

THE ECONOMY

Mobilisation of Savings

THE average rate of savings in Sri Lanka during the past few years has been around 12-13% of the Gross Domestic Product. The Five Year Plan envisaged a saving rate of 17% of the G.D.P. to generate the resources required to meet the investment targets of the Plan. This was to be achieved by raising the marginal rate of saving, that is to say, by saving a larger proportion of the increases in income during the Plan period. It was estimated that at least about 26% of such increases in incomes should be saved if the investment targets are to be met. In other words, the consumption out of additional incomes should be limited to a maximum of 74%. The realization of such a planned target of savings depends on (a) the extent to which the government is able to achieve a surplus on current account in the budget (government saving) (b) the size of the surpluses that State Corporations are able to generate and (c) the extent of private savings—the retained profits of firms and the savings of households. The actual realized savings in recent years has fallen far short of these planned estimates. Nevertheless, there has been a distinct improvement in the mobilisation of savings in recent years.

Government Savings

The government revenue in Sri Lanka in recent years has amounted to around 24-25% of the Gross National Product. Despite this high revenue-GNP ratio, it has become extremely difficult for governments to generate any significant saving out of the revenue to finance public investments. In fact, in many years, the government savings have been negative, meaning that the current expenditure has exceeded the revenue. During the last ten years, while the government revenue has increased by an annual compound rate of 11.1%, the recurrent expenditure has increased by 11.2%. A distinct improvement is however seen in the last two years. In both 1973 and 1974 the government has been able to generate current account surpluses of

reasonable magnitudes. The performance in this respect is particularly impressive in 1974 when nearly 20% of the government capital expenditure in that year was financed by the surplus in the current account. This was made possible on the one hand by the sharp increase in government revenue during the year and on the other, by the ability to restrain the growth in recurrent expenditure by measures to contain the food subsidy bill.

Surpluses of Public Corporations

Compared with the situation that prevailed a few years back, the public sector corporations have shown a significant improvement in recent years. Among the state industrial corporations, except for Milk Board, Oils and Fats, Hardware and Fisheries corporations, all others have been able to generate surpluses during 1974. Practically all trading corporations have also generated surpluses of varying amounts. In the years to come, the state corporation sector is bound to expand further and it will be called upon to play an increasingly important role as a generator of surpluses required for investment.

Household Savings

In regard to private savings, information is available only on the resources that banks, savings institutions, provident funds and the insur-

ance have been able to mobilize. There has been a notable increase in the savings and savings certificates during the period 1970-74. They rose from Rs. 1949 million at the end of 1970 to Rs. 3109 million at the end of 1974—an increase of about 60%. There has been a particularly impressive increase in the total savings deposits and savings certificates amounting to over Rs. 450 million in 1974. Perhaps the main factors behind this increased mobilisation of savings are the growth in incomes in the rural sector as a result of increased food production and the higher market prices for agricultural produce, and the ability of banks to tap rural savings through an expanded network of branches. The savings deposits and the savings certificates of the National Savings Bank rose from Rs. 967 million at the end of 1972 to Rs. 1342 million at the end of 1974, an increase of nearly 40%, and this was a result of the additional incentives offered to savers through higher interest rates and income tax concessions, expansion in branch network, and the saving promotion campaigns.

A considerable portion of the savings mobilized by the National Savings Bank, Provident Funds and the Insurance Corporation has been invested in government rupee securities. In 1974, these three sources accounted for 74% of the total subscriptions to rupee securities. The government's loan programme has become increasingly dependent on these three sources of savings.

TRADE GAP WIDENS

Sri Lanka's trade deficit for 1975 was nearing Rs. 1,000 million by the end of June this year. Current indications are that the country's trade gap in 1975 will outstrip even 1974's record adverse trade balance of 1,107 million. According to latest Customs data, while total imports during the first six months of this year cost the country Rs. 2,885 million our exports brought in only Rs. 1,912 million.

Comparative figures for the first six months of 1974 and 1975 are:

Exports Rs.Mln.	1974	1975	Imports Rs.Mln.	1974	1975
	1,529	1,912		2,078	2,885

Mainly responsible for the Rs. 800 million increase in our import bill during this period were the imports of Rice, Flour, Sugar, Petroleum and Fertilizer; while though falling prices of Rubber, Gems and Jewellery and Refined Petroleum products resulted in Rs. 100 million less in export earnings, the increased earnings from tea brought in the additional Rs. 400 million for this year.

China heads the list of over 100 countries both as our chief buyer and supplier. Country-wise Sri Lanka's five major trading partners for the first 6 months of 1975 are:

Imports by Sri Lanka			Exports from Sri Lanka		
Country	Value Rs. Mln.	% of Total	Country	Value Rs. Mln.	% of Total
China	330.9	11.5	China	211.9	11.0
France	297.2	10.0	U.K.	173.2	9.0
Saudi Arabia	274.9	9.5	Pakistan	156.7	8.0
Japan	257.7	9.0	Iraq	117.8	6.2
Australia	216.2	7.5	U.S.A.	111.9	5.9