

decline in employment in the Estate Sector is discounted, new employment in the public sector, the Janawasas, DDC's and the organised private sector would amount to around 40,000. This figure, however, does not include employment creation in the non-institutional private sector, and in the domestic agricultural sector and employment generated through the decentralised budget.

## EXTERNAL TRADE AND BALANCE OF PAYMENTS

### Foreign Trade

Sri Lanka's balance of the trade has been in deficit continuously from 1966 and registered very high levels of deficit in 1974 and 1975 when they reached Rs. 1,082 million and Rs. 1,318 million respectively. Considering this trend, it is a significant development that, on the basis of customs data, the trade balance in 1976 registered a surplus of Rs. 127 million. However, on the basis of data from government agencies<sup>1</sup> directly involved in trade transactions the adjusted trade balance discloses a deficit of Rs. 105 million. The differences in the two sets of figures are summarised in Table 7.

**TABLE 7**  
**Balance of Trade 1976**

					Rs. Million		
					Exports	Imports	Balance of Trade
Customs data	...	...	...	...	4,815	4,688	+ 127
Central Bank's adjusted data	...	...	...	...	4,840	4,945	- 105

The following discussion of developments in trade in 1976 is on the basis of customs data. Table 8 gives the main data on trade balance together with the volume and price indices and the terms of trade for the last 10 years.

The improvement in the balance of trade in 1976 was achieved by a significant increment in export earnings as well as a decrease in import expenditure. While export earnings increased by Rs. 882 million or 22 per cent over the earnings in 1975, import expenditure decreased by Rs. 563 million or 11 per cent.

This reduction in import expenditure and the increment in export earnings were largely the result of an improvement in the terms of trade. For the first time since 1962 the declining trend in the terms of trade has been reversed. The terms of trade index (with a 1967 base of 100) which was 46 in 1975 improved to 62 in 1976. The improvement in the terms of trade was accounted for by both an improvement in export prices and a reduction in import prices. The increase in the export price index was 20 per cent. These favourable developments in price factors offset unfavourable trends in the volume of exports and imports. In 1976 the volume index of all exports declined by 5 per cent compared to 1975, while the volume index of all

<sup>1</sup> Includes data on exports of the Gem Corporation, naptha exports of the Petroleum Corporation and imports of sugar and cereals by the Food Commissioner.

**TABLE 8**  
**Foreign Trade 1967-1976**

Year	Rupees Million			Index Number (1967=100)				Terms of Trade
	Exports* (f. o. b.)	Imports (c. i. f.)	Balance of Trade	Volume		Price		
				All Exports	All Imports	All Exports	All Imports	
1967	1,690	1,738	— 48	100	100	100	100	100
1968	2,035	2,173	— 138	103	101	117	126	93
1969	1,916	2,543	— 627	98	108	117	134	88
1970	2,033	2,313	— 280	102	102	118	140	84
1971	1,947	1,986	— 39	99	90	117	150	78
1972	2,009	2,064	— 55	97	88	118	157	75
1973	2,617	2,715	— 98	98	79	137	209	65
1974	3,471	4,554	— 1,082	85	56	213	370	58
1975	3,933	5,251	— 1,318	102	69	199	433	46
1976	4,815	4,688	+ 127	97	75	239	383	62

\* Including re-exports.

*Sources:* Customs, Sri Lanka  
Central Bank of Ceylon

imports increased by 9 per cent. Therefore, despite the reduced volume of exports and the increased volume of imports, the improvement in the terms of trade resulted in a trade surplus. Yet it must be noted that although the continuous decline in the terms of trade was reversed in 1976, it was still unfavourable compared to the base year, 1967.

The decline in volumes of the major exports deprived the country of the full benefit from the improvement in export prices. The volume of tea exports fell by 13 million kilograms or 6 per cent compared to that of 1975. But export earnings at Rs. 2,100 million in 1976 exceeded those of 1975 by Rs. 168 million or 8.7 per cent owing to a 15.6 per cent increase in prices. Similarly in the case of rubber the export volume in 1976 decreased by as much as 24 million kilograms or 15 per cent. But a sharp improvement in rubber prices of 60 per cent resulted in the export earnings increasing by Rs. 236 million or 36 per cent during the year.

