

# THE ECONOMY

## The Economy in 1976

The economic prospects in 1976 were the subject of comment in this column on two previous occasions. In the January issue of the *Review* when we commented on this subject, the outlook for the year looked fairly optimistic and there were grounds to believe that the economy would fare better in relation to the preceding five years. In fact, the Finance Minister in his Budget Speech for 1976 anticipated a growth rate of over 5% for this year. However, as we approached the middle of the year, it became clear that adverse weather had begun to affect the economic prospects of the year and that the actual economic performance would be lower than originally anticipated. This was the subject of our comment in the July issue of the *Review*. As we approach the close of the year we can be more certain of the final outcome and in this issue we revert to the subject of the performance of the economy during this year.

### Growth Performance

According to the latest forecasts of the Central Bank (as quoted in the Budget Speech for 1977) the rate of growth of the economy in 1976 is expected to be only 2.5%. When allowance is made for a population growth of about 1.5%, the increase in the per capita national product would only be about 1%. The growth rate during 1972-75 has varied between 3.1% to 3.6% with an annual average rate of 3.4%. Hence 1976 will be the year with the lowest growth record during the five year period (1972 - 76).

### Agricultural Production

The principal factor behind the poor growth performance in 1976 is the decline in agricultural production as a result of adverse weather conditions. The drought which began late last year continued right upto about August this year and practically all principal agricultural crops have been adversely affected by this drought. The decline in the overall agricultural output is estimated to be around 4% in relation to the last

year's level. During January to October this year the output of tea has declined by over 45 million lbs. and for the year as a whole the decline is expected to be nearly 40 million lbs., as against an output of 471 million lbs. recorded in 1975 this year's output is expected to be only about 430 million lbs. The coconut crop in 1976 is estimated to be around 2300 million coconuts which represents a shortfall of about 250 million coconuts or about 10% in relation to the crop last year. The paddy output is estimated to be below even the level realised in 1975 (55 million bushels) which was itself an abnormally low crop. During 1970 - 74, the paddy output has varied from 63 million to 77 million bushels. Both Maha and Yala crops were low but the greatest decline has occurred in the Yala crop. The production of subsidiary crops has also been a victim of drought conditions. The only exception to this general trend in agricultural output has been rubber, where an increase in the output by about 7-8% is expected. As against a production of 328 million lbs. achieved last year, this year's output is estimated at over 350 million lbs.

In contrast with agriculture, the output of mining, manufacturing, construction, trade, transport and other services are estimated to show an improvement over the performance of last year. The value-added in manufacturing is expected to show an increase of about 4% this year. Here again the lower level of tea and coconut output should also lead to a lower value-added in manufacturing since the processing of tea and coconut are a part of manufacturing. Reflecting the improved supplies of cement and other building materials, the value-added in the construction sector is estimated to improve by around 5% this year compared with a decline of 9% last year.

### Gems and Tourism

The most dynamic sectors in the economy during 1976 appear to be the gem industry and the tourist industry both of which should record

a substantial increase in their earnings during the year. During the first six months of 1976, the earnings from gem exports reached Rs. 153 million and for the year as a whole, the earnings should reach Rs. 250 million or more. The earnings from gems in 1975 were Rs. 189 million. Reflecting the higher level of gem exports, the value-added in the mining and quarrying sector of the economy should show a marked increase during the year. However, the relative importance of this sector in the overall economy is quite small; its contribution to the GNP being less than 3%. Earnings from tourism are also estimated to show a sharp improvement relative to last year. Proceeds from tourism during the first half of this year have amounted to Rs. 107 million compared with Rs. 62 million for the same period last year. If this trend continues in the second half of the year our tourist earnings should rise above Rs. 200 million for the year compared with Rs. 124 million earned in 1975.

Despite the fall in the export volume of tea and coconut products, the export earnings of the country are expected to show an improvement of around Rs. 450 million over the last year's level. The export earnings for 1976 are estimated at Rs. 4380 million as against Rs. 3913 million realised last year. The higher earnings are a result of higher volume of rubber exports, the better prices for our tea and spices despite lower levels of production and the enhanced earnings from gems and other non-traditional exports. The import bill for the year is estimated at Rs. 5600 million which is about Rs. 250 million higher than last year. The trade deficit will therefore be in the region of Rs. 1200 million compared to over Rs. 1420 last year. Although the import prices of rice have recorded a marked decline this year, the country could not realize substantial savings in the food import bill since it became necessary to import additionally some 140,000 tons of rice to meet the deficit on the ration consequent to the failure of the paddy crop.

As in previous years, aid receipts will continue to be the major source of financing the balance of payments deficit. Aid receipts in 1976 will amount to Rs. 1333 million as against

Rs. 1427 million in 1975. The composition of the aid receipts in 1976 will be as follows: Commodity aid—Rs. 550 million; Food aid—Rs. 300 million; Project aid—Rs. 350 million; Cash loans—Rs. 92.5 million from Abu Dhabi and Rs. 26 million from China. The Oil Facility Drawings from IMF which amounted to over Rs. 270 million per year during 1974 and 1975 will amount to Rs. 107 million this year.

### Money Supply

The money supply is expected to show a marked increase during this year. In the first eight months of the year the money supply rose by 25%. The major contributory factors for this increase are (a) the increase in the net external assets of the banking system by Rs. 309 million due mainly to the under utilisation of import licences (b) increase in the government borrowing from the banking system by Rs. 274 million and (c) higher credit expansion to the private sector (including public corporations and co-operatives) by Rs. 168 million. The prices and cost of living (as measured by the Colombo Consumers Price Index which is defective in many respects) has moved by only 2% during the first nine months of the year and the index is unlikely to show a major rise during the balance part of the year. On the whole, the price increases during the year appear to be moderate compared to previous years.

In the absence of reliable current statistics, it is not possible to obtain a picture of the developments in the employment situation. The employment opportunities would have expanded in the gem and tourist industries reflecting the higher level of activity in these industries. The land reform and the setting up of Janawasas, District Development Councils, and the activities at the district levels under the Decentralised budget would also have created a fair amount of employment. The entirety of the unemployed graduates have been found employment as teachers (7500 persons) and as development assistants (around 2000 persons). However, the employment opportunities created during the year were not adequate to clear the backlog of unemployment accumulated over the years.