

**(G) BALANCE OF PAYMENTS AND EXTERNAL ASSETS****Background and Trends**

Table II (G) 1 summarises recent trends in the balance of payments. Technically, the Balance of Payments improved in 1971. From the peak level of Rs. 797 million in 1969, the deficit in the current account was brought down to Rs. 209 million in 1971. Also, for only the second time after 1957 the "basic balance"<sup>1</sup> showed a surplus. As a result there was a substantial reduction in the amount of external resources which the country had to find to finance the current account deficit; in fact the scaling down of the deficit even enabled a small increase in foreign exchange reserves, as well as a fairly significant reduction in short-term debts.

**TABLE II (G) 1**  
**Ceylon's Balance of Payments**

| Year    | Trade Balance | Net invisibles including Transfer payments | Balance on current account | Net Long-term Capital | Basic Balance |
|---------|---------------|--|----------------------------|-----------------------|---------------|
| 1957    | - 95          | - 100                                      | - 195                      | - 18                  | - 213         |
| 1958    | - 89          | - 64                                       | - 153                      | + 8                   | - 145         |
| 1959    | - 183         | - 25                                       | - 208                      | + 32                  | - 176         |
| 1960    | - 210         | - 11                                       | - 221                      | + 22                  | - 199         |
| 1961    | - 86          | - 7  | - 93                       | + 11                  | - 82          |
| 1962    | - 143         | + 3  | - 140                      | + 39                  | - 101         |
| 1963    | - 161         | - 7  | - 168                      | + 80                  | - 88          |
| 1964    | - 193         | + 33                                       | - 160                      | + 8                   | - 152         |
| 1965    | - 13          | + 72                                       | + 59                       | + 58                  | + 117         |
| 1966    | - 344         | - 53                                       | - 290                      | + 137                 | - 153         |
| 1967    | - 335         | + 46                                       | - 289                      | + 161                 | - 128         |
| 1968    | - 380         | + 25                                       | - 355                      | + 224                 | - 131         |
| 1969    | - 746         | - 51                                       | - 797                      | + 275                 | - 522         |
| 1970    | - 315         | - 35                                       | - 350                      | + 184                 | - 166         |
| 1971(a) | - 233         | + 24                                       | - 209                      | + 376                 | + 167         |

(a) Provisional

Source: Central Bank of Ceylon.

While the above developments, by themselves, do give cause for satisfaction, they are not necessarily evidence of a fundamental change of the imbalance between the country's requirements and availabilities of external resources. The substantially lower current account deficit in 1971 was primarily the result of a reduction in imports, which, in turn, is attributable to the following factors:-

- (a) autonomous reductions in the country's requirements of certain imports (e. g. rice) as a result of progress made in import substitution;
- (b) the banning or restriction of certain imports (e.g. onions) to give a fillip to local production;
- (c) the reduction in demand for certain types of imports consequent to the slower tempo of economic activity; and
- (d) the compelling need to limit total import expenditure to the total amount of foreign exchange available.

1. Derived by setting off the current account balance against net long-term capital receipts.

To the extent that the reduction of imports was the outcome of an increased supply of domestic substitutes, or the result of banning imports which are potentially substitutable, there is no conflict between the twin objectives of economic growth and external solvency. In contrast, the adoption of restrictive or deflationary measures motivated purely by balance of payments considerations can involve a trade-off between these two objectives to the detriment of growth. In fact, in 1971, due to the constraints of the external payments position, restrictions had to be applied on a wide range of goods, including intermediate and investment goods, which probably contributed to the lower rate of growth of the economy. It would thus appear that the major obstacle to economic development in Ceylon continues to be the shortage of foreign exchange.

Given the generally unfavourable prospects for the prices of the three major exports, it is inevitable that development strategy must, in the short-run, lean more heavily on a policy of import substitution than on export expansion. But considering the limited size of the internal market, and the non-availability or deficiency of certain natural resources, the progressive extension of import substitution is bound to be at the expense of the benefits of specialization and large-scale production, with a resultant adverse effect on productivity and growth. Thus, for a country in Ceylon's circumstances, the prospects for long-term growth are inextricably linked with export earnings. Viewed from this angle, the recent trends in export earnings give cause for disquiet. In aggregate terms, the export earnings of the last few years do not exhibit evidence of a rising trend; if at all, the trend has been downward in terms of foreign currency. Since prices are outside Ceylon's control, the onus of maintaining and increasing earnings falls on volume. In actual fact, however, the volume of exports has been virtually stationary during the last few years.

