CONSULTATION WITH CEYLON UNDER THE DECISION OF 10 APRIL 1961

Ceylon - Temporary Duty Increases

International Monetary Fund Executive Board Decision

Reproduced below is the text of the Executive Board Decision of the International Monetary Fund taken at the conclusion of the Fund's consultation with Ceylon under Article XIV Section 4 of the Fund Agreement on 26 February 1962. This Decision was transmitted to the CONTRACTING PARTIES as relevant in connexion with their forthcoming consultation with Ceylon under the Decision of 10 April 1961.

1. "The Government of Ceylon has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. "In 1960 gross national product increased by 5.2 per cent and production of most principal crops increased substantially. The high level of agricultural production has been generally maintained in the first half of 1961. Industrial activities have also been rising since late 1960.

3. "In 1960-61, the government cash deficit was larger than in any of the preceding four years and it was mainly financed as before by borrowing from the Central Bank, though there was some increase in recourse to non-bank resources. The Fund notes that Ceylon has taken measures to increase tax revenues in 1961-62 and urges the Government to reduce the budgetary deficit with a view to avoiding inflationary financing and to continue firm monetary measures.

4. "The balance of payments deficits experienced in 1960 and 1961 were largely the result of inflationary fiscal policies and more recently of a deterioration in the terms of trade. The payments deficits have served as a principal offset to domestic monetary expansion but foreign exchange holdings have been drawn down to a low level. In the first half of 1961, the payments deficit was reduced as a result of stricter credit and trade restrictions.

5. "In view of the continued deterioration of the balance of payments position, Ceylon has substantially increased its restrictions on imports during 1961. The Fund is concerned about the trend toward intensification of restrictions, and urges Ceylon to regard the elimination of internal inflationary pressures as basic to the strengthening of the payments position. The Fund believes that Ceylon should take steps to reduce its reliance upon bilateral payments arrangements.

6. "In concluding the 1961 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Ceylon."