

ECONOMY

SRI LANKA'S STAND-BY ARRANGEMENT WITH THE IMF

The activities of the IMF have rarely escaped comment, much of it critical, ever since the Fund was set up in December 1945. A body of opinion gaining ground is that its policies of recent years are 'in violation of the Fund's Articles of Agreement which enjoin upon it the adoption of policies to maintain high levels of employment, income and economic development as the primary objective of economic policy'. The terms of its assistance to Sri Lanka in 1982 and 1983 (from its official statements listed below) may be put to test in the light of such criticism.

In mid September 1983 the International Monetary Fund approved a stand-by arrangement authorising Sri Lanka to obtain financial assistance from the IMF up to the equivalent of SDR 100 million (approx. Rs.2,598 million) till July 31, 1984 in support of the Government's economic and financial programme. Under the arrangement, this drawing, equivalent to 56.02 percent of Sri Lanka's quota of SDR 178.5 million (approx. Rs.4,637 million), will be financed in part from the Fund's ordinary resources SDR 43 million or (approx. Rs.1,117 million) and in part from resources borrowed by the Fund (SDR 57 million or approx. Rs.1,481 million).

From the end of 1977, Sri Lanka introduced extensive economic reforms which were intended to stabilize the economy, improve infrastructure, stimulate growth of output, and increase employment. According to the IMF, in many respects these policies were successful. Investment revived and a rate of growth of close to 6 percent a year could be maintained on average. Since 1980, however, under the combined impact,

of a sharp deterioration in the terms of trade and accommodating financial policies, the pressures on prices and the balance of payments increased. In particular, the current account deficit of the balance of payments rose from 5.5 percent of gross domestic product (GDP) in 1978 to a level averaging 16 percent of GDP in the three year period 1980-82. Substantial borrowing abroad on commercial terms was under-taken and by early 1983, Sri Lanka's external debt service had risen significantly while reserves were declining.

The main objectives of the programme, which the present stand-by arrangement supports, were to reduce the current account deficit of the balance of payments to 12 percent of GDP in 1983 and to about 10 percent in 1984; to maintain a high rate of economic growth; and to contain the rate of inflation to 13 percent annually, on average, in 1983 and further to 8 percent by mid 1984. For this purpose, the overall and bank-financed budget deficits for 1983 were reduced substantially, tighter credit policies applied, substantial adjustments have been made in the administered prices of several goods and services, and flexibility in exchange rate policy is being implemented. Moreover, progress is being made in solving some of the more fundamental structural weaknesses.

Sri Lanka's outstanding financial obligations to the Fund resulting from past operations and transactions, excluding Trust Fund Loans, currently total the equivalent of SDR 302.7 million (approx. Rs.7,884 million).

Receipt of IMF funds between 1977 and 1982 amounted to Rs1,197 million. The Central Bank's records

of net receipts of foreign assistance in the years 1977-1982, show IMF drawings as follows:

| Year | Rs.Million |
|-------|------------|
| ----- | ----- |
| 1977 | — |
| 1978 | 789.2 |
| 1979 | 599.3 |
| 1980 | 520.6 |
| 1981 | 8.2 |
| 1982 | — |
| | ----- |
| | 1,917.3 |
| | ----- |

Sri Lanka's previous IMF drawing was on the Compensatory Financing Facility in August 1982. The Fund approved a purchase equivalent to SDR 39.2 million by the Government of Sri Lanka under the compensatory financing facility. This drawing compensated for a shortfall in Sri Lanka's export earnings experienced during the 12-month period ending July 1982.

During the shortfall year, Sri Lanka's export earnings from tea, fell by SDR 13 million, and from rubber by SDR 15 million, from medium-term trends; and together, these two commodities were accounting for about half of Sri Lanka's export receipts. The shortfall was mainly the result of a drought which lasted from late 1981 through the first quarter of 1982, lowering the production of both commodities and the quality of tea exports. In addition, weakening world demand contributed to lower prices for rubber and to a moderation in the rate of growth of receipt from other exports.

Sri Lanka's quota in the Fund is SDR 178.5 million, and its outstanding financial obligations to the Fund at that time resulting from past operations and transactions, excluding Trust Fund Loans, totalled equivalent of SDR 325.0 million.

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