Detailed statistics<sup>1</sup> of Ceylon's Balance of Payments and External Assets are presented in Tables II (G) 2 and II (G) 3 and in Appendix II. The major constituents of the balance of payments are analysed in detail below.

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1. Balance of Payments data are derived largely from Exchange Control records and are supplemented by information from other sources such as the Ministry of Planning and Employment. These figures may differ from the statistics provided in Section J - Foreign Trade - which are partially based on Customs Returns.

TABLE -  
Balance of

|   | Rupees <sup>9</sup> |         |         |
|---|---------------------|---------|---------|
|   | 1970                |         |         |
|   | Credit              | Debit   | Net     |
| <b>1. Merchandise Account</b>   |                     |         |         |
| Exports (f.o.b.) ..   | 2,017               |         |         |
| Imports (c.i.f.) (own resources)<br>(Aid Imports & Suppliers' Credits) .. |                     | 1,873   |         |
| Total Imports ..  |                     | 459     |         |
| Trade balance (own resources) ..  |                     | 2,332   | (+ 144) |
| Trade balance (all imports) ..  |                     |         | - 315   |
| <b>2. Services Account</b>  |                     |         |         |
| Non-monetary gold ..  |                     | 2       | - 2     |
| Port, transportation and insurance ..                                     | 91                  | 25      | + 66    |
| Foreign travel ..   | 21                  | 20      | + 1     |
| Investment income ..  | 10                  | 152     | - 142   |
| (i) Profits & dividends ..  | 10                  | 52      | - 42    |
| (ii) Other (interest) ..  |                     | 100     | - 100   |
| Government Expenditure ..   | 31                  | 24      | + 7     |
| Miscellaneous services ..   | 83                  | 117     | - 34    |
| Private transfers ..  | 18                  | 24      | - 6     |
| Total Services ..   | 254                 | 364     | - 110   |
| <b>3. Total Current Account (own resources)</b> ..                        | (2,271)             | (2,237) | (+ 34)  |
| Total Current Account (all items) ..                                      | 2,271               | 2,696   | - 425   |
| <b>4. Capital Payments</b> ..   |                     | 656     | - 656   |
| Loans ..  |                     | 113     | - 113   |
| Suppliers' credits ..   |                     | 80      | - 80    |
| Short-term credits ..   |                     | 282     | - 282   |
| Oil compensation & ADB ..   |                     | 4       | - 4     |
| Private capital ..  |                     | 13      | - 13    |
| I. M. F. ..   |                     | 161     | - 161   |
| Bank borrowings ..  |                     |         |         |
| Other ..  |                     | 3       | - 3     |
| Total Current & Capital Payments (own resources) ..                       |                     |         | (- 622) |
| Total Current & Capital Payments (all items) ..                           |                     |         | - 1,081 |
| <b>5. Financing</b>   |                     |         |         |
| IMF Drawings ..   | 57                  |         | + 57    |
| Bank borrowings ..  | 123                 |         | + 123   |
| Bilateral balances ..   |                     | 75      | - 75    |
| Suppliers' credits ..   | 85                  |         | + 85    |
| Short-term credits ..   | 434                 |         | + 434   |
| External Assets ..  |                     | 25      | - 25    |
| Commodity Aid ..  | 263                 |         | + 263   |
| Project & Other Aid ..  | 35                  |         | + 35    |
| Other Aid ..  |                     |         |         |
| Grants ..   | 75                  |         | + 75    |
| Private Capital ..  | 8                   |         | + 8     |
| Other ..  | 52                  |         | + 52    |
| Special Drawing Rights ..   | 78                  |         | + 78    |
| Errors & Omissions ..   |                     | 29      | - 29    |
| Total financing ..  | 1,210               | 129     | + 1,081 |

