

THE BUDGET OF 1991 – SOME BACKGROUND INFORMATION

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The purpose of this article is to give some details about the main sectors of the country's economy, as background information for the budget of 1991 which will be presented this month.

The estimated mid year population in 1989 was 16.8 million – ie. a growth of 1.3% compared to 1988. The growth rate of Gross Domestic Product (GDP) in real terms in 1989 was 2.3% compared to 2.7% in 1988. The growth rate of Gross National Product (GNP) in real terms was 2.2% compared to the 2.6% for 1988. The difference in the GDP and GNP rates is due to the net outflow of factor income abroad – mainly in the form of interest payments.

The debt service payments consisting of amortization payments on medium and long term loans and interest payments on all foreign loans at the end of 1989 was SDR 371 million. For the total outstanding external debt of SDR 3,960 million in 1989, the total interest payment was SDR 151 million. The debt service ratio (in comparison to the earnings from goods and services) was 24.4% in 1989. (The debt service ratio as a percentage of receipts from export services and private transfers was 20.8% – excluding IMF transfers).

Table I gives the summary of data on some of these sectors prepared by the Asian Development Bank in its 1989 Report.

The performance of the five main sectors of the economy at the end of 1989 was as follows: (Not adjusted for inflation)

	1989	1988
Agriculture, Forestry & Fishing	1.1	2.1
Mining and quarrying	5.4	9.0
Manufacturing	4.4	4.7
Construction	0.6	1.5
Services	3.2	2.2

TABLE I
Major Economic Indicators: Sri Lanka

		1986	1987	1988	1989	1990
Gross Domestic Product	% change	4.3	1.6	3.0	4.4	4.5
Agriculture	"	0.7	-5.6	2.6	4.1	4.1
Industry	"	6.1	5.3	5.6	6.5	6.8
Services	"	4.0	3.2	1.7	3.2	3.3
Gross Domestic Investment	% of GDP	23.1	23.2	21.9	21.3	21.0
Gross National Saving	"	16.3	17.9	16.8	16.4	16.7
Gross Domestic Saving	"	12.5	15.2	14.4	14.6	15.2
Inflation Rate	% change in CPI	6.0	7.7	14.5	10.0	7.0
Exports	\$ billion	1.21	1.39	1.43	1.81	1.84
	% change	-0.2	15.3	2.6	12.6	14.3
Imports	\$ billion	1.76	1.87	1.92	2.08	2.23
	% change	-4.0	5.9	2.9	7.9	7.6
Trade Balance	\$ billion	-0.56	-0.47	-0.49	-0.47	-0.39
Current Account Balance	\$ billion	-0.42	-0.34	-0.36	-0.37	-0.34
	% of GDP	-6.8	-5.3	-5.1	-4.9	-4.4
Debt-Service Ratio	% of exports	15.3	16.8	16.9	15.1	12.2
External Debt	\$ billion	4.1	4.7	4.8	5.1	5.6

Source: Asian Development Outlook 1989

These figures show that growth rates in all sectors of the economy except the services sector has decreased compared to 1988. Civil disturbances and work stoppages were the main reasons for this decrease. The increase in the rate of inflation could be understood if we take the increase in the exchange rates for US dollars and SDR and Sri Lanka rupees into consideration. The rate of exchange between Sri Lankan rupee and the US dollar went up from Rs 31.81 in 1988 to 36.05 in 1989, while the rate for SDR went up from 42.76 in 1988 to 46.19 in 1989. The present exchange rate for US\$ is around Rs 40.46 (1.11.90).

Among the major contributors to economic growth in 1989 were the manufacturing and service sector. The contribution of Agricultural processing (factory) industries and small industries to the manufacturing sector is 4.4%. In the services sector banking, insurance trade, public administration and defence, recorded high growth rates.

The agricultural sector has suffered a severe setback with price decrease in

most commodities in 1989. Tea production declined by 9%, rubber by 10% and paddy by 17%. Agricultural imports increased from Rs 71,030 million in 1988 to Rs 80,225 million in 1989 (SDR 1661 – 1737) and exports increased from Rs 46,928 million in 1988 to 56,175 in 1989 (SDR 1097 – 1216). The trade balance in 1989 was minus 542 compared to minus 568 in 1988.

Budget for 1991

The Prime Minister who is also the Minister of Finance has now presented to Parliament the estimate of government revenue and expenditure for 1991. The details are as follows:

The estimated revenue next year is Rs 72 billion, up from current year's revised estimate of Rs 67.7 billion by Rs 4.3 billion. The estimated expenditure of Rs 139 billion of which Rs 11,255 million is personal emoluments, Rs 75.5 billion recurrent expenditure and Rs 63 billion capital expenditure. The estimated budget deficit is Rs 67 billion.