In the case of coconut exports, the price of coconut oil fell while the prices of the other coconut exports increased. Export earnings declined by Rs. 14 million or 3.5 per cent mainly owing to a significant decline in the volumes exported. The nut equivalent of the three major coconut exports, copra, coconut oil and desiccated coconut declined from 845.8 to 803.3 million nuts. Copra exports declined from 1.4 million kilograms in 1975 to 1.3 million kilograms in 1976, while coconut oil exports increased to 60.6 million kilograms from 54.5 million kilograms the previous year. A significant decline was registered in the volume of desiccated coconut exports which declined from 59.3 million kilograms in 1975 to 46.0 million kilograms in 1976.

In recent years the structure of exports has been somewhat diversified. The country's dependence on the three major agricultural exports declined from 76 per cent in 1975, to about 70 per cent of the total value of domestic exports in 1976, compared to 90, 93 and 90 per cent in 1961, 1966 and 1971 respectively. Precious and semi-precious stones accounted for about 5.4 per cent of total exports in 1976 and 4.6 per cent in 1975. Other domestic exports accounted for as much as 24.3 per cent of total domestic exports in 1976 compared to 19.3 per cent in 1975. The composition of exports for the last five years is given in table 9.

Selected industrial exports (for composition see Review of the Economy, 1975, Appendix 57) increased by as much as Rs. 222.1 million from Rs. 533.6 million in 1975 to Rs. 755.7 million in 1976. This was accounted for by increases in most manufactured exports excluding chemical products, cement, machinery and mechanical appliances. However, petroleum manufactures (naptha, fuel oil and marine bunkers and aviation fuel) which have a large component of imported raw materials comprises about two-thirds of these selected industrial exports and 10.5 per cent of total exports. These petroleum product exports increased by 30 per cent and export earnings from minor agricultural exports increased by 90 per cent.

Import expenditure fell by Rs. 563 million in 1976. Since 1971 when import expenditure was Rs. 1,986 million it has increased each year till it reached an all time high of Rs. 5,251 million in 1975. In this context, the decrease in import expenditure is particularly significant. This was due to a decrease in import prices. The price

**TABLE 9**  
**Composition of Exports 1972-1976**

Commodity	Value in Rupees Million					Percentage of Total Exports				
	1972	1973	1974	1975	1976	1972	1973	1974	1975	1976
1. Tea	1,162	1,261	1,360	1,932	2,100	57.8	48.2	39.2	49.1	43.6
2. Rubber	265	592	738	654	890	13.2	22.6	21.3	16.6	18.5
3. Coconut Products of which	266	145	397	397	383	13.2	5.5	11.4	10.1	7.9
3.1 Copra	52	4	1	7	7	2.6	0.2	...	0.2	0.1
3.2 Coconut Oil	132	27	141	188	188	6.5	1.0	4.0	4.8	3.9
3.3 Desiccated Coconut	78	111	252	193	180	3.9	4.2	7.3	4.9	3.7
3.4 Fresh nuts	4	3	3	9	8	0.2	0.1	0.1	0.2	0.2
4. Precious and Semi-precious stones	12	141	109	180	261	0.6	5.4	3.1	4.6	5.4
5. Other domestic Exports	218	346	843	760	1,167	10.8	13.2	24.3	19.3	24.2
Total Domestic Exports (a)	1,993	2,596	3,447	3,923	4,801	99.2	99.2	99.3	99.7	99.7
Re-exports	16	21	25	10	14	0.8	0.8	0.7	0.3	0.3
Total	2,009	2,617	3,472	3,933	4,815	100.0	100.0	100.0	100.0	100.0

(a) Where total does not sum up, value of bunkers is included.

index for all imports decreased by 50 index points from 433 in 1975 to 383 in 1976. Once again this is the first year since 1966 when there was a deviation from the trend of higher prices.

