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The economy: a five year overview - *part 2*

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(Continued from yesterday)

Financial sector reforms to improve operational efficiency of the financial system (Introducing measures *to improve operational efficiency of the state* banks including a signing of Memoranda of Understanding giving targets, increase in the permitted foreign holdings in financial institutions, introduction of Treasury bonds as a marketable debt instrument with a view to making the interest rate structure more market determined and establishing a benchmark yield rate for medium term debt instruments).

New development programmes

Several specific new development programmes were earmarked to improve income and employment opportunities such as the Farming Villagers, Dedicated Economic Centres, the Textile Fund, the fifty Garment factories program, Thrust Industries, software development and the President's Fund for Innovators.

Infrastructure development

Priority was given to improve infrastructure with private sector participation particularly the energy development and telecommunication sectors, while maintaining public investment in key areas as far as possible, given the resource constraints.

There has been dynamic growth established in the telecommunications sector with continued progress evidenced in the last three years. Sri Lanka Telecom has provided 133,700 new connections during 1999 while the other companies have provided 82,000 cellular telephones and 23,750 wireless connections during 1999.

In the energy sector, dependence of hydro power has been reduced to around 67% of the generating capacity by the end of 1999 from the 1981 percent to 1996. Additions to the generating capacity has been further developed. In the health sector, the number of hospitals practising western medicine has been increased from 547 in 1996 to 391 in 1999. In addition, a base hospital upgrading system is now in progress Hospitals in Hambantota and Polonnaruwa are being modernised. A new training school for nurses has also been established at Sri Jayawardenapura.

A comprehensive educational program is also under way to improve educational standards. This includes curricula development, teacher training and the introduction of new teaching methods of teaching methods to promote creative skills and also computer education.

The present challenges

Sri Lanka needs to sustain its macro-economic stabilisation aimed at inflation control, which is the key to accelerated economic growth and improving the living standards of people. The current world prices of oil has been exerting heavy pressure on the Balance of Payments. While adjustment has been made to the domestic petroleum prices to reduce large losses to the Ceylon Petroleum Corporation, if international prices of petroleum does not decrease, the economic difficulties faced by the country are likely to be aggravated.

The ongoing war has reduced the country's growth potential by 2- 3 percentage points of GDP. The country cannot afford to continue with the war over a longer period without undermining the growth prospects further. The greatest challenge is to build up a national consensus for a political solution to its conflict. The country needs to improve its efficiency of the public sector further by introducing the efficiency of the public sector further by introducing productivity based schemes, while providing adequate compensation for pensioners to maintaining a reasonable standard of living after retirement.

Despite the war in the North and the East, economic activity in the rest of the country are taking place in the rest of the country which is safe for private investment. Convincing international investor community of this is also a challenge.

The Government is severely committed to reducing the fiscal deficit to around 4% of GDP within the next three years to ensure the containment of inflation on a sustainable basis and make more domestic resources available for private sector investment.

This is a challenging task as Government investment is already low and there is a clear need to raise public investment further at least by two percentage points from the current level of around 6.5% of GDP. This implies that two percentage points from the fiscal deficit has to be achieved while raising public sector investment to the desired levels. This is extremely challenging.

It also needs to be mentioned that even if the war is stopped and the security related expenditure is contained, there will be a compelling need to resurrect the damaged infrastructure, while raising the investments in the rest of the country. Thus, the emerging resource needs cannot be mobilised only through domestic sources. Mobilised in resources internationally on concessionary terms is also challenging task in an environment where prospects for concessionary aids for developing countries is also bleak. Our donor community needs to understand the country's special circumstances to meet this challenge. Board of Investment Chairman/Director-General Thilan Wijesinghe said that continuity in investments has been extremely good despite the country facing the most severe setbacks to record the highest cumulative Foreign Direct Investment figure for any 5 year period during the period under review. However, he is of the opinion that this figure would have been a lot higher than the perceived instability attributable to the North-East issue.

Vision 21

The country has set itself long term targets for faster economic and social progress in the vision 21 where we expect an economic growth rate of 7 to 8% on a sustainable basis to raise our per capita income to about US$ 2500 by the year 2010. This requires the raising of National savings to around 25% of GDP to make us less dependant on foreign borrowings. We would make every possible effort to reach this goals and support from the international community to make this vision a reality is most welcome.

Highlights of vision 21

Achievement of an economic growth rate of 7 to 8% on a sustainable basis and raise the current average per capita income of Rs.60,000 (US$ 850) to Rs.175,000 (US$ 2500) by the year 2010. Raise their income level of the poor by raising their share of income from the current 4% to 15% by the year 2010. Promote financial discipline in the Government. Having brought down the budget deficit to 8% in 1999, the aim of the Government is to reduce it to 4% in the medium term and to 3% by the year 2010.

Contain inflation which has been brought to 5% from 14%

(Concluded)