The bulk of the additional revenue of Rs 4.3 billion is coming from taxes on production and expenditure (Rs 4.1 billion). An analysis of this shows that the main contributors are turnover taxes on manufactured goods, turnover tax on imports, selective sales taxes and import levies.

Revenues from tobacco and liquor are expected to increase. Turnover tax on imports is estimated at about Rs 2 billion. Import levies is estimated at Rs 2.2 billion.

Substantial increases of reserves due to import levies are expected from the following items: prepared foodstuffs, beverages, spirits, vinegar, tobacco, mineral products, products of the chemical and allied industries, vehicles. Tax on corporate income is expected to decrease marginally while taxes from non-corporate income is expected to go up by Rs 195 million.

From the estimated expenditure of Rs 139 billion Rs 44.8 billion has been provided to service the national debt. This includes Rs. 22.5 billion for interest payments on short term, medium and long term rupee loans, foreign loans, loan management charges, loan flotation and Rs 22.4 billion approximately as amortization payments on rupee and foreign loans and other Treasury obligations. The aggregate provided for these commitments in 1991 reflects an increase of nearly Rs 13 billion over the corresponding figure for 1990.

money on stocks due to the Gulf Crisis.

After the price increases in petroleum products, the overall market price of goods has gone up rapidly. This has adversely affected the domestic savings. Hence the rate of national savings ratio will further decrease in 1991 (This was 14.0% in 1989, 14.3% in 1988 and 15.3% in 1987).

Cost of Living

Several factors contributed to the continuous increase in the cost of living index. In 1976 the Cost of Living Index was 200. Last month the Cost of Living was 1,023 ie. a 500% increase. This indicates that the cost of Living Index has increased by about 2 fold every 6 years. In 1986-89 the annual increase in the cost of living was recorded as around 3.5%, 5%, and 7%. In 1990 it has been increasing at a rate of about 15%.

TABLE III
The Budget Deficit 1984-1990 (Rs Mn)

1984	15,861.3
1985	25,675.7
1986	28,070.5
1987	27,341.7
1988	43,240.8
1989 (Approved)	43,995.0
(Provisional)	34,627.0
1990	40,342.0
1991 (Expected)	67,000.0

Source: Central Bank - Annual Report 1989.

In 1991 the country's economy will face a number of problems. The North East war which erupted last June is not likely to be over soon. The estimated defence expenditure for 1990 alone was Rs 5 billion. The Central Bank sold two billion worth of defence bonds at an annual rate of 15% redeemable in three years. The balance 3 billion rupees is suppose to be raised from printing new money (Rs 1 billion) and from sales of nameless certificates of deposits (2 billion) (CDs).

In the meantime, Colombo Stock Market too faced problems because foreign fund managers were reluctant to put their

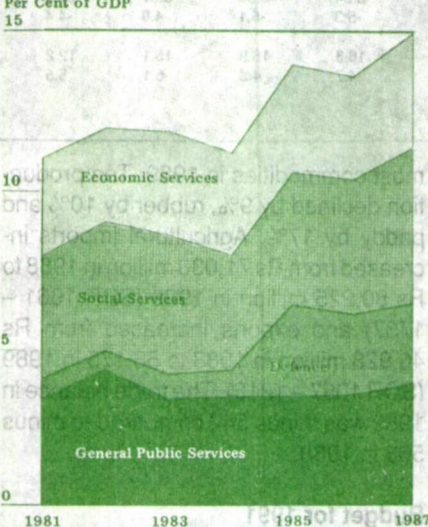
The distribution of money received as debt or grants to bridge the budget deficit and high consumption of imported goods (35% of total consumption) had contributed mainly to this increase in inflation. This will exacerbate in 1991 with a daily expenditure of Rs 120 million on the North East War and the loss of about Rs 100 million due to the Gulf Crisis.

In 1989 the price of imported items increased by about 200% compared to the previous year prices. The prices of popular household items like gas cookers, blenders, rice cookers, fans, radios, TVs, sewing machines and aluminium pottery etc. went up by around 300% in this period. The prices of food items also shows a similar increase.

These price increases are very irrational. When the oil prices went up by 20%, traders, importers and local producers increased the prices of their goods by about 40%.

However, as normalcy has been restored in the country except in the north and east some economic development can be expected in the years 1990 and 1991.

Figure 1
Government Expenditure by Function
Per Cent of GDP



Source: Asian Development Outlook 1989.

TABLE II
Government Expenditure by Ministries 1991

	Rs. bn.	% from the total expenditure of Rs 139 billion
Ministry of Finance	52.8	38.0
Ministry of Defence	11.7	8.4
Ministry of Land, Irri. and Mahaweli	5.3	3.8
Ministry of Education and Higher Education	6.3	4.5
Ministry of Power & Energy	5.2	3.7
Ministry of Pub. Admini. Provincial Council & Home Affairs	17.2	12.4
Ministry of Trnsport & Highways	6.9	5.0
Ministry of Power & Cooperatives	5.1	2.7