OPENING STATEMENT BY THE DELEGATE OF CEYLON

The balance of payments of Ceylon which had been under strain over the past decade continued to deteriorate in 1968 and was associated with a sharper decline in the terms of trade than in previous years. The export price index registered a drop of five points, over 1967, while the import price index showed an increase of four points, consequently, the terms of trade declined by seven points in 1968 over the previous year.

The export earnings, both visible and invisible, increased from Cey Rs 1,912 million in 1967 to Cey Rs 2,229 million in 1968, an increase of 16.6 per cent. The value of imports rose faster, from Cey Rs 1,985 million in 1967 to Cey Rs 2,341 million in 1968. The deficit in the balance of payments on account of these current account transactions was higher than in 1967. I must mention, however that these figures reflect difference between the exchange rates in 1968 and that prevailing in the first eleven months of 1967 prior to the devaluation of the Ceylon rupee by 20 per cent on 22 November 1967.

These broad trends in the balance of payments were considerably influenced by two major monetary reforms which were instituted in 1967 and 1968. I have just referred to the devaluation of the Ceylon rupee. The second was the Foreign Exchange Entitlement Certificate Scheme which was introduced on 6 May 1968 in consultation with the International Monetary Fund. Details of the Certificate Scheme have been referred to in document BOP/91 dated 16 May 1969 and the annexes referred to therein. In effect, this Scheme resulted in a further depreciation in the exchange rate for a range of transactions.

Two exchange rates were introduced. "The official" exchange rate i.e. the rate introduced on 22 November 1967 is applicable to essential imports covering a large range of items directly affecting the cost of living. These include the food imports by the Food Commissioner, other foodstuffs, drugs, fertilizers, petroleum products, imports by Government Departments and by local authorities, imports by non-industrial Government Corporations, cottage industries and co-operatives, imports for the manufacture of drugs, items of educational and medical use not produced domestically and all agricultural implements. Certain imports for new hotel projects approved before the introduction of the Certificate Scheme also qualify for the official rate. Transactions covering the major export commodities, tea, rubber and coconut products are also effected at the official rate.
All other imports, exports and inward remittances and tourist expenditure are made at a "floating" rate; imports have to bear the additional rupee charge of the certificate value while receipts from the exports of minor commodities, inward remittances and tourist expenditure, enjoy the premium on the certificate.

The Scheme had two main objectives. The first to permit the diversification of exports and the other to liberalize imports by allowing the market mechanism to regulate the flow of imports rather than by relying on quotas and stringent controls which had operated earlier. Thus a considerable number of BTN tariff items, approximately 350, consisting mainly of raw materials and producers goods were placed under open general licence. Complementary measures were implemented in the monetary fiscal and the production sectors, with a view towards providing the necessary incentives for increasing output. These measures were designed with a view to rectifying the imbalance in payments and consequently, reducing the pressures on Ceylon's external reserves which had persisted over the past several years.

The price of the Foreign Exchange Entitlement Certificate has, with effect from 18 June 1969, been increased from 44 per cent of the face value of the Certificate referred to in document BOP/61 to 55 per cent. The increase in the FEEC rate was necessary in order to maintain equilibrium in the market. The increase represents a realistic appreciation of market forces.

Changes in the monetary policy were a necessary commitment of the exchange reform. Continuing deficit budgets and expansionary policies had resulted in excessive liquidity in the economy. The devaluation of November 1967, and the exchange reform of May 1968 called for a restrictive monetary policy. It was essential that the economic growth of the country should not be stifled by incorrect monetary policy. The creation of credit had, therefore, to be restrained so that it did not outstrip the needs of the productive sectors and encourage consumption or lead to the speculative building of stocks. Interest rates were moved up. Bank rate was increased from 5 to 5\% per cent and commercial banks interest rates rose correspondingly and moved up with the bank rate. The Central Bank also imposed ceiling on bank credit to the private sector; but measures were taken to avoid restricting unduly the growing and vital sectors of the economy. Thus for instance, credit under the new agricultural credit scheme for food production, the Tea Factory Development Scheme and the credit for exports were excluded from the operations of the ceiling.

On the fiscal side, measures were taken to contain as far as possible, the inflationary impact of Government finance by reducing to the minimum the resort to borrowing from the banking system. Excise duties on tobacco and arrack were increased and adjustments in the business turnover tax were also affected by increasing the tax from 5 per cent to 10 per cent in respect of certain manufacturing industries and broadening the base of the tax to include incomes from professions and services at a rate of 1 per cent. Simultaneously, the customs reform introduced in August 1968, changed the basis of customs valuation from wholesale market value to c.i.f. value. Import duties on a large range of essential raw materials and equipment for agriculture and industrial development were either eliminated or reduced. The customs reform is still under review and is expected to be completed during the course of 1969.
Having referred to the major exchange reforms and the accompanying changes in the monetary policy effected by the Government which have a direct bearing on the balance-of-payments position I would like to draw your attention to the broad trends in Ceylon's trade and payments in 1968.

