

TOWARDS A THEORY OF EXCHANGE CONTROL IN RELATION TO SRI LANKA'S CONTEXT

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Exchange Control is not only an allocative mechanism of foreign exchange mainly directed towards eliminating the *ex-ante* deficit in the balance of payments but also an instrument of development planning. This administrative weapon is now identified as a lasting feature in the government armoury of many countries. However, there is no theory of exchange control as such in the economic literature. The vacuum in economic theory in the context of developing countries is well noted in the sphere of exchange control and exchange rate policies.

The purpose of this study is mainly two-fold. First, it will define exchange control and examine its characteristics against the perspective of a theory of exchange control. Secondly, the evolution of Sri Lanka's exchange control policy will be examined in greater detail to see how it could be fitted into a rational framework of exchange control.

A basic conclusion of this study is that exchange control creates distortions in production and consumption on the one hand and in exchange and money markets, on the other. As in many other countries, Exchange Control in Sri Lanka is an *ad hoc* and bureaucratic mechanism not suited to any programme of planning and development. Rationality of exchange control as a second best measure is examined to derive conclusions.

AN EXPORT CREDIT INSURANCE CORPORATION FOR SRI LANKA

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The main purpose of this study is to outline proposals for an Export Credit Insurance Corporation in Sri Lanka and indicate terms and conditions under which the proposed Corporation (ECIC) should function as a means of promoting exports. The work of ECIC is mainly two-fold. One is to issue export credit insurance policies to exporters to protect them against non-payment of proceeds by the buyers abroad due to commercial and political risks. The other is to issue guarantees to the banks against non-payment of advances by exporters.

Export credits and bank guarantees are examined against the perspective of Sri Lanka's economic and financial prospects. This will show how present pre-shipment and post-shipment credit needs are inadequate for the promotion and diversification of exports. The proposed ECIC should be self-supporting and commercial. The objectives of ECIC are many. In addition to those mentioned above, it will also (a) help exporters to find new markets, (b) grant financial and other facilities, (c) provide a flexible and comprehensive refinancing scheme, (d) undertake market studies abroad, (e) obtain credit intelligence information and (f) effect institutional changes in the country's export finance structure. Principles with regard to premium rates, spread of risks, voluntary insurance, type of cover, payment of claims, bank guarantees, policy assignment and recourse are formulated for the guidance of policy makers.

