40,084·4	100·0	306,159·8	100·0

Sources: Central Bank of Ceylon.

TABLE II (G) 11

Statement of aid arrivals in 1968—Regional Clasification

Rupees Million

Country	Commodity Aid (1)	Project Aid	Total
United Kingdom	55.9	0.9	56.8
France	13.9		13.9
Federal Republic of Germany	25.4	7.1	32.5
German Democratic Republ c		19.6	19.6
Poland		2.1	2.1
Yugoslavia		1.2	1.2
U. S. S. R.		1.4	1.4
United States of America	122.9	0.1	123.0
Canada	13.0	7.8	20.8
India	6.4		6.4
Japan	28.8		28.8
Australia	6.5		6.5
Total	272.8	40.2	313.0

Source: Ministry of Planning & Economic Affairs
Department of Public Debt,
Central Bank of Ceylon.

(1) Canadian flour amounting in value to Rs. 22·0 million and other goods-in-kind amounting to Rs. 3·0 million received under the U.N. Technical Assistance Programme are excluded from the total of Rs. 272·8 million shown under Commodity Aid.

CENTRAL BANK OF CEYLON

Notice

Foreign Exchange Entitlement Certificate Scheme

The Government of Ceylon has decided to introduce, with effect from 6th May, 1968, a Foreign Exchange Entitlement Certificate Scheme. Under this scheme Foreign Exchange Entitlement Certificates (referred to as "Certificates" hereafter) will be issued to those who surrender foreign exchange to commercial banks against the export of certain goods and services and against certain inward remittances, referred to in paragraph 3 below. The Central Bank of Ceylon will, in addition, hold a weekly tender for the sale of Certificates. Holders of Certificates will be entitled, subject to Import and Exchange Control requirements, to purchase foreign exchange from commercial banks at their selling rates, on surrender of Certificates of equivalent face value, for the payment of certain items of imports and other remittances.

2. The Central Bank of Ceylon will, as agent of the Government of Ceylon, be responsible for the issue of Certificates. The Certificates will bear the signature of the Chief Accountant, Central Bank of Ceylon, in facsimile. The Central Bank has authorized commercial banks in Colombo to issue these Certificates on its behalf. On issue they will bear, in addition to the signature in facsimile of the Chief Accountant, Central Bank of Ceylon, two signatures on behalf of the issuing bank. A Certificate is freely transferable for a period not exceeding 30 days from its date of issue and should, within this period, be surrendered to a commercial bank. All purchases of foreign exchange against a Certificate so surrendered should be completed within six months of the date of surrender. Certificates are available in denominations of Rs. 50,000, Rs. 10,000, Rs. 5,000, Rs. 1,000 and Rs. 500. Certificate for sums below Rs. 500 will also be issued by commercial banks. Commercial banks have been authorized, where necessary and under special circumstances, to issue Certificates outside the tender procedure. Commercial banks will also subdivide Certificates on request.

3. **Foreign exchange receipts qualifying for Certificates**

(a) Receipts (f.o.b. value) from exports of goods other than tea, rubber, coconut oil, desicated coconut, copra and fresh coconuts.

(b) Receipts of foreign exchange on account of investment income, maintenance remittances, migrants' transfers, legacies, bequests; inheritances, gifts in cash, inward capital transers, professional and employment income, commissions, agency expenses and and other miscellaneous items which will be notified from time to time, to the full value of the inward remittance.

(c) Receipts from tourists and residents returning to Ceylon from abroad (other than residents who have been allowed exchange for travel without supporting Certificates) to the full value of

the foreign exchange surrendered. If such persons so opt, however, commercial banks and other persons authorized by the Controller of Exchange to purchase foreign exchange will pay them at the usual rate for the exchange surrendered *plus* the cash value of the Certificates to which they are entitled.

4. **Foreign exchange payments requiring the Surrender of Certificates**

(i) *Imports*

(a) In terms of Import Control Notice No. 2/68 of 5th May, 1968, imports are divided into two categories, viz., A & B categories. All payments for B category imports, other than O.G.L. imports under special aid licences will require the surrender of Certificates of equivalent value, to the commercial bank through which the payment is being made,

(b) Imports under Open General Licence will be allowed only against Letters of Credit, and commercial banks will require the surrender of Certificates to the full value of the Letter of Credit at the time of its opening.

(ii) *Payments other than for imports*

All such payments (other than for official expenditure, approved educational expenses, maintenance remittances, certain expenditures on tourist and export promotion and other items which may be specifically exempted by the Controller of Exchange) will require the surrender of Certificates of equivalent value. These payments will, as at present, be subject to Exchange Control approval, but such Exchange Permits will bear the condition that Certificates should be surrendered prior to purchase of foreign exchange

5. **Sale of Certificates by tender.**—The Central Bank will, by notice in the Press, call for tenders for the purchase of Certificates. The terms and conditions of tenders will be specified in the tender notices.

6. This notice gives the Scheme in outline for the general information of the public. Detailed Operating Instructions have been issued to commercial banks by the Central Bank. Members of the public should seek the assistance of these banks in case of doubt on any matter pertaining to the Scheme.

J. G. P. JAYASUNDERA,
Acting Controller of of Exchange.

K. GUNARATNAM,
Acting Chief Accountant

May 5, 1968.