Export earnings for 1968 at Cey Rs 1,975 million shows a substantial increase of Cey Rs 325 million over 1967. This excludes re-exports of Cey Rs 59.1 million. The increase in rupee export value was partly due to increases in the average rupee prices of tea and coconut products and partly due to an increase in the volume of rubber and coconut products. Export earnings from tea in 1968, in rupee terms, amounted to Cey Rs 1,162 or Cey Rs 101 million more than in 1967. The total quantity of tea exports in the year were 460 million pounds or 18 million pounds less than the previous year. Although total export earnings in rupee terms were higher in 1968, the foreign price of tea declined.

Both volume and value of rubber exports improved in 1968. 328 million pounds of rubber valued at Cey Rs 331 million were exported in 1968 as against 291 million pounds valued at Cey Rs 282 million in 1967. Favourable weather conditions resulted in a larger volume of coconut product exports in the year. In terms of nuts, 1,096 million nuts were exported in 1968 as against a 940 million nut equivalent in 1967. The shortage of lauric acid oils and desiccated coconut resulting from a shortfall in output in other producing areas resulted in higher prices for coconut products in 1968. Consequently, the total export earnings from the export of coconut products in 1968 amounted to Cey Rs 331 million as compared with only Cey Rs 167 million in 1967. The value of other domestic exports was also higher, Cey Rs 152 million in 1968 as compared with Cey Rs 121 million in 1967.

The value of imports at Cey Rs 2,341 million in 1968 was Cey Rs 356 million more than 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 value in 1968 were chiefly 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, especially the price of rice which increased from £4.7 per ton in 1967 to £70 per ton in 1968, and also due to the arrival of larger imports in 1968 under the commodity aid arrangements. The liberalization of imports by placing a wide range of items under open general licence also contributed to the increase in the import bill in 1968.

The deficit in the merchandise account in 1968 is estimated at Cey Rs 366 million and represents an increase of 9.2 per cent over the deficit of Cey Rs 335 million in 1967. In interpreting these figures, due allowance must be made for the difference between the exchange rates in 1968 and the pre-devaluation rates effective for the first eleven months of 1967. Thus export
and import values when converted to US dollar terms indicate that the value of
exports recorded a decline from $347 million in 1967 to $332 million in 1968.
At the same time, the value of imports showed a sharper decline from $417 million
in 1967 to $393 million in 1968. Thus, the deficit in merchandise account, in
dollar terms, narrowed from a deficit of $70 million in 1967 to a deficit of
$61 million in 1968.

In 1968 Ceylon's balance on invisibles account, inclusive of transfer
payments showed a surplus of Cey Rs 20 million or $3 million as against a surplus
of Cey Rs 46 million or $10 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 Cey Rs 262 million in 1967 to
Cey Rs 254 million in 1968, while total invisible payments increased from
Cey Rs 216 million to Cey 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 an increase in investment income payments consequent upon the
liberalization of moratorium releases in respect of current incomes and to
increase in Government expenditure.

When the merchandise deficit is adjusted for the smaller surplus on
invisibles account in 1968, the current account on Ceylon's balance of payments
showed an overall deficit of Cey Rs 346 million in 1968 as compared with a
deficit of Cey 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 Cey Rs 128 million in 1967 to Cey Rs 122 million in 1968.
In dollar terms the basic deficit declined from $26 million in 1967 to $20 million
in 1968. This deficit in the balance of payments was financed by recourse to
various short-term borrowing arrangements. A net sum of Cey Rs 165 million or
US$27.7 million was drawn from the International Monetary Fund and
Cey Rs 29 million or US$4.9 million was obtained from foreign banking sources.

