

Sri Lanka's Trade Gap and External Resources

The external trade and payments situation of Sri Lanka in the first half of 1979 presents a mixed picture of a trade deficit of an unprecedented magnitude, enhanced inflow of loans and aid, and a build-up of a relatively high level of external assets.

Trade Deficit

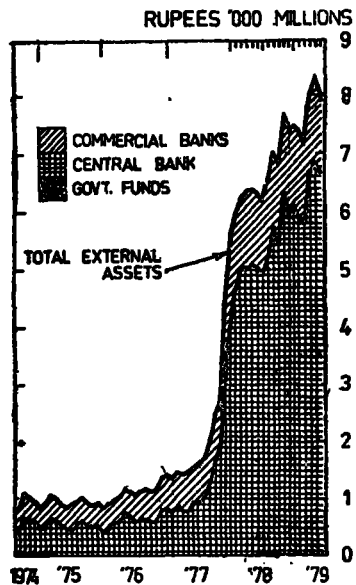
The deficit in the balance of trade during the first half of this year amounted to as much as Rs. 4,134 million (equivalent to US \$ 265 million) compared with a deficit of only Rs. 670 million during the corresponding period last year. This deficit was the outcome of a steep rise in the import bill, by as much as 58 percent in the context of slow export growth (amounting to less than 9 percent). The items that contributed heavily to the sharp increase in the country's import bill were chemical and allied products, textiles and allied products, machinery and equipment, and vehicles and transport equipment.

The country's trade balance had registered a deficit for the ninth month in succession by June 1979, according to Customs data. The deficit over the months of April to June this year alone amounted to nearly Rs. 2,300 million. The cumulative trade deficit in the first quarter of 1979, amounted to Rs. 1,867 million (SDR 93 million) as against a relatively small deficit of Rs. 149 million (SDR 8 million) recorded in the corresponding period of the previous year. The growing trade deficit during this period has been largely the result of a rapid growth in imports with export earnings not growing as rapidly. The cumulative trade deficit for the first quarter of 1979 indicated a twelve-fold increase compared with the same period last year.

Exports

The export earnings at Rs. 2,762 million for the first half of this year registered a decline of Rs. 287

million or 9 percent when compared with the corresponding period last year. This decline was a result of both the fall in the volume of exports (by over 5 million kg.) and also lower export prices. Export earnings of rubber also registered a decline of Rs. 31 million or 3 percent when compared with the first half of 1978. This was primarily a result of the drop in the export volume by 26 million kg, or about 31 percent. There was a marginal decline in rubber production but the substantial decline in exports appears to have been more a result of a lag in exports than a decline in production. In the early months of this year, there was a slow movement of cargo to China and in February for example, no shipments of rubber were made to China. The export value of coconut products (including by-products) at



Source: Central Bank of Ceylon

EXTERNAL ASSETS

The level of Sri Lanka's gross external assets rose to a new peak of Rs. 8,367 million (SDR 423 million) by the end of April this year as compared with Rs. 6,356 million at the end of the first quarter of 1978 and Rs. 1,407 at the end of the first quarter of 1977.

Rs. 702 registered a clear gain of Rs. 189 million or 37 percent and this was a result of a high export volume as well higher prices. A significant development in the export picture was the sharp rise in garment exports. Compared with an export value of Rs. 156 million in the first half of 1978, this year's figure stood at Rs. 359 million, registering an increase of 130 percent during this period. For the first time, the value of garment exports surpassed the value of gem exports (which was Rs. 249 million). This indicates a significant structural change in the country's traditional export pattern. Earnings from tourism also registered a significant increase as evidenced by the 30 percent increase in tourist arrivals in the first half of this year. Although

27 percent over the comparable period last year). Although the absolute level of these assets remained high this year, their level relative to the annual import bill had registered a decline. For instance, while the external assets at the end of 1978 was equivalent to about one-half of the import bill of that year, the asset level at the end of May 1979 was equivalent to only about 30 percent or even less of the estimated import bill of 1979.

