

On the Path to Reform and Liberalization

The Economic and Social Survey of Asia and the Pacific 1997 released by the United Nations last month said that a structural shift had taken place in the Sri Lankan economy. Especially when comparing the share of GDP produced in agriculture between 1980 and 1995. The survey says, 'the agricultural share in GDP fell from 26% to 20% in this period. Sri Lanka now has a better distributional balance between the income and population shares of the three sectors with agriculture employing 35%, industry 21% and services 45% of the economically active population.'

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Also according to this survey, local investment rate exceeded 25% accompanied by a rise in the domestic saving rate in the 1990s. Investment rates had reached well above 30% during the early 1980s. However, they could not be sustained as the domestic savings rate failed to catch up with the investment rate, leaving huge shortfalls in resources. Despite lower investment rates and moderate advances in savings rates, a resource gap equivalent to more than 10% of GDP on average remained in 1991 -95, slightly lower than the average gap of above 12% of GDP during the 1980s. The resource shortage has been further reflected in government budgetary deficits running at an average of more than 10% of GDP in the 1980s and at about 8% on average in 1991-95. Much of the domestic deficit has been monetized, leading to inflationary pressures in the economy. The average rate of annual inflation was 10% in 1991-95, having slowed from an average of more than 12% during the 1980s. The recent trends have indicated a gradual rise in both savings and savings rate to about 16% in 1995. That still

leaves a gap of around 9% of GDP. There does not yet seem to have been any relief from the continuing shortfall in overall resources and the high rates of inflation in the economy.

Sri Lankan export growth has accelerated sharply in 1990-95 relative to 1985-89 and exceeds the growth rate of imports. A ratio of GDP exports amounted to nearly 26% in 1990-95 compared to 21% in 1985-89. But these ratios are well below the ratio of imports to GDP of 30.8% in 1985-89 and 37.2% in 1990-95 indicating continuing balance of payments difficulties.

Aggregate net resource flows have risen from an average of US\$482 million in 1985-89 to US\$603 million in 1990-94 with a marked rise in FDI. Average FDI flows have risen from US\$36 million in 1985-89 to US\$115 million in 1990-94. The latter is now equal to 4.6% of Gross Fixed Capital Formation, exactly double the level in 1985-89.

By the year 2020 Sri Lanka's population will increase by about 30%, with the rate of growth declining to about 1% in the period 2000-20 compared to 1.5% in 1980-90 and 1.3% in 1990-2000. Urbanization will rise from 22% to 38.6% by 2020. Infant mortality is 18 and life expectancy 71.9 years. These are among the best in the ESCAP region.

Sri Lanka has a primary level school enrolment ratio of 106 and an adult literacy rate of 90%. 'Sri Lanka is on the path to reform and liberalization and with better educated manpower should be able to sustain a growth rate of 5% to 6% during 1996-2000,' predicts the Economic and Social Survey of Asia.