The total external resources available to Ceylon in 1968 amounted to
Cey Rs 2,811 million or US$472 million as compared with Cey Rs 2,402 million or
US$504 million in 1967. The external resources available in 1968 at
US$472 million was US$105 million higher than currently earned income. The
mobilization of external resources of this magnitude was made possible as a result
of a substantial increase in the flow of foreign assistance and to a moderate
increase in short-term liabilities. The external resources available to Ceylon
in 1968 were made up of 78 per cent by currently earned foreign exchange,
12 per cent by various capital inflows and 10 per cent by increasing short-term
liabilities. On the last occasion when consultations were held with Ceylon in
November 1966, attention was drawn to the declaration of Government policy on
foreign investment embodied in a white paper which welcomed foreign participation
in investment, tax concessions, facilities for remittance and repatriation of
capital, etc. Efforts have been continued to create a more favourable climate to
attract foreign investment. With the introduction of the exchange reforms in
May 1968, the remittance abroad of current earnings from investment is freely
permitted. A Foreign Investment Approvals Committee has also been set up to
examine foreign investment proposals and a considerable number of projects have
been approved by the Committee. These include such fields as automobile assembly,
agro-chemicals and cotton textiles manufacture.
Planning activity has also been strengthened. The Ministry of Planning and Economic Affairs is currently engaged in preparing an overall development plan which would provide output and investment targets for each of fifty sectors of the economy. The Ministry has also begun work on establishing a Central Progress Control Room where the overall progress on development programmes and projects would be monitored so that prompt corrective action can be taken where needed.

The total capital expenditure in the budgets for the last three fiscal years, 1966/67, 1967/68 and 1968/69 have been steadily increased from Cey Rs 625 million to Cey Rs 715 million and Cey Rs 876 million respectively. About 40 per cent of the total Government capital investment in 1968/69 will be in the agricultural, irrigation and power sector, and 23 per cent in industry. The highest priority in the agricultural sector is for the development of irrigation, as for the remainder, the principal items of expenditure are subsidies for rubber replanting and coconut and cocoa rehabilitation schemes, colonization schemes and fertilizer subsidies. About half the expenditure for industry is set aside for a textile mill project, a cement factory, a paperboard mill, and an omnibus cum truck chassis factory. New projects on which work will commence in 1968/69 include a fertilizer factory. Expenditure on transport and communications will be about 14 per cent of the total capital expenditure and that on social services about 13 per cent.

A scheme of priorities is followed for development and emphasis is placed primarily on the growth of the domestic agricultural sector. The agricultural programme which has been followed for the last three years is mainly designed to achieve self-sufficiency in non-export agricultural products such as rice and subsidiary foodstuffs.

This policy has been successful and the domestic agricultural sector has had three continuous prosperous years. In 1968 rice production reached a peak of 900,000 tons as compared to 769,000 tons in 1967. The marked increase in output in the food sector was largely the result of incentives given to the farmer in the form of improved agricultural inputs, price incentives and the extension of institutional credit. The transformation of the traditional form of agriculture has brought about significant changes not only in output and yields but also in the achievement of self-reliance and steady economic growth in the farming sector. The beneficial effects on foreign exchange expenditure resulting from the significant increase in the domestic production of rice were however denied to Ceylon by the sharp increase in the price of imported rice which I have referred to earlier.

At the same time, the export agricultural sector has been strengthened by subsidiary schemes for planting and replanting tea, rubber and coconut. A fertilizer subsidy scheme and a factory development scheme have been introduced to assist the tea industry. The rubber replanting scheme, with high-yielding trees, which was introduced in 1953 and which was to have been terminated in 1967 has been extended for two years. Fifty per cent of the total acreage under rubber has been replanted. Coconut producers receive assistance through the grant of fertilizers at subsidized rates.
The emphasis placed on development by the present Government and the monetary and exchange reforms instituted in 1968 have resulted in a high rate of growth. The gross national product at constant prices (i.e. in real terms) was 8.3 per cent in 1968 as compared to an increase of 4.4 per cent and 4.2 per cent in 1967 and 1966 respectively. When allowance is made for population growth of 2.2 per cent in the year, the rise in per capita real product of 6.1 per cent in 1968 is the highest growth rate achieved so far. But for the decline in the terms of trade, of 7 per cent, real income would have risen at a corresponding rate.

A high level of activity was seen in most of the economic sectors. Real output in agriculture rose by 6.9 per cent which was due to the stimuli provided by the Government in recent years as well as to favourable weather conditions. Growth was most marked in construction and manufacturing. The value of real output of these sectors rose by 27.1 per cent and 7.7 per cent respectively. Both these sectors had been inhibited in recent years by the lack of availability of imported building materials for construction and raw material for industry. The liberalization of imports in May 1968 of a large range of essential intermediate and investment goods led to the expansion of activity in these two sectors of the economy.

The Government has introduced far-reaching measures in trade and payments policies, the devaluation, exchange reform and import liberalization. But, though these measures have resulted in a high degree of economic growth, the decline in prices of Ceylon exports, particularly tea, has placed continuing strain on the country's balance of payments.