

### Adverse Weather Affects Economic Prospects

A rather unexpected development, namely adverse weather conditions, has begun to affect the economic prospects of Sri Lanka for this year. The south-west monsoon which normally arrives in May has failed this year and the rainfall during the first half of this year is reported to be the lowest on record for the past 66 years. The prolonged drought, which began late last year and continued up to the middle of this year, has adversely affected agricultural production in the country. The drought in the vegetable producing areas has led to a drop in vegetable production and; as every consumer knows, the market prices of vegetables recorded a sharp upward movement in recent months. It has also been reported that dry weather prevailed over most of the tea planting districts and that the drought has reduced our tea crop which up to June, stood at 102.7 million kilogrammes, exactly 16 million kilos less than in the same six month period last year. The failure of the monsoon rains will also be a factor affecting the Yala paddy crop. The open market price of rice which came down to around Rs. 2.50 per measure has been moving up in recent months. A considerable decline in the coconut crop is expected particularly during the second half of the year. Anticipating this decline, the volume of coconut product exports are now being regulated to prevent a shortfall in supplies to the domestic consumer in the coming months. The supplies of poonac (a by-product of the coconut industry) are estimated to show a decline thereby adversely affecting the animal husbandry industry and also milk production in the country.

Although it is too early to assess the final impact of these developments on agricultural output in 1976, it seems clear that the actual performance is likely to be somewhat below the original anticipated levels (see January issue of the *Economic Review*). This of course would mean that the growth prospects for the economy too

would turn out to be lower than expected. In the recent years, adverse weather conditions have been responsible for the decline in agricultural production. In 1975, the severe drought in the Dry Zone led to a drop in the paddy crop by as much as 28% in relation to the previous year. In 1974, the output of tea and rubber recorded a decline once again due to adverse weather factors. In 1973 and 1974, the coconut crop fell to abnormally low levels owing to the failure of the rains in the coconut growing areas. The economy of Sri Lanka is a victim of not only unfavourable world market development but also of unfavourable weather conditions internally.

#### Short-term Economic Measures

A number of short-term economic measures have been announced by the government in recent months with the dual objective of bringing down the cost of living and reducing the volume of unemployment. The cost of living, even when measured by the Colombo Consumers' Price Index, has shown a substantial increase in recent years. The latest available estimate of the volume of unemployment is for the year 1973 at 793,000 and there is no doubt that the figure has gone up further since then. The short-term measures announced so far to tackle these problems are summarised below:

(i) A large number of essential consumer items have been brought under price control. It is reported that the National Prices Commission is reviewing the prices of all essential commodities in order to identify commodities where further price reductions could be brought about. With a view to ensuring the effectiveness of price control the retail traders (numbering over 100,000) have been required to register and obtain licences under the Emergency Regulations. With effect from 8th July, the price of bread was reduced to 80 cents (a reduction of 20%) and the price of flour was reduced to 86 cents per lb. (a reduction of nearly 22%). These price

reductions are expected to help counter the steep rise in the open market price of rice witnessed in recent months. These price reductions are estimated to cost the government some Rs. 290 million. The additional revenue from higher taxes on tobacco and liquor (amounting to Rs. 150 million) would partly offset this revenue loss. The net addition to the food subsidy bill is however estimated at Rs. 140 million.

(ii) On the employment front, the short-term measures include the recruitment of 20,000 teachers of whom 7,500 are graduates. It is expected that this measure would clear the backlog of graduate unemployment that has accumulated over the last five years. (A few months ago, some 3000 odd graduates were also recruited under the Graduate Training Scheme of the Ministry of Planning).

(iii) A crash programme on a broader front to create employment opportunities for 300,000 persons has also been announced. Although the details of this scheme are still not available, the scheme is expected to be implemented at the regional level under the decentralised budget scheme. It has been reported that steps have already been taken to create 60 more AGA divisions (bringing the total number to 288) and 100 more Grama Sevaka divisions (bringing the total to over 5000) in order to facilitate the implementation of employment generating development activities. An important source of new employment is likely to be the work brigades to be set up in every electorate and these will undertake activities such as agricultural work, irrigation and constructional work, and soil and environmental protection. On the agricultural front, a programme for the intensive cultivation of a portion of the state-owned plantation sector is also envisaged which would raise employment potential of land. At present the employment per acre generated by the plantation sector is quite low, being only 1.5 persons in tea, 0.33 persons in rubber and 0.1 persons in coconut lands. It is envisaged that with intensive cultivation and inter-cropping the average employment per acre could be raised substantially. The above crash programme is scheduled to be implemented during the next nine to ten months.