(a) Provisional

## II (G) 2

## Payments 1970-1971

| Million |         |         | U. S. Dollars Million |       |         |         |       |         |
|---------|---------|---------|-----------------------|-------|---------|---------|-------|---------|
| 1971(a) |         |         | 1970                  |       |         | 1971(a) |       |         |
| Credit  | Debit   | Net     | Credit                | Debit | Net     | Credit  | Debit | Net     |
| 1,964   | 1,722   |         | 339                   | 315   |         | 330     | 290   |         |
|         | 475     |         |                       | 77    |         |         | 79    |         |
|         | 2,197   | (+ 242) |                       | 392   | (+ 24)  |         | 369   | (+ 40)  |
|         |         | - 233   |                       |       | - 53    |         |       | - 39    |
| —       | —       | —       | —                     | —     | —       | —       | —     | —       |
| 91      | 21      | + 70    | 15                    | 4     | + 11    | 15      | 4     | + 11    |
| 20      | 15      | + 5     | 4                     | 4     | —       | 3       | 2     | + 1     |
| 10      | 149     | - 139   | 2                     | 25    | - 23    | 2       | 25    | - 23    |
| 6       | 35      | - 29    | 2                     | 8     | - 6     | 1       | 6     | - 5     |
| 4       | 114     | - 110   | —                     | 17    | - 17    | 1       | 19    | - 18    |
| 37      | 24      | + 13    | 5                     | 4     | + 1     | 6       | 4     | + 2     |
| 108     | 107     | + 1     | 14                    | 20    | - 6     | 18      | 18    | —       |
| 22      | 43      | - 21    | 3                     | 4     | - 1     | 4       | 7     | - 3     |
| 288     | 359     | - 71    | 43                    | 61    | - 18    | 48      | 60    | - 12    |
| (2,252) | (2,081) | (+ 171) | (382)                 | (376) | (+ 6)   | (378)   | (350) | (+ 28)  |
| 2,252   | 2,556   | - 304   | 382                   | 453   | - 71    | 378     | 429   | - 51    |
| —       | 1,049   | - 1,049 | —                     | 110   | - 110   | —       | 176   | - 176   |
| —       | 96      | - 96    | —                     | 19    | - 19    | —       | 16    | - 16    |
| —       | 68      | - 68    | —                     | 13    | - 13    | —       | 11    | - 11    |
| —       | 613     | - 613   | —                     | 47    | - 47    | —       | 103   | - 103   |
| —       | —       | —       | —                     | 1     | - 1     | —       | —     | —       |
| —       | 45      | - 45    | —                     | 2     | - 2     | —       | 8     | - 8     |
| —       | 145     | - 145   | —                     | 27    | - 27    | —       | 24    | - 24    |
| —       | 81      | - 81    | —                     | —     | —       | —       | 14    | - 14    |
| —       | 1       | - 1     | —                     | 1     | - 1     | —       | —     | —       |
|         |         | (- 878) |                       |       | (- 104) |         |       | (- 148) |
|         |         | - 1,353 |                       |       | - 181   |         |       | - 227   |
| 83      | —       | + 83    | 10                    | —     | + 10    | 14      | —     | + 14    |
| —       | —       | —       | 21                    | —     | + 21    | —       | —     | —       |
| —       | 57      | - 57    | —                     | 13    | - 13    | —       | 10    | - 10    |
| 55      | —       | + 55    | 14                    | —     | + 14    | 9       | —     | + 9     |
| 646     | —       | + 646   | 73                    | —     | + 73    | 108     | —     | + 108   |
| —       | 96      | - 96    | —                     | 4     | - 4     | —       | 16    | - 16    |
| 260     | —       | + 260   | 44                    | —     | + 44    | 44      | —     | + 44    |
| 65      | —       | + 65    | 6                     | —     | + 6     | 11      | —     | + 11    |
| 152     | —       | + 152   | —                     | —     | —       | 25      | —     | + 26    |
| 95      | —       | + 95    | 12                    | —     | + 12    | 16      | —     | + 16    |
| 13      | —       | + 13    | 1                     | —     | + 1     | 2       | —     | + 2     |
| 51      | —       | + 51    | 9                     | —     | + 9     | 9       | —     | + 9     |
| 63      | —       | + 63    | 13                    | —     | + 13    | 10      | —     | + 10    |
| 23      | —       | + 23    | —                     | 5     | - 5     | 4       | —     | + 4     |
| 1,506   | 153     | + 1,353 | 203                   | 22    | + 181   | 253     | 26    | + 227   |

Source: Central Bank of Ceylon.

