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Sri Lanka State Of Economy - 1988

By

Mohan Samarasinghe
SRI LANKA
state of the economy - 1988
Mohan Samarasinghe
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The past few years saw a omnipresent vitality shadowed by continuous political ethnic unrest within the economy of Sri Lanka. (pop 16.1 million). This island nation off the Southern coast of India recorded the biggest boom in its economic activity while simultaneously bowing to the pressures of ongoing strife.

Despite the problems, much discussed over the world media, which has resulted in a marked downward trend in the nation's leading foreign exchange earner tourism, the state of the economy did not seem to be notably low, according to the latest Finance Ministry documents.

OVERVIEW OF THE ECONOMY

According to data available for the first half of the year 1988 and the projections for the rest of the year, the economy is expected to register a real growth of 3.6 percent compared to the very low rate of growth of 1.5 percent in 1987. The reason for the poor performance in 1987 could be attributed largely to the effects of the worst drought the country had to encounter in recent memory.

Presenting a Vote on Account in Parliament (in place of a Budget for the year 1989) recently, Finance Minister Mr M H M Naina Marikar said that the weather conditions have been able to do much better than the 3.6 percent growth projected for the economy in 1988, but unfortunately we did not enjoy the peace and stability that is essential for sustained economic activity "he said.
In this context, a 3.6 percent growth rate may be considered satisfactory.

Overall production in the agricultural sector is expected to grow by 3.6 percent. Paddy production is expected to increase by about 11.5 percent. Tea and rubber production are expected to increase by 10 and 20 percent respectively. Coconut production, however, is expected to remain depressed this year as well.

The Finance Minister sought the approval of the House, to approve by Vote on Account (1989) a sum of Rs. 24.6 million for General Services and Rs. 3.9 billion for Advanced Accounts to cover the ongoing expenditures for a period of four months. The expenditure incurred under this Resolution will be covered by an Appropriation Act of 1989, which will be enacted by the new President taking office after the December elections.

MANUFACTURING SECTOR

The manufacturing section in 1987 recorded an overall growth of around 6.7 percent. This was entirely due to the better performance of the private sector industries rather than that of state sector enterprises, whose growth recorded a decline of 3 percent. In 1988, private sector industrial output is expected to increase by about 14 percent, while the growth of the public sector is expected to be in the region of 4 percent. Therefore, overall, the manufacturing sector is likely to grow by 7 percent, which is marginally higher than in 1987.
Sri Lanka's performance in the export sector is likely to be better than in 1987. The value of the total export is expected to increase in real terms by 7 percent in 1988. Despite a substantial decline in the export of coconut products, the increase in the volume of tea and rubber exports, coupled with better prices for our rubber, will increase the agricultural export earnings by 5 percent in real terms.

Lanka's manufactured exports continue to perform well. Textile and garment exports are expected to increase their earnings by 9 percent.

DOMESTIC SAVINGS AND BANKING

Lanka's domestic savings for 1988 is estimated to be 19.7 percent of GDP which is somewhat higher than the figure recorded in 1987. However, the national savings, inclusive of private transfers from abroad is projected to be around 16 percent, which also is a little higher than the figure for 1987. It is expected that the gross domestic capital formation during the year will be 13 percent higher than last year.

The balance of Payments for this year indicate a slight improvement in the Trade and Services Accounts. However, the overall Balance will continue to remain in deficit in 1988 as well. According to the Minister of Finance, this is inevitable so long as our expenditure both on consumption and investment exceed our domestic output.
The banking sector has proved to be one of the most dynamic and competitive sectors in the economy. Foreign banks were permitted to open branches in Colombo, making the present number of such banks a respectable 19. The two major state banks expanded their services to the public opening new branches all over the country. The Bank of Ceylon now has 320 branches and the People's Bank 317. The National Development Bank (NDB), the Development Financial Corporation of Ceylon (DFCC) and the Regional Rural Development Banks have all played a significant role in the government's development activities.

According to Mr Naina Marikar, this reflects, on the one hand, the confidence of the government in the private sector as an engine of growth in the economy and on the other, that the economy is continuing to expand despite the unsettled conditions in the country.

Banks have also seen a new source of activity, generated by the Middle East worker and others working in foreign countries. Today, these workers' remittances amount to nearly U.S. dollars 350 million or nearly Rs. 11 to 12 billion, which is close to the entire income from tea, nearly three times the income from rubber and several times more than the earnings from coconut.

Sri Lanka has seen a steady dependence on foreign loans throughout the years. Foreign loans, which amounted to Rs. 454.8 million in 1975 climbed to a hefty Rs. 9,936 million by 1986. At the same time, the country also enjoyed foreign grants on a similar mode with the numbers climbing from Rs 404 million in 1975 to Rs. 3,753 million in 1986.
TOURISM

The post-1983 tourism slump continues to haunt this once vital industry with tremendous potential. The ethnic violence and political turmoil, which catapulted to enormous proportions in 1983, saw the decline of the industry from which it still has not recovered.

Tourist arrivals dropped from a high of 337,530 in 1983 to a lowly 182,620 in 1987. The number of hotels were reduced from 271 to 232 by last year, resulting in the loss of over 5,200 direct and indirect employment opportunities. The earnings from tourism did not record a very high degree of change. From Rs. 2,896 million in 1983, it dropped to Rs. 2,415 million in 1987. A highly anticipated resurgence in the industry was expected this winter, but a sudden escalation of violence in the country, forced the tourists to vacate their vacations and head home. Another resurgence is highly unlikely within the near future.

THE MAHAWELI PROGRAMME

The economy of Sri Lanka is heavily woven around the Mahaweli Program, an ambitious water-power-people-agriculture programme which for the past decade has taken the largest slice of the national expenditure. Under this program, the water from the Mahaweli river will be harnessed and channelled to the Dry Zone, where new settlements have evolved based on farming.

From 1973 to 1985 a UNDP financed Master Plan proposed the development of 360,000 Ha., of which 260,000 Ha. will be new land, divided into eight systems. Through the diversion program, it was to generate 500 Mega Watts of hydro power for domestic consumption. In 1977, the Accelerated Mahaweli Programme
proposed the development of 350,000 Ha., of them 36,000 Ha. new land. It was to generate an additional 550 MW. Initially scheduled to for completion by 1987 at the cost of US $ 2 billion, the project is yet unfinished and has so far cost the government US $ 1.47 billion.

The Mahaweli Program has three major missions. They are:

1) Generation of hydro electric energy for domestic consumption.
2) Production of food crops for domestic and import markets.
3) Generation of employment through settlement and infrastructural development.

Encouraging results and prosperous pilot projects from the Mahaweli settlement areas have made it the cornerstone of the government's agricultural development strategy.

So far, 580,000 Ha. have been irrigated by Mahaweli waters with 80 percent of these lands being in the Dry Zone. The irrigated lands amount to 25 percent of the cultivated lands of Sri Lanka. Mahaweli also provided 40 percent of the electrical power used in Sri Lanka in 1987, saving Rs. 3,250 on imported fuel used to generate thermal backup energy. Mahaweli settlement areas contributed about 269,814 metric tonnes of rice in that year, amounting to a 20 percent increase in the national production levels.

Mahaweli water has been good for the people as well as the country; during 1976 to 1986, Dry Zone paddy fields produced 3 tonnes per Ha., using rain water. With the coming of Mahaweli water, this area now average 4 tonnes per Ha. with some areas yielding as much as five tonnes. It is expected that 25 percent of the national paddy production will come from the Mahaweli areas soon.