



## THE ECONOMY IN 1984

By mid 1984 Sri Lanka's balance of payments situation had strengthened considerably. The country's total Current Account deficit which stood at Rs.5.3 billion or SDR 214 million at the end of the first half of 1983 had come down to Rs.1.2 billion or SDR 48 million by the first half of 1984. Foreign exchange receipts in the first six months of the year had been as much as Rs.8.5 billion more than in the first six months of 1983 and Rs.10.1 billion more than in the first six months of 1982. The economy was certainly strengthened as a result though there were also manageable problems arising from developments in the international economic scene.

Notable gains upto September 1984 have been recorded in several sectors of production, particularly in those related to plantation and

industrial exports. The boom triggered at end of 1983, with tea and rubber prices beginning to look upwards, continued to maintain its momentum through 1984. The opportunities offered by higher prices for these commodities were taken full advantage of and production levels increased where prices were attractive.

Tea production during the first half of the year showed an increase of 37 per cent over the comparative period last year; while export earnings from tea in the first half of 1983 amounted to Rs.7 billion as against Rs.3.6 billion in the same period of last year. Earnings from rubber also registered a 33 per cent increase in the first half of 1984, compared to the same period of 1983; while earnings from industrial exports in the first half of 1984 at Rs.6.1

billion registered a 40 per cent increase over that of the same period of 1983. Earnings from textiles and ready made garments showed a 44 per cent increase and from petroleum a 42 per cent increase. Earnings from other exports too increased considerably.

One significant outcome of these trends has been that the chronic imbalances that were showing in both the balance of payments and public debt situations have been reversed.

The strengthened foreign reserves situation emerges clearly in a comparison of the mid-year levels of external assets over the past four years; from Rs.6.4 billion in 1981, total external assets moved up to Rs.7.5 billion in 1982 and Rs. 10.9 billion in 1983 and then shot up to Rs.15.7 billion by June 1984. The total reserves in terms of external assets which were adequate to finance only 2 to 3 months of imports in the earlier years had so improved that assets were available to cover imports upto over 5 months by August 1984.

A further consequence was that the debt service ratio too recorded a drop from a level of over 18 per cent in 1983 to 16 per cent by August 1984.

Another positive impact was that the massive increase in the export earnings has added a substantial amount to government coffers, helping to narrow the relative value of the budgetary net-cash deficit of Rs.16.8 million. When presented as a percentage of the Gross Domestic Product (G.D.P) it is seen that the ratio had dropped from 17 per cent in 1982 to a mere 9.8 per cent by August 1984.

The overall Government budget deficit which was as high as Rs.20.1 billion in 1982/83 was expected to come down to only Rs.8 billion in 1984/85, with estimated expenditure at Rs.45 billion and Revenue estimated at Rs.37 billion. Revenue in the previous two years was Rs.17.8 billion and Rs.25.2 billion.

These positive trends in both production and price structure of exports do not necessarily mean that there must be complacency. Many of the export items now recording high earnings have earlier been susceptible to adverse weather and other unfavourable factors in the international market place and it is apparent that the economy must now build up sufficient safeguards against such situations. A more detailed discussion follows.