Table 10 gives the import expenditure by the three major categories, consumer, intermediate and investment goods. Consumer goods which accounted for about 50.5 per cent of total value of imports in 1975 showed a sharp decline in 1976 and accounted for only 36.9 per cent of imports. The value of consumer goods imports declined by Rs. 919 million or 34.7 per cent from that of 1975. Intermediate goods accounted for as much as 48.2 per cent of total imports in 1976 compared to 36.0 per cent in 1975. There was an increase in the value of intermediate imports by Rs. 371 million or 19.7 per cent. This was mainly due to the increase in value of petroleum imports which account for over half of this category of imports and nearly one fourth of the total imports of the country. There was a slight decline in the value of investment imports which declined from Rs. 653 million in 1975 to Rs. 643 million in 1976 but its relative share in total imports increased from 12.4 per cent to 13.7 per cent.

The payments for all major items such as rice, flour, sugar, milk products, fertilizer, chemicals and pharmaceutical products declined in 1976. In the case of rice imports a decrease in expenditure of 24.9 per cent was achieved by a decline in the import volume by 6.9 per cent, and import prices by 19.2 per cent. Similarly, in the cases of flour and sugar both import volumes and import prices decreased. While flour imports decreased by 16.5 per cent from 455 million tons in 1975 to 380 million tons in 1976, the C & F price decreased by 8.6 per cent from Rs. 2,250 per ton to Rs. 2,057 per ton. These factors led to a decline in the value of flour imports by Rs. 243 million or 24 per cent in 1976.

Sugar prices which had displayed an up-trend in recent years declined sharply in 1976. The C & F price of sugar fell by 36 per cent from Rs. 4,370 per ton in 1975 to Rs. 2,793 per ton in 1976. The quantity of sugar imported also declined from 61,000 tons in 1975 to 45,000 tons in 1976. These two factors resulted in a decline in the value of imports of sugar by Rs. 149 million or 52 per cent. Table 11 presents the Food Commissioner's data on the imports of rice, flour and sugar on which basis the preceding comments were made.

### **Balance of Payments**

Since the balance of payments data are actual receipts and payments during the year these statistics differ from the trade statistics which reflect physical movements of commodities. Notwithstanding this difference, which is due to the time lag between the physical movement of commodities and the payment or receipt of money, trends in external trade are the underlying reasons for the performance in the balance of payments.

The outstanding feature of the 1976 balance of payments is that the current account deficit fell to a mere Rs. 49.8 million, contrasted with a deficit of Rs. 907 million and Rs. 772 million in 1974 and 1975 respectively. The balance of payments has been in continuous deficit since 1966 and the 1976 deficit is the lowest recorded. Table 12 summarizes the balance of payments position in the last decade.

**TABLE 10**  
**Import Expenditure by Major Categories 1972-1976**

Item	Value in Rupees Million					Percentage of Imports				
	1972	1973	1974	1975	1976	1972	1973	1974	1975	1976
1. Consumer goods ...	1,069	1,424	2,138	2,651	1,732	51.8	52.5	47.0	50.5	36.9
A. Food & Drinks ...	917	1,248	1,950	2,520	1,534	44.4	45.9	42.8	48.0	32.7
B. Textiles (including clothing)	48	55	59	20	49	2.3	2.0	1.3	0.4	1.0
C. Other consumer goods	104	120	129	111	149	5.0	4.4	2.8	2.1	3.2
2. Intermediate goods ...	502	815	1,920	1,888	2,259	24.3	30.0	42.1	36.0	48.2
3. Investment goods ...	438	452	457	653	643	21.2	16.6	10.0	12.4	13.7
4. Total of 1, 2 & 3 ...	2,009	2,690	4,515	5,192	4,634	97.3	99.1	99.1	98.9	98.8
5. Unclassified imports ...	55	25	39	59	54	2.7	0.9	0.9	1.1	1.2
Total Imports ...	2,064	2,715	4,554	5,251	4,688	100.0	100.0	100.0	100.0	100.0