TABLE II (G) 3

## External Resources and their Use

| Item   | Rupees Million |              |              |                     | Percentage Share |            |            |                     |
|--|----------------|--------------|--------------|---------------------|------------------|------------|------------|---------------------|
|  | 1968           | 1969         | 1970         | 1971 <sup>(a)</sup> | 1968             | 1969       | 1970       | 1971 <sup>(a)</sup> |
| <b>A. Resources</b>  |                |              |              |                     |                  |            |            |                     |
| 1. Merchandise exports f.o.b. ..                                       | 1,976          | 1,909        | 2,017        | 1,964               | 68               | 56         | 58         | 52                  |
| 2. Services Account ..   | 255            | 269          | 234          | 288                 | 9                | 8          | 7          | 8                   |
| 3. Capital Inflow ..   | 326            | 417          | 382          | 584                 | 11               | 12         | 11         | 16                  |
| of which:—   |                |              |              |                     |                  |            |            |                     |
| (a) Loans <sup>1</sup> ..  | 295            | 362          | 299          | 324                 | 10               | 11         | 9          | 9                   |
| (b) Other Aid <sup>2</sup> ..  | —              | —            | —            | 152                 | —                | —          | —          | 4                   |
| (c) Grants <sup>1</sup> ..   | 23             | 46           | 75           | 95                  | 1                | 1          | 2          | 3                   |
| (d) Private Capital ..   | 3              | 9            | 8            | 13                  | —                | —          | —          | —                   |
| 4. Short-term Liabilities ..   | 348            | 715          | 829          | 899                 | 12               | 21         | 24         | 24                  |
| (a) Gross drawings from the International Monetary Fund ..             | 213            | 77           | 57           | 83                  | 7                | 2          | 2          | 2                   |
| (b) Special Drawings Rights ..   | —              | —            | 78           | 63                  | —                | —          | 2          | 2                   |
| (c) Increase in balances in bilateral Payments Agreements ..           | 42             | 18           | —            | —                   | 2                | 1          | —          | —                   |
| (d) Borrowings from Foreign banks ..                                   | —              | 227          | 123          | —                   | —                | 7          | 4          | —                   |
| (e) Short-term credits ..  | 84             | 185          | 434          | 646                 | 3                | 5          | 13         | 17                  |
| (f) Suppliers' Credits ..  | —              | 176          | 85           | 56                  | —                | 5          | 2          | 2                   |
| (g) Other ..   | 9              | 32           | 52           | 51                  | —                | 1          | 1          | 1                   |
| 5. Decline in External Assets (net of Sterling Loan Sinking Funds) ..  | —              | 90           | —            | —                   | —                | 3          | —          | —                   |
| <b>Total</b> ..  | <b>2,905</b>   | <b>3,399</b> | <b>3,462</b> | <b>3,735</b>        | <b>100</b>       | <b>100</b> | <b>100</b> | <b>100</b>          |
| <b>B. Use</b>  |                |              |              |                     |                  |            |            |                     |
| 6. Merchandise imports c.i.f. ..                                       | 2,356          | 2,655        | 2,332        | 2,198               | 81               | 78         | 67         | 59                  |
| of which aid ..  | 323            | 581          | 459          | 475                 | 11               | 17         | 13         | 13                  |
| 7. Services Account ..   | 258            | 366          | 364          | 359                 | 9                | 11         | 11         | 10                  |
| (a) Investment Income ..   | 24             | 120          | 152          | 149                 | 1                | 4          | 4          | 4                   |
| (b) Migrants transfers ..  | 21             | 15           | 23           | 43                  | 1                | 1          | 1          | 1                   |
| (c) Interest payments ..   | 42             | 10           | 100          | 114                 | 1                | 2          | 3          | 3                   |
| 8. Capital Amortization ..   | 76             | 87           | 126          | 140                 | 3                | 2          | 3          | 4                   |
| (a) Official ..  | 61             | 77           | 113          | 96                  | 2                | 2          | 3          | 3                   |
| (b) Private ..   | 15             | 10           | 13           | 44                  | 1                | —          | —          | 1                   |
| 9. Short-term Liabilities ..   | 182            | 305          | 605          | 960                 | 6                | 9          | 18         | 25                  |
| (a) Repurchases from the IMF ..  | 48             | 87           | 161          | 139                 | 2                | 3          | 5          | 4                   |
| (b) Decrease in balances in bilateral Payments Agreements ..           | 7              | —            | 75           | 57                  | —                | —          | 2          | —                   |
| (c) Bank borrowings ..   | 29             | —            | —            | 82                  | 1                | —          | —          | 2                   |
| (d) Short-term credits ..  | 98             | 147          | 282          | 613                 | 3                | 4          | 8          | 16                  |
| (e) Suppliers' credits ..  | —              | 50           | 80           | 68                  | —                | 1          | 3          | 2                   |
| (f) Other ..   | —              | 21           | 7            | 1                   | —                | 1          | —          | —                   |
| 10. Increase in External Assets (net of Sterling Loan Sinking Fund) .. | 10             | —            | 39           | 77                  | —                | —          | 1          | 2                   |
| 11. Balancing item ..  | + 23           | - 14         | - 4          | + 1                 | 1                | —          | —          | —                   |
| <b>Total</b> ..  | <b>2,905</b>   | <b>3,399</b> | <b>3,462</b> | <b>3,735</b>        | <b>100</b>       | <b>100</b> | <b>100</b> | <b>100</b>          |

