



## ECONOMY AND BUSINESS

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### Welfare oriented, semi-open, mixed economy development strategy

In many of its public statements both before and after being elected to office, the leadership of the PA has stressed its commitment to a market based, export oriented, open economy development strategy.

A close scrutiny of the PA's election manifesto and certain post-election actions of the new government are however, suggestive of a more interventionist approach than under the previous regime, as employment generation, income distribution and welfare considerations may override those of productivity and efficiency, and the bias would be in favour of indigenous small and medium sized economic units. A list of references in support of this contention is given in annexure 3.

### No reference to growth productivity and efficiency

Curiously, and somewhat ominously, there is no explicit reference in the PA manifesto to economic growth, productivity, and efficiency. Rather the stress is on employment generation and welfare.

### Sri Lanka — a regional financial and commercial center

Industry, finance and commerce

appear to be at the heart of the growth strategy with agriculture and fishing playing an important supporting role. The manifesto envisages Sri Lanka as becoming a regional financial and commercial center, but does not elaborate on the mechanisms to achieve this. The manifesto is more forthcoming on support to the agriculture and fishing sectors. The vehicles for this are low cost credit (through the state banks and new rural financial institutions) and subsidy schemes (including restoration of the fertiliser subsidy). There are some concerns that the entire rural credit programme may be in danger before it even gets under way as a result of the new government's stated intention to cancel all agricultural debts owed by small farmers to state banks.

### Role of the private sector

PA spokespersons have given repeated assurances that the private sector will continue to spearhead the development process. The stress in the election manifesto has been on the role of small and medium scale enterprises, in contrast to the previous regimes bias towards large scale enterprises.

### A role for the public sector in production, distribution and finance

The manifesto and post-election state-

ments by PA leaders are quite clear that the public sector will have an important role to play in the production and distribution of goods and services, as well as the financing of the latter. Co-operatives will be encouraged in the area of agricultural production and distribution. State financial institutions will have a strategic role in the provision of low cost capital to strategic sectors and activities. Public utilities should by and large continue to function under government control, but with considerable autonomy to improve their productivity and efficiency.

### The pace of the privatisation programme is likely to slow

The manifesto and post-election statements and actions suggest that the programme of privatisation of state assets may be reviewed. This makes uncertain the status of existing plans for the privatisation of the plantations, the two state commercial banks, the National Savings Bank, and a number of other state enterprises. Recently, Housing and Construction Minister, Nimal Siripala de Silva, halted the sale of shares of the Steel Corporation under the old privatisation programme and is reported to have stated that it was unnecessary to privatise a profit making corporation. In fact, the only privatisation commitment the new government has

made is that of the Lakehouse Group in the context of its democratisation of the media programme. More recently Mr. A. S. Jayawardena, the new Secretary of Finance, is reported to have said that the privatisation programme will continue uninterrupted.

### Greater interference with the price mechanism

It would appear that the present government intends to rely far less than the previous government on the price mechanism as the allocator of resources. Recent pronouncements by Ministers and others suggest a bias towards setting of price caps and "fair" prices, e.g., on bread, petrol, paddy, cement, drugs, etc. Thus, a scheme has already been put into operation to bring down the price of flour from Rs. 11.80/kilo to Rs. 7.45/kilo, bread (450 grams) from Rs. 5.50 to Rs. 3.50, and dhal from Rs. 25/kilo to Rs. 22.50/kilo. There have been calls for lower farmgate prices of Bombay onions and other basic vegetables. Plans are being drawn up to stabilise the incomes of pad-

Given below is an evaluation of the economic programme proposed by the Peoples Alliance government as given in the August Economic Update by ECONSULT. ECONSULT is a group of economists and analysts who pro-

vide financial consultancy, economic consultancy and investment management services. They offer a multi disciplinary approach which integrates economic analysis with financial management in the context

of socio-economic and political developments. Each assignment is tailored to focus on problems solving while helping clients to better understand the environment within which they operate.

### Economic evaluation

## Employment, income distribution and welfare may over-ride productivity

ment and technology.

### Infrastructure development a priority

The PA has repeated its pledge to develop the country's infrastructure as a matter of the utmost priority. Particular attention is to be paid to energy, roads, telecommunications and skills development. The proposed institutional vehicle is an Infrastructure Development Authority. Whilst there is agreement that both private sector and government will participate, the balance between the two and the mode of private sector participation (viz., Build-Operate Own or Build-Operate-Transfer) is unclear.

### Foreign investment and private capital flows

The PA has been relatively silent on the importance it places on foreign direct and portfolio investment flows. This arises from the widespread view that foreign private equity flows are not of great significance to development. It appears that direct investment flows are to be actively encouraged only in certain areas, viz., infrastructure develop-

### Budget deficit to be contained

According to recent pronouncements by government officials, we can expect the budget deficit to be around 8% of GDP.

On the revenue side the government's optimism comes from an estimated saving by the government at Rs. 8 bn from the proposed scrapping of

new Chairman of the Bank of Ceylon and an advisor on financial matters to the Prime Minister, stated that it was unlikely the PA would seek to introduce a tax on capital gains or increase the rate of corporate taxation.

On the expenditure side government spokespersons have been emphasising the savings arising from cutting the number of ministries and eliminating corruption while downplaying the impact of the cost of proposed welfare measures (for list of proposed measures in the manifesto see annexure 4). Over the medium and long-term there is

also high expectations of a reduction in military spending due to a settlement of the ethnic conflict.

### Interest rate pressures to be curbed

Government officials have reiterated the new government's intention to revert to captive sources in funding its domestic financing requirement in the current year. The secretary of Finance, Mr. A. S. Jayawardena has recently estimated this requirement to be in the order of Rs. 5 bn. Returning to captive sources should greatly ease the pressure on money

market interest rates.

### Unlikely to significantly depreciate the currency

Mindful of the likely inflationary consequences of a currency depreciation, the