

**FOR
AGENDA**

EBS/83/166
Correction 1

CONFIDENTIAL

August 17, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Sri Lanka - Staff Report for the 1983 Article IV Consultation
and Request for Stand-By Arrangement

The following correction has been made in EBS/83/166 (8/9/83):

Page 1, 1st para., line 5: for "letter dated August .., 1983"
read "letter dated August 8, 1983"

A corrected page is attached.

Att: (1)

I. Introduction

The 1983 Article IV consultation discussions with Sri Lanka were held in Colombo during July 5-20, 1983. Discussions also took place on a financial program in support of which the Minister of Finance and Planning and the Governor of the Central Bank of Ceylon, in the attached letter dated August 8, 1983, request a stand-by arrangement for the period through July 31, 1984 in an amount of SDR 100 million, or 56.02 percent of quota. Financing of the proposed stand-by arrangement would be SDR 43.0 million from ordinary resources and SDR 57.0 million from borrowed resources. It is proposed the amount be made available in five installments as indicated in Table 1. A waiver of the limitation in Article V, Section 3(b)(iii) of the Fund Agreement is required.

The Sri Lanka representatives included Dr. Rasaputram, Governor of the Central Bank of Ceylon, Dr. Tilakaratna, Secretary of Finance and Planning, and officials from the Central Bank, various ministries and public corporations. The staff team included Messrs. Chabrier (ASD, head of mission), Golle (ASD), Paljarvi (ETR), Katz (FAD), Nord (EP, ASD), and Miss Eugenio (secretary FAD). It was assisted by Mr. Mountford, the Fund resident representative, and Mr. Lateef, the IBRD resident representative in Colombo. Mr. A.S. Jayawardena, Alternate Executive Director for Sri Lanka, attended the meetings as an observer.

Disturbances occurred in the last week of July in Sri Lanka after the return of the mission to headquarters. The staff has remained in contact with the authorities who have indicated their firm intention to carry out the negotiated program and to adhere to the quantified credit limits, even though they recognize that such adherence will in all likelihood involve some shift of budgetary resources from development to relief expenditure. The staff will provide an assessment of the most recent developments before consideration of the program by the Executive Directors.

Sri Lanka continues to avail itself of the transitional arrangements of Article XIV.

II. Economic Background

The liberalization policies of 1977 resulted in a strong and broadly based rebound in economic activity, with the notable exception of the tree crop sector.^{1/} The investment ratio rose to an average of 30 per cent of GDP in the early 1980s, the infrastructure of the economy was greatly improved, and major bottlenecks were reduced. The growth of real GDP averaged close to 6 per cent per year, more than

^{1/} These policies were supported by a one-year stand-by arrangement from the Fund, followed by an extended arrangement for the period 1979-81. Performance under these arrangements was assessed in SM/82/155 (7/30/82).

Table 1: Sri Lanka: Schedule of Proposed Purchases ^{1/}
and Repurchases during the Proposed Stand-by Arrangement Period

	1983		1984		
	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.
<u>(In millions of SDRs)</u>					
Purchases under					
tranche policies	10.0	20.0	20.0	25.0	25.0
Ordinary resources	6.13	13.33	13.33	10.21	--
Enlarged access	8.37	6.67	6.67	14.79	25.0
Repurchases	8.1	1.6	3.3	3.3	6.5
EFF	3.3	--	3.3	3.3	3.3
Stand-by	4.8	1.6	--	--	--
CFF	--	--	--	--	3.2
Buffer Stock	--	--	--	--	--
Net purchases	1.9	18.4	16.7	21.7	18.5
<u>Memoranda items:</u>					
Total holdings					
(end-of-period)	485.3	503.7	520.4	542.1	560.6
Excluding compensatory					
financing and					
buffer stock	441.2	459.6	476.3	498.0	519.6
<u>(In per cent of quota)</u>					
Total holdings (end of period)	271.9	282.2	291.5	303.7	314.1
Excluding compensatory					
facility and buffer stock	247.2	257.5	266.8	279.0	291.1

Source: Data provided by the Treasurer's Department.

^{1/} The first purchase under the arrangement (SDR 10 million) will be effected soon after the Executive Board approval (around mid-September); the other purchases will be based upon satisfaction of performance criteria as of end-August and November 1983 and end-February and May 1984.