Source: Central Bank of Ceylon

(a) Provisional.

1. Includes assistance received in the form of Project and Commodity Aid.
2. Currency Loan from the People's Republic of China.

### Merchandise Account-

The adverse balance of Rs 315.8 million in the merchandise account in 1970 decreased to Rs 233.3 million in 1971. The external factors which have contributed to the unfavourable trade balances in the past, however, continued to operate in 1971. The index of import prices recorded a further increase of 10 points from 140 to 150 (1967=100), while export prices, too, registered a marginal decline of 1 point over the previous year. The result of these movements has been the further decline in the terms of trade from 84 in 1970 to 78 in 1971.

Alongside the deterioration in export prices, the volume index of exports also showed a decline of 3 points. These two factors combined to depress the value of exports from Rs. 2,017 million in 1970 to Rs. 1,964 million in 1971.

The value of total import payments fell significantly from Rs. 2,332.4 million in 1970 to Rs. 2,197.7 million. The decline of import expenditure was entirely due to a reduction of volume, the benefits from which were, however, partly offset by increases in prices. The index of import volume (1967=100) registered a decrease of 12 points.

### Services and Transfers-

Table II (G) 4 sets out data on the services account by major sectors. The deficit in the services account which fell from Rs. 104 million in 1970 to Rs. 50 million in 1971 was due both to reduced payments (Rs. 25 million) as well as to an increase in receipts (Rs. 30 million). While the reductions were spread over travel, investment income, other transportation (mainly passenger fares), and miscellaneous services, the increase in receipts was reflected mainly in the "other services" account. Tourism and receipts from Port operations failed to keep up the rate of increase observed in the past.

TABLE II (G) 4  
Changes in Major Sectors in the Services Account  
1970 and 1971

|                                       | Rupees Million |             |             |            |             |            |              |             |
|---------------------------------------|----------------|-------------|-------------|------------|-------------|------------|--------------|-------------|
|                                       | Credit         |             |             | Debit      |             |            | Balance      |             |
|                                       | 1970           | (a)<br>1971 | Change      | 1970       | (a)<br>1971 | Change     | 1970         | (a)<br>1971 |
| Port, Transportation and Insurance .. | 91             | 91          | —           | 25         | 21          | - 5        | + 66         | + 70        |
| Foreign Travel ..                     | 21             | 20          | - 1         | 20         | 15          | - 5        | + 1          | + 5         |
| Investment Income ..                  | 10             | 10          | —           | 152        | 149         | - 3        | - 142        | - 139       |
| (i) Profits and Dividends ..          | 10             | 6           | - 4         | 52         | 35          | - 17       | - 42         | - 29        |
| (ii) Interest ..                      | —              | 4           | + 4         | 100        | 114         | + 14       | - 100        | - 110       |
| Government Expenditure ..             | 31             | 37          | + 6         | 24         | 24          | —          | + 7          | + 13        |
| Miscellaneous Services ..             | 83             | 108         | + 25        | 117        | 107         | - 10       | - 34         | + 1         |
| Private Transfers ..                  | 18             | 22          | + 4         | 24         | 43          | + 20       | - 6          | - 21        |
| <b>Total ..</b>                       | <b>254</b>     | <b>288</b>  | <b>+ 34</b> | <b>362</b> | <b>359</b>  | <b>- 3</b> | <b>- 108</b> | <b>- 71</b> |