Loans and Aid

The World Bank sponsored Aid Group meeting held in late May this year pledged aid equivalent to Rs. 11,350 million or US \$ 728 million. This amount comprised a sum of Rs. 6,900 million (US \$ 443 million)

ment periods extending as much as 30 to 40 years and grace periods of ten years or more. In May this year, Sri Lanka also negotiated a mixed credit of 30 million Swiss francs with Switzerland and a French credit of 50 million French francs.

Euro-dollar Loan

In June this year, Sri Lanka raised the first Euro-dollar loan of US \$ 50 million. Commenting on this the Finance Minister said: "We did not wish to take anything more than a nominal sum of 50 million dollars in our first venture into the Euro-currency market. We waited patiently for nearly two years to choose the most favourable and opportune moment to enter the market. As a result the terms obtained by Sri Lanka are considered, in financial circles, to be the best obtained by a Third World country entering the market for the first time".

SRI LANKA'S TRADE AND PAYMENTS

			First half 1978	First half 1979	Percentage Change
Exports (Rs. million)	..	..	6,184	6,718	+ 8.6
Imports (Rs. million)	..	..	6,856	10,853	+ 58.3
Trade Deficit (Rs. million)	..	..	672	4,134	+ 515.2
Export Values (Rs. Million)					
(a) Tea	..	..	3048.6	2762.1	- 9.4
(b) Rubber	..	..	1150.5	1019.1	- 2.7
(c) All coconut products	..	..	513.0	703.2	+ 36.8
(d) Gems	..	..	238.2	248.6	+ 4.4
(e) Garments	..	..	156.0	358.7	+ 129.9
Gross External Assets (Rs. million) End May			6306	7997	+ 26.8

exact figures are still not available, there is evidence to believe that remittances from Sri Lanka migrants to Middle Eastern countries have also registered a substantial increase.

External Assets

The bulk of the external payments gap of the first half of this year was financed by loans and aid. The enhanced inflow of external resources (namely in the form of loans and aid) proved sufficient not only to finance the payments gap but also to build up the country's level of external assets. The gross external assets stood at nearly Rs. 8 billion at the end of May this year compared with nearly Rs. 7.5 billion at the end of December last year (an increase of nearly 7 percent) and Rs. 6.3 billion at the end of May 1978 (and increase of

for the general development programme of the country and a sum of Rs. 4,450 million (US \$ 285 million) specifically for the Mahaweli Development Project. The latter sum excludes the contributions expected from UK and Canada where with the recent change in governments there was a review of aid programmes and commitments. The total aid pledges represented an increase of nearly 90 percent over the amount pledged to Sri Lanka at the 1978 meeting of the Aid Group (which was about Rs. 6,000 million). Another important feature of the aid pledges this year is that about one-third of the aid represents outright, non-repayable grants and the balance two-thirds are largely soft loans carrying either no interest or low interest rates ranging from one-half to three percent per annum, and with repay-

The loan was obtained at a margin of 7/8 of one percent over the LIBOR (London Inter-Bank Offered Rate). The spreads over the LIBOR for many well established borrowers are generally about 1 percent and many developing country borrowers have had to pay upto 2 percent for Euro-currency loans. Sri Lanka's loan was negotiated, after calling for offers, through the Manufacturers Hanover Ltd. and some of the best names in the international banking community were involved in the syndication of the loan. This first venture into the Euro-currency market was aimed at obtaining a good credit rating for Sri Lanka and to afford greater exposure for the country in international financial circles. The long-term objective of this exercise (apart from its enhancing the image of Sri Lanka in the eyes of foreign investors) was the need to diversify the sources of external finance available to the country in the future. Explained the Finance Minister: "As a result of this first operation into the Euro-currency market, Sri Lanka now has an additional source of external finance supplementing the bilateral and multi lateral aid on which it had been solely dependent in the past".