*Source: Customs, Sri Lanka.*

TABLE 11

Quantity, Value and Price of Rice, Flour and Sugar - Imports<sup>1</sup>

	1970	1971	1972	1973	1974	1975	1976
<b>Rice</b>							
Quantity : Th. Tons	526	334	262	338	297	450	419
Value : Rs. Mn.	353	188	142	322	798	964	724
C&F Price : Rs. per ton	671.15	563.11	544.25	953.18	2,685.82	2,141.32	1,730.28
<b>Flour</b>							
Quantity : Th. Tons	369	330	324	365	442	455	380
Value : Rs. Mn.	225	212	218	458	938	1024	781
C&F Price : Rs. per ton	611.44	630.79	667.26	1,254.20	2,124.04	2,249.65	2,056.68
<b>Sugar</b>							
Quantity : Th. Tons	240	283	214	190	42	61	45
Value : Rs. Mn.	152	242	255	334	231	268	128
C&F Price : Rs. per ton	633.71	844.65	1,168.16	1,752.16	5,485.75	4,370.24	2,792.86
<b>Total Value : Rs. Mn.</b>	<b>730</b>	<b>642</b>	<b>615</b>	<b>1114</b>	<b>1967</b>	<b>2256</b>	<b>1633</b>

Source: Food Commissioner's Department.

1. This table is based on the Food Commissioner's data. The Customs data differs from these figures and is contained in the Review of the Economy.

The principal reason for the reduced deficit in 1976 compared to 1975 is that while export earnings increased by nearly Rs. 800 million, import payments increased by less than Rs. 100 million. Consequently the trade deficit which was about Rs. 1,400 million in 1975 was reduced to a deficit of about Rs. 700 million in 1976. More specifically, while merchandise exports amounted to Rs. 4,707.3 million, merchandise imports were Rs. 5,416.6 million. This left a merchandise or visible trade deficit of Rs. 709.3 million in 1976. The net invisible transactions surplus of Rs. 112.2 million reduced the goods and services account deficit to Rs. 597.1 million. A surplus of Rs. 547.3 million in the transfer payments reduced the deficit in the goods and services account to Rs. 49.8 million. The main component of transfer payments was official receipts of Rs. 491.6 million as outright gifts received from foreign governments and international agencies. Table 13 gives a summary of the 1976 Balance of Payments on current account.

TABLE 12  
Balance of Payments 1967-1976

Rs. million

Year	Trade Balance	Net Invisibles including Transfer Payments	Balance on Current Account	Net Long-term Capital	Basic Balance
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	- 287	+ 71	- 216	+ 404	+ 188
1972	- 255	+ 59	- 196	+ 292	+ 96
1973	- 299	+ 138	- 161	+ 190	+ 29
1974	- 1263	+ 356	- 907	+ 298	- 609
1975	- 1421	+ 649	- 772	+ 613	- 159
1976*	- 709	+ 659	- 50	+ 715	+ 665

\* Provisional

Source: Central Bank of Ceylon

**TABLE 13**  
**Summary of the 1976 Balance of Payments on Current Account**

Rs. Million			
	Credits	Debits	Net
1. Merchandise/Visibles ...	4,707.3	5,416.6	- 709.3
2. Services/Invisibles ...	642.6	530.4	+ 112.2
Total Merchandise and Services ...	5,349.9	5,947.0	- 597.1
<b>Transfer Payments</b>			
Private ...	109.0	53.3	+ 55.7
Official ...	491.6	-	+ 491.6
Total Transfer Payments ...	600.6	53.3	+ 547.3
Total Current Account ...	5,950.5	6,000.3	- 49.8

*Source: Central Bank of Ceylon.*

The 1976 balance of payments on current account has followed the pattern since 1971 of deficits in the visible account and surpluses in the invisibles and transfer payments; the latter two items contributing to reduce the current account deficit. This was also the pattern in the period 1964-1968.

