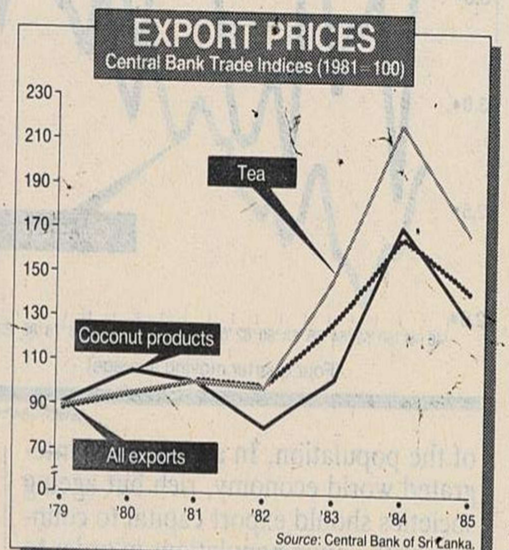
Economy under siege. (1986, October 2). *Far Eastern Economic.*

Economy under siege

Rapidly escalating defence expenditures and sharply declining commodity prices have placed Sri Lanka's economy under siege. Senior Finance Ministry officials have questioned the country's ability to continue the liberal economic policies that have been followed since 1978, the year after the incumbent Junius Jayewardene government was elected to office. A government source told the REVIEW that talks between Finance Minister Ronnie de Mel and World Bank and IMF officials at the end of September will determine the continuity of these policies.

The official said that the Ministry of Finance and Planning has been negotiating a structural-adjustment facility and a compensatory-financing facility totalling Rs 6.5 billion (US$229.7 million) to help balance the current account. The IMF and the bank, which fielded a mission in Colombo in September, had expressed certain "concerns" about the Sri Lankan economy and required "adjustments" to be made if the requested funds are to be granted. "If this money is not available to us, it is likely that we will find it extremely difficult to continue the present liberalised economy. This will entail import and exchange controls and the consequent shortages and scarcities of essential goods which accompany such controls," the official said.

There is little doubt that the Finance Ministry has been keen on getting the message of fiscal discipline across — not just to the country, but to the various ministries and government agencies that have not taken sufficient notice of the growing budget deficit and the deficit in the current account. Both the World Bank and the IMF have made it clear that these deficits must be brought down if Sri Lanka is to be considered for assistance.



REVIEWGRAPH by Ricky Hui and Ivan Kwong

Concern has been expressed about many areas: losses and mismanagement of state-owned companies, the disappointing results of diversification into non-traditional exports, Colombo's inability to formulate a proper industrial policy and strategy geared to exports, the lack of control of advance accounts by government ministries, the inability to maintain a flexible exchange-rate policy geared to exports, and the need to tackle remaining tariff discrepancies hindering exports and promoting inefficient import substitution.

The acutely depressed tea prices this year which hurt both the Sri Lankan economy, dependent on tea for the lion's share of the country's hard currency, and the two state-owned corporations — the State Plantations Corp. and the Janatha Estates Development Board — running the major part of the country's plantation industry, looked up in August. The Egyptian Trade Centre, a major buyer of Sri Lankan tea, returned to the Colombo tea sale after a five-month absence. Soviet buyers, too, returned to the auction after three months of absence, and prices perked up considerably, though the levels reached were still below the production costs of the two state-owned corporations.

Despite the pressure of defence expenditures caused by the insurgency in the north and the east by minority Tamil separatists, and declining tea prices, Sri Lanka recorded a 5% gross national product growth in 1985. This is expected to decline to about 4.5% this year. Inflation which, according to the finance minister, had declined to zero in mid-1985, rose to 1.5% in December 1985 and was between 5-6% in mid-1986.

According to the latest central-bank figures, the broad money supply showed a net increase of 1% between December 1985 and April 1986. The balance of payments, which deteriorated substantially in 1985, with the current-account deficit increasing to Rs 11.53 billion from Rs 1.4 billion a year earlier, continued to worsen in 1986. The balance of trade for the first quarter of this year was in deficit by Rs 6.95 billion compared to Rs 4.52 billion a year earlier.

— Manik de Silva