Source: Central Bank of Ceylon

(a) Provisional

The lower expenditure on account of passenger fares and foreign travel in 1971 compared with 1970 was the direct result of a range of curbs imposed shortly after the present Government took office in mid-1970. Certain facilities were completely suspended (pilgrimages) while others (official and business travel and educational remittances) were considerably narrowed on the basis of case-by-case examination. Thus, from the high levels of Rs. 36.8 million and Rs. 44.5 million incurred on these accounts in 1968 and 1969 when procedures adopted were relatively liberal, the 1971 payments came down to Rs.18.6 million.

The decline in remittances on account of profits earned by foreign capital compared with the average recorded for previous years can be attributed in part to the virtual clearance of the backlog of profits (subjected to the moratorium) by the end of 1970, and in part to the lower level of economic activity, in particular the depressed conditions in the rubber industry. As a result of the general policy of effecting maximum economies in foreign exchange, payments for miscellaneous services, too, fell slightly from the generally higher levels of 1969 and 1970.

The increase in earnings from services in 1971 compared with 1970 was the cumulated effect of small increases in freight and merchandise insurance, local expenditures of foreign missions in Ceylon and miscellaneous services. No one reason can be cited other than the continued stimulus imparted by the Foreign Exchange Entitlement Certificate scheme.

Tourism, the gross earnings from which grew fastest from among the invisibles between 1967 and 1970 when official receipts increased from Rs 5.9 million to Rs 21.5 million, encountered a set back in 1971 due to the uncertainties in the aftermath of the April/May disturbances. Any assessment of the net foreign exchange earnings from tourism must take due account of the foreign exchange cost of setting up the infrastructure and maintaining a type and range of services to cater to the particular needs of an affluent group.

The other growth area in invisibles which failed to improve on the past record is receipts from Port services. In a general background where Ceylon's importance as a transit port on major trade routes has already diminished on account of the continued closure of the Suez Canal, a contraction in the volume of cargo handled, mainly due to a reduction of imports, too, is likely to have reduced receipts.

The importance of stepping up invisible earnings cannot be over emphasised in a situation where, as in most developing countries, Ceylon's payments for services including freight and insurance and for transfers of profits and dividends abroad are large, so that it traditionally experiences a deficit on the services account. While the areas permitting economies are rapidly being exhausted, new and more enduring channels of outpayments are making their presence felt. Interest payments on borrowed foreign resources is the most important of these: they

increased from Rs. 38 million in 1968 to a record Rs. 113 million in 1971 and will increase further as the grace period on past loans expire and net new long term official capital inflows take place. Other outgoings which may be expected to increase in the future consist of royalties, fees, profits attaching to new foreign collaboration as industrialisation is speeded up.

Although the services account showed an adverse balance of Rs. 49.3 million, the balance on current invisibles as a whole (which includes private and official transfers) showed a surplus of Rs. 24.2 million compared with a deficit of over Rs. 35 million in 1970 and over Rs. 50 million in the year previous to that. On provisional estimates this is seen to be due to substantial receipts of grants-in-aid amounting to Rs. 95 million, up from Rs. 75 million in 1970, and from Rs. 46 million and Rs. 28 million respectively in each of the two years previous to that. The sharp increase in outward private transfers from an annual average of Rs. 22 million in the period 1968 to 1970 to Rs. 43 million in 1971 reflects largely the increased tempo of repatriation under the Indo-Ceylon Pact.

