

SRI LANKAS' ECONOMY IN 1984

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Sri Lanka has been often cited as an interesting example of a less developed economy whose social progress reached a much higher level than what could be generally expected from countries with similar per capita incomes. The emphasis placed on welfare programmes and distributive policies by respective governments since and even prior to the independence of the country, undoubtedly paved the way for impressive achievements on the social front. Such an approach to development was made feasible to a great extent by the relatively favourable external trade conditions and the accumulated foreign assets of the country. But from the mid nineteen sixties, adverse terms of trade and growing balance of payments difficulties led to an inward-looking policy consisting of exchange and import controls, and administrative procedures for regulating the economy. These trends were reinforced in the early seventies by the difficult energy situation the country had to face, which in turn aggravated the twin problems of low economic growth and high unemployment while contributing to cost-push inflation. It was in this context that the new economic policy package was introduced in late 1977.

The economic reforms initiated in November 1977 and the follow up measures taken consisted of a series of steps relating to monetary, fiscal, exchange rate, trade and balance of payments policies. On the one hand, the new approach was characterized by greater resort to reliance on market mechanisms and free trade while on the other hand it entrusted the primary responsibility of promoting growth and employment to the government. Accordingly, a massive public sector investment programme was

launched to accelerate growth and employment which also aimed at leading and inducing private and foreign participation in investment and employment generating activities.

The strategy of the government was to embark on capital intensive, infrastructure type projects, which have a long gestation period, with a view to expanding the production capacity of the different sectors of the economy. The Private and foreign investments were expected to supplement this effort by engaging in quick yielding, surplus generating agricultural, industrial and commercial activities making use of the various incentives and infrastructure facilities provided by the government. Furthermore, the expansion of exports and enhancement of production were emphasized as the thrust of sustaining a liberalized open economic policy. For this, promotion and diversification of exports as well as utilization of imports and exchange facilities for production oriented purposes became extremely important.

Overall Performance of the Economy

In the earlier years, Sri Lanka was successful in achieving significant progress in the social sector. Notable achievements were reductions in the infant and maternal mortality rate as well as in the crude death rate, increases in life expectancy and nutritional status coupled with improvements in literacy and educational status of the population. Economic growth performance however, has been lagging behind as the national output grew only marginally in relation to the increase in the population

thereby confining the per capita income of the country to a relatively low level. The stagnation in the economy associated with rising unemployment proved to be a major social and political threat by the nineteen seventies.

The status of major socio-economic variables during the decade of the seventies can be seen in Table 1., below. It is clear that the low rate of savings, averaging less than 13 percent, had arrested the growth in national output during the 1970-77 period. The Gross Domestic Product (GDP) reflected an annual average of less than 3 percent growth rate while the corresponding rate was nearly 2 percent in the case of population. Therefore, per capita incomes grew only marginally during this period. Although in absolute terms the per capita income of the country which was Rs.1,036 in 1970 rose to Rs.2,470 by 1977 showing a more than two-fold increase, much of this reflected the inflationary impact. Hence, after allowing for price escalation the real increase in per capita income has been estimated at Rs.1,143 in 1977 which indicated only a 10 percent cumulative growth over the seven year period. In terms of U.S. dollars the per capita income in Sri Lanka in 1977 was \$ 200 compared with \$ 110 in 1973.

The new economic policy package in operation after 1977 appeared to have been effective in accelerating investment and growth. The level of capital formation has averaged nearly 28 percent during the 1978-83 period, reaching a peak of almost 34 percent in 1980. A noteworthy achievement is the more than doubling of the ratio of investment during the past six years in comparison with the 1970-77 period. (See Table 2) However, it should be revealed that such a magnitude of investment was made possible by the inflow of foreign resources, which accounted for about 46 percent of the total

capital formation activity during the period following the introduction of new economic policies in 1977. In other words, the domestic savings ratio has not kept pace with the investment requirements of the country. There has been, however, an encouraging feature in regard to overall national savings as the domestic savings have been increasingly supplemented with inward remittances from Sri Lankans abroad.

For example, the ratio of national savings as a proportion of the GDP reflected 15 percent as against an annual average of 12.7 percent in the 1970-77 period which was possible on the basis of domestic savings alone during the 1978-83 period. Hence, the rapid growth in investment, while savings remained relatively stable necessitated the assistance of foreign sources of financing to bridge the gap between desired investments, and the possible savings. While the heavy resort to foreign assistance might involve debt service implications in the years to come the fact that Sri

Lanka could mobilize large doses of foreign capital was considered a testimony to the improved financial and investment climate of the country. The task ahead therefore, would be to make the best use of such capital and generate surpluses and export earnings required to meet the funds for amortization of capital and payments of interest and other charges.

Responses of Major Economic Sectors

It should be noted that the growth impulses have come from a range of economic sectors rather than one or two activities. Of particular importance is the fact that the domestic agriculture, construction and services sectors which have the potential to expand employment and generate income have maintained reasonably high growth rates during the 1978 - 83 period. For example, compared with the early 70's when domestic agriculture experienced an average

growth rate of 3.5 percent, in recent years there has been an increase of more than 5 percent per annum. Meanwhile the construction sector which registered a negative growth rate achieved unprecedented levels of activity thereby maintaining a nearly 9 percent average annual rate of growth during the 1978 - 83 period. The services sector - which consists of an assortment of activities including utilities, transport and communications, trade and commerce, banking and finance as well as public administration and defence services - nearly doubled its growth rate and maintained a 7 percent annual increase since the liberalization of the economy in late 1977. The new economic policies have thus generated wide-spread effects across sectors, which are particularly vital for employment creation.

A significant achievement related to the agricultural sector in recent years has been the steady

TABLE I SOCIO-ECONOMIC PROGRESS OF SRI LANKA IN 1970, 1977, 1978 & 1983

	1970	1977	1978	1983
1. Economic Growth				
(a) GNP Per Capita (Rs.) Current Prices	1036	2470	2836	7017
(b) GNP Per Capita (Rs.) 1970 Prices	1036	1143	1221	1432
2. Mid Year Population ('000)	12,514	13,942	14,190	15,416
3. Employment (000)	3550	3854	4065	5002
4. Unemployment ('000)	747	1284	1193	865
5. Unemployment as a % of Labour Force	17.4	25.0	22.7	14.7
6. Gross Domestic Investment (Rs. Million)	2589	5259	8554	35,471
7. National Savings (Rs. Million)	1930	6539	6622	20,186
8. Investment as a % of GDP	18.9	14.4	20.0	29.0
9. Savings as a % of GDP	14.1	18.0	15.5	16.5
10. Foreign Resources in investment as a % of GDP	4.8	-3.6	4.5	12.5

Source :Central Bank of Ceylon: Ministry of Finance & Planning