

THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

Folder Title: Economic Committee Papers - Ceylon - EC/M/65-25 - Conclusions of Meeting on Ceylon Economic Report

Folder ID: 30276069

Series: Country Files

Dates: 07/23/1965 – 07/23/1965

Fonds: Records of the (Staff) Economic Committee

ISAD Reference Code: WB IBRD/IDA WB_IBRD/IDA_118-03

Digitized: 11/19/2024

To cite materials from this archival folder, please follow the following format:
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK

Washington, D.C.

© International Bank for Reconstruction and Development / International Development Association or
The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: www.worldbank.org

PUBLIC DISCLOSURE AUTHORIZED

DECLASSIFIED
WBG Archives



30276069

A1995-041 Other #: 32

211946B

Economic Committee Papers - EC/M/65-25 - Conclusions of Meeting on Ceylon
Economic Report

ECONOMIC COMMITTEE

DECLASSIFIED

OCT 21 2024

WBG ARCHIVES

EC/M/65 - 25

July 23, 1965

Conclusions of Meeting on Ceylon Economic Report

I. Introduction

1. A meeting of interested aid-giving countries 1/ will take place in Washington on July 28, 1965 to consider financial support for Ceylon's foreign exchange requirements during 1965 and 1966. The meeting arises from an informal request by the United Kingdom and the United States for the Bank to take the lead in coordinating emergency external assistance to Ceylon. The Far East Department has prepared a report, which will be used as a background document at the forthcoming meeting.2/ The report was discussed at a meeting of a sub-committee, acting for the Economic Committee, on July 9. The conclusions of the sub-committee, which the Chairman approves, are given in section III below.

2. The main purpose of the July 28 meeting is to obtain assistance which will enable Ceylon to meet its foreign exchange requirements for the remainder of this year. This will permit the preparation of a program, for possible adoption by the Ceylon Government, designed to improve Ceylon's economic and financial performance and which would be considered at a second meeting, possibly by the end of the year. This period will also permit the Bank to make a more thorough review of the situation, and to consider carefully the policy the Bank group should follow in aid to Ceylon. The group of interested aid-giving countries is not a continuing consortium, but has been organized on an ad hoc basis.

1/ Australia, Canada, France, Germany, India, Japan, New Zealand, United Kingdom, United States.

2/ The Foreign Exchange Problem of Ceylon, dated July 8, 1965, together with an annex, The Economic Situation of Ceylon, which was distributed to the Economic Committee on July 2, 1965.

D I S T R I B U T I O N

Committee:

The Economic Adviser to the President, Chairman
Director, Economics Department
Director, Special Economic Studies
Director, EDI
Special Adviser to the President (Mr. Rist)
Senior Adviser, Economics Department
Economic Advisers, Area and
Projects Departments

Copies For Information:

President
President's Council
Directors, Area Departments
Special Adviser to the President (Mr. Schmidt)
Secretary
Treasurer
Director, Office of Information
Director, European Office
Secretary, Loan Committee
Executive Vice President (IFC)

3. At present, it is not intended that the Bank or IDA provide financial assistance to Ceylon, because Ceylon's needs are almost exclusively for the maintaining of imports. However, it is expected that the Bank will engage in extensive technical assistance in preparing sector development programs, assessing the country's longer-run financing needs, and carrying forward the identification and preparation of projects.

II. Background

4. The foreign exchange crisis which Ceylon now faces has taken nearly ten years to develop. Factors outside Ceylon's control played an important part in the deterioration of the external financial position. Export prices have declined by 13% since the mid-1950's. Export earnings have therefore remained virtually unchanged despite a substantial increase in export volume, and Ceylon's import capacity has stagnated. As exchange reserves, which had been used in earlier years to supplement current earnings, were depleted it became necessary to reduce imports in absolute terms.

5. However, the basic cause of the present exchange crisis lay in the Government's financial and economic policies. These in turn were largely conditioned by the social and political upheaval which took place in 1956. In the election of that year the Singhalese-speaking Buddhist rural lower middle and lower classes discovered their political strength, ousted the Conservative United National Party which had governed the country since independence, and brought about an abrupt transfer of power from the small, affluent, westernized elite to politicians more attuned to their own social background.

6. The financial policies of this Government and its successor which remained in power until early 1965, were directed primarily towards redistribution of income to the lower income groups through various subsidies, the provision of free services in education and health, and low prices of services and goods produced in the public sector. The expenditure involved in these policies increased at such a rapid rate that they outran the growth of revenue, even though the Government succeeded in raising revenue very considerably. Thus, large deficits were incurred continuously which required substantial amounts of financing from the banking system. Excessive monetary purchasing power was created, which in earlier years spilled over into imports, but which produced increasing pressure on domestic prices after 1960 when import restrictions were successively tightened.

7. The Government's concern for redistribution of income carried over into its economic policies where, combined with administrative, managerial and technical deficiencies, it resulted in a pattern of investment and a use of investment resources that was not capable of producing adequate growth of output. The exceptions were rice and, to some extent, the manufacturing industry in which a surge of private investment occurred as imports were restricted. However, overall output did not grow much more rapidly than population and, because export prices declined, per capita real income actually fell in the period 1959-1964.

8. Over the longer run, proper exploitation of Ceylon's potential for growth will help ease the foreign exchange position. It is therefore essential that the basic problem of inadequate growth is tackled effectively by devoting more resources to economic development, and ensuring that investment resources are used where they promise maximum productive return. Achievement of these objectives will be difficult because it will require tight control over consumption expenditures, and because distortions of many kinds have become deeply engrained in the economy. However, regardless of developments over the longer run, the external imbalance of Ceylon's economy exists, for the immediate future, independently of Government action on these various fronts, except tight control over imports of consumer goods and monetary restraint. Accordingly, the shortage of foreign exchange can, for the present, be alleviated only by additional foreign assistance.

III. Conclusions

9. The sub-committee reached the following conclusions on Ceylon's economic situation and foreign exchange problem:

- (a) Ceylon's economy has the basic features for sustaining substantial economic growth, if appropriate changes are made in public policies and the Government introduces, and implements, a sound development program.
- (b) Limited natural resources require greater efficiency in their utilization as a basis for the development of the economy. However, the general educational level in Ceylon and the manufacturing base established give the country distinct advantages. Also, the external public debt is small.
- (c) A step-by-step resolution of the Government's fiscal problems will be necessary, as soon as politically possible.
- (d) Population growth is a major problem facing Ceylon, and the Government should be urged to consider the introduction of policies designed to curb the country's population increase.

C. F. Owen
Secretary
Economic Committee