### The Capital Account

As repayment of principal and interest on loans is a first charge on earnings (since reserves are at a level too low to admit of amortization), a resource gap of Rs. 1,353 million emerged in the attempt to finance imports of the order of Rs. 2,200 million while the left-over from earnings after amortization was only about Rs. 900 million as compared with the previous year.

Although short-term credit inflows amounted to Rs. 646 million, an increase of nearly 49 per cent over the 1970 level; repayments, too, have been high, so that inclusive of suppliers' credits transactions, reliance on net short-term credits declined. The fact that no new borrowings were made by the Central Bank while its external liabilities amounting to Rs. 140 million were settled during the year attests to this observation. Level of external assets recorded an increase of Rs. 96 million over the end-1970 level mainly due to an increase of the international reserves of the Central Bank by Rs. 44 million, there was also an increase in working balances of commercial banks amounting to Rs. 35 million and an increase in external assets held by the Government and Government Agencies by Rs. 17 million.

On a net basis (receipts less payments) the main contribution to the financing of the balance of payments was met by long-term capital inflows. At a gross figure of Rs. 476.2 million in 1971 it represented an increase of Rs. 177 million over the 1970 level and comprised of Commodity Aid - Rs. 260 million, Project Aid - Rs. 65 million and a loan of Rs. 152 million from China (see Table II (G) 5).



TABLE II (G) 5

## Modes of Financing the External Resource Gap 1970-1971

|  | 1970    |         | 1971(a) |         |
|--|---------|---------|---------|---------|
|  | Rs. Mn. | % Share | Rs. Mn. | % Share |
| Resource Gap .. .. .                     | - 1,081 |         | - 1,353 |         |
| Financing: .. .. .                       | + 1,081 | 100     | + 1,353 | 100     |
| 1. External Assets .. .. .               | 25      | 2.3     | 96      | 7.1     |
| 2. Foreign Bank borrowings .. .. .       | 123     | 11.3    | —       | —       |
| 3. I. M. F. Drawings .. .. .             | 57      | 5.2     | 83      | 6.1     |
| 4. Bilateral trade balances .. .. .      | 75      | 6.9     | 57      | 4.1     |
| 5. Short-term trade credits .. .. .      | 434     | 40.4    | 646     | 47.5    |
| 6. Suppliers' Credits .. .. .            | 85      | 7.9     | 55      | 4.1     |
| 7. Commodity Aid .. .. .                 | 263     | 24.3    | 260     | 19.2    |
| 8. Project Aid .. .. .                   | 35      | 3.2     | 65      | 4.8     |
| 9. Other Loans & Lines of credit .. .. . | —       | —       | 152     | 11.2    |
| 10. Grants .. .. .                       | 75      | 6.9     | 95      | 7.0     |
| 11. Private Capital .. .. .              | 8       | 0.7     | 13      | 1.0     |
| 12. Other .. .. .                        | 52      | 4.8     | 51      | 3.8     |
| 13. Special Drawing Rights .. .. .       | 78      | 7.2     | 63      | 4.7     |
| 14. Errors & Omissions .. .. .           | 29      | 2.7     | 23      | 1.7     |

Source: Central Bank of Ceylon.

(a) Provisional.

In the monetary sector, payments exceeded receipts by Rs. 179 million in contrast to a small surplus of receipts over payments of Rs. 29 million in the previous year. This was mainly the result of the Central Bank discharging liabilities owed to foreign banks amounting to Rs. 140 million and repurchases of Rs. 145 million from the I.M.F. As last year, repurchases from the IMF substantially exceeded purchases - the result of continued recourse to drawings from the IMF in the sixties - and in fact these repurchase obligations to the IMF were an important factor that contributed to the high level of capital amortization. The settlement of loans was helped considerably by the utilisation of the second allocation of Special Drawing Rights amounting to Rs. 63 million. It may be noted that the use of this source of funds for financing future payments depends to a large extent on our ability to reconstitute the drawings.

In sum, therefore, the capital account of the balance of payments shows some encouraging trends. Certain short-term liabilities, the prolongation of whose settlement would impair our credit-worthiness, have been extinguished. The current account deficit has been financed mainly out of long-term loans contracted by the non-monetary sector.