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Lanka's economy may face difficult period, says Dr Weerakoon

by Sumadhu Weerawarne

The United Nations Economic and Social Survey of Asia and the Pacific noting that the economic performance of Sri Lanka had been on a lower trend since 1997, projected the economy would grow 4-5 per cent this year, a figure lower than the average estimated growth for the region (6 per cent).

These projections have been made on the basis of a moderate upturn in industrial production, combined with some 2 per cent growth in agriculture and an expansion of 6.7 per cent in the services sector this year.

The report published under the Economic and Social Commission for the Asia Pacific region (ESCAP), however has not taken into account recent developments in the country in its forecasts. Dr. Dushni Weerakoon of the Institute of Policy Studies who made a presentation on the survey referring to intensified war situation in the country cautioned, "I think at this juncture, we have to be very cautious about projections for growth this year." The only silver lining as far as Sri Lanka was concerned, she pointed out was the continued strengthening of the global economy which grew by 2.6 per cent last year, which would propel export recovery for the country.

1999 showed negative export earnings growth with the long-drawn effects of the East Asian crisis and the falling commodity prices. The trade deficit too widened and the rupee depreciated by 6 per cent over the year.

She said that the economy had shown signs of recovery in the latter quarter of 1999 and the first few months of this year, but added that "the economy may well face a difficult period in the months ahead as the economy cost of renewed fighting takes its cost."

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She said that where the government was unable to raise necessary funds through privatization, it would be forced to increase its domestic borrowings, restricting funds available to the private sector. She added that until the political situation in the country eases attracting foreign direct investment would be difficult, and that increased taxes and austerity measures would curtail consumer spending. 1999 saw an increase in foreign direct investment, a significant increase in private long-term resources on account of foreign borrowings by the national airline, and communication and port authorities.

The sharp drop in inflation over the past few years was attributed to improved domestic supplies - particularly of food items - to prudent monetary management and lower imported inflation. But Dr. Weerakoon warned that with tax increases, and general increase in the price of diesel, electricity effected this year, there may be a tendency for inflation to creep up again."

Dr. Weerakoon said that since the end of 1997, Sri Lanka's total external assets had shrunk by 17 per cent. This she said can obviously place some pressure on the exchange rate. In the short term, a depreciation of the rupee can assist exporters, but in the long run that price advantage will be wiped out.

"The ESCAP Survey points out that much of the recovery expected in East Asia is from strong export growth. Sri Lanka will continue to face stiff competition in the export market. There were positive signs that export earnings were beginning to recover. It will be important to ensure that that recovery will not suffer any setbacks because of rising inflation that can affect the international competitiveness of export prices."

The report indicated that Sri Lanka's performance in relation to its neighbours in South Asia was was poor. It did poorly in comparison with India and Bangladesh, which are estimated to have grown by 5.9 and 5.2 per cent respectively, but fared better than Pakistan, which recorded a GDP growth rate of only 3.1 per cent. The Sri Lankan growth rate as stated in the report is approximately 4 per cent. while the Central Bank gives the exact figures as being 4.3 per cent.

The report said that all three plantation crops performed well in 1999 a recovery compared to the growth achieved in the previous year. A declaration was recorded in manufacturing growth and service sector growth compared to the previous year.