The main factors contributing to the improvement in the balance of payments on current account were the increased earnings of merchandise exports in the non-traditional items and from rubber among traditional commodities. Export volumes of all three major export commodities tea, rubber and coconut declined, but their total earnings improved in comparison with the previous year as a result of improved prices. While in the case of tea and coconut, the improved prices helped to compensate for their lower volumes, rubber prices, which were on the average higher by over 50 per cent during most of the year, caused overall earnings from the three traditional commodities to show an increase. Minor agricultural products in particular also benefited from a rising trend in the international prices for these products.

However, the increased earnings from the non-traditional sector was even more impressive in 1976. Their share in total exports increased to 29.6 per cent compared with 24 per cent in the previous year and 22 per cent in 1974. From among the non-traditional exports, items which fared best were gems and precious stones, made-up garments, tinned fruit products and exports of by-products of petroleum refining i.e., naptha and bunkering operations of the Petroleum Corporation.

The import bill increased by only 1.6 per cent from Rs. 5,334 million in 1975 to Rs. 5,417 million in 1976. Two factors appear to have been responsible for containing import outlays to this level. First, imports excluding food imports continued to be regulated through the foreign exchange budget under which imports were subject to an overall scheme of allocation of foreign exchange and licensing of



imports. Second, considerable savings in import expenditure were effected on account of lower commodity prices for the major food imports of rice, flour and sugar, as well as fertilizer from among the intermediate goods category.

The import item with the highest increased outlay was crude oil and petroleum by-products. This was partly due to a higher volume being imported in 1976 as compared with the previous year and partly due to a 10 per cent increase in prices imposed by the OPEC in October, 1975.

The main invisibles contributing to the foreign exchange earnings in 1976 were port earnings of Rs. 156.7 million and tourist earnings of a record Rs 198.4 million. Earnings from tourism have shown a marked up-trend in recent years. It increased from Rs 95 million in 1974 to Rs 124 million in 1975 and Rs 198.4 million in 1976 as already stated.

The small current account deficit of Rs 49.8 million made the financing of it easier than in previous years. After allowing for repayments of Rs 232.5 million, long term loans provided Rs 710.4 million. Gross inflows of long term aid of Rs. 942.9 million consisted of Rs 338.4 million of commodity aid, Rs 169.2 million of food aid, Rs 315.8 million of project aid and Rs 119.5 million of other aid. This last residual category refers to cash loans of Rs 93 million received from the United Arab Emirates and Rs 27 million from the People's Republic of China. This level of external assistance enabled the country to avoid increasing indebtedness on account of suppliers and short term credits. In fact, the country's short term indebtedness which also includes suppliers' credits (from year end to year end) decreased by Rs. 91.4 million.

In addition, resources available from the IMF for balance of payments support amounted to Rs 272.8 million. Of this Rs 158.0 million became available under the scheme of Compensatory Financing of Export Fluctuations while another Rs 114.8 million was available as the final instalment due to Sri Lanka under the 1975 Oil Facility Decision. Once repurchases from the IMF on account of past drawings of Rs 189.9 million are set off, the net contribution of IMF resources to balance of payments support was Rs 86.7 million.

The IMF resources, together with the loan transactions discussed earlier were substantially in excess of the deficit and contributed to building up the country's external assets by Rs 568.3 million. It also helped Sri Lanka reduce indebtedness in the bilateral accounts maintained with her trading partners. The reduction of liabilities of this account amounted to Rs 73.1 million.

#### **THE GOVERNMENT FISCAL OPERATIONS**

The fiscal operations for 1976 clearly indicate an accelerated participation of the Government in economic activity. The net Government spending constituted 35.9 per cent of the GNP compared to 32.8 per cent for 1975 and an average of 31.6 per cent for the previous ten years. The increase is mainly due to the higher level