

The Economic Outlook for 1976

All indications are that the economy of Sri Lanka should fare better in 1976 compared with the years 1971 to 1975. In 1976 production of the plantations and domestic agriculture is expected to show an improvement over the previous years. Manufacturing activity is expected to be maintained at a higher tempo of activity than in the previous year. Construction and service industries are also expected to show an improved performance in response to the growth in agriculture and industry; and with the additional activity connected with the Non-Aligned Conference in Colombo this year. Also, the first stage of the Rs. 50 million Colombo-Puttalam Canal Development Scheme is due to be completed during this year; and, the Ministry of Planning and Economic Affairs anticipating a boom in construction activity has sought government sanction to increase the ceiling on work for the government, permitted to private contractors, from Rs. 100,000 to Rs. 300,000. The Planning Ministry states in a memo that "in view of the large public sector investments that are proposed to be made in 1976, particularly in the construction sector, it has now become necessary to increase the number of agencies involved in construction activities throughout the island".

Food Imports

The food import bill should record a marked decline and the inflationary pressures should ease. Unemployment would, however, continue to be a major problem. The Finance Minister in his Budget Speech has made a forecast of an over 5% rate of economic growth for 1976. With a population growth of about 1.5%, this would mean an increase in the per capita income (in real terms) of about 3.5%. If these anticipations are realized in practice, it would mean that 1976 would be the year with the highest growth record since 1971. The growth rates ranged from 0.9% to 3.5% during 1971-75 with an annual average of 2.8%.

Among the major determinants of the nature of economic outlook for Sri Lanka in a given period are the behaviour of the output of the major plantation crops and paddy; and the import and export prices. As seen in Table I, the output of tea, rubber and coconut which showed a marked recovery in 1975, is expected to show a further round of improvement in 1976.

TABLE I
THE OUTPUT
OF MAJOR AGRICULTURAL
CROPS

	Tea m. lbs.	Rubber m. lbs.	Coconut m. nuts	Paddy m. bushels
1974	450	301	2031	76.8
1975*	475	335	2500	53.0
1976*	480	340	2600	80.85

*1975 figures are estimates.
1976 figures are forecasts.

Paddy Output

A significant expansion of output has been forecast for paddy. This is in contrast with 1975 when severe drought conditions in the Dry Zone led to a sharp drop in paddy production. The optimistic forecast for the paddy crop in 1976 has been based primarily on the availability of Mahaweli waters to the Dry Zone making double-cropping possible on some 124,000 acres of paddy land. The double cropping on this acreage alone should add 6 to 7 million bushels of paddy to the country's production. The availability of Mahaweli water should considerably raise the Yala production in particular. The Yala production in recent years has been less than 25 million bushels per year. The availability of Mahaweli water should raise this production to over 30 million bushels. Assuming a fairly good Maha crop of around 50 million bushels, the total paddy crop in 1976 could be estimated to be around 80 million bushels going up to at maximum of about 85 million bushels. (The Budget Speech gives a forecast of 57.2 million for Maha and 33.5 million for Yala and a total of nearly 91 million bushels for the year).

It is expected that more foreign exchange would be made available for industrial raw material imports in 1976 compared with 1975, and this should lead to a higher level of industrial activity. Moreover, several new industrial projects have been planned for 1976; the most important being the Fertilizer project costing over US \$150 million and the sheet glass factory with Chinese assistance. Several public sector industrial corporations have also planned for expanded activity next year. It is also expected that in accordance with the new government policy announced in the 1976 Budget, a number of export-oriented industrial ventures would come up in the private sector during the course of this year.

Export Earnings

According to the preliminary forecasts, the total export earnings in 1976 are expected to show a modest improvement of about 6% to reach a level of Rs. 3,880 million. This increase will be partly a result of the higher export volume forecast for major products and partly a result of higher export prices expected for rubber. With the economic recovery anticipated in major industrialised countries, there should occur an improvement in the demand for rubber resulting in better prices. As against an estimated average f.o.b. export value of Rs. 1.85 per lb. in 1975, the export price should average at least Rs. 2.00 per lb. in 1976. Tea export prices should average around Rs. 4.00 per lb., the same level as last year, and coconut prices are expected to be somewhat below the last year level.

TABLE II
EXTERNAL TRADE
(Rs. Million)

	Exports	Merchandise Imports	Trade Deficit
1974	3376	4603	1227
1975	3648	5550	1902
1976	3878	5436	1558

(1975: an estimate; 1976: a forecast)

The import bill for rice and flour will record a marked decline in 1976, due partly to the reduction in the import volume and partly to lower import prices. The planned import

volume for rice is 300,000 tons as against 400,000 tons last year, and for wheat flour 250,000 tons as against 450,000 tons last year. The import prices of these two commodities should average considerably below those of last year. The foreign exchange saving realised on food imports should enable a higher import volume of other essential imports such as raw materials and capital equipment. The total import outlay will decline if at all only marginally. The merchandise trade deficit has been forecast to record a fall by over Rs. 300 million in relation to last year.

Inflation

Barring some unexpected world market developments leading to a rise in the prices of imports, the inflationary pressures should show some easing during 1976. The expected higher paddy production should keep the open market prices of rice at levels lower than the average for 1975. There has been a price reduction of several manufactured goods, including textiles, since late last year. Further price reductions can be expected in 1976. The Colombo Consumers Price Index reached the 200 mark by late last year, as against 193 an year earlier. Some marginal decline in the index can be expected during 1976; even if this does not happen, it is unlikely that the index would show a significant increase during the year; though prices in the city should reach a peak by August this year.

Employment

Population which was estimated to be 13.6 million at the beginning of the year should show an increase of around 1.5% during the course of the year to reach around 13.8 million by the end of the year. The labour force at the beginning of the year can be estimated at around 4.7 to 4.8 million and the volume of unemployment at around 900,000 persons, that is about 19% of the labour force. It is doubtful whether the magnitude of development expected in 1976 could lead to any significant reduction in the level of unemployment. The chances are that unemployment will continue to be a major problem in 1976 and that the level of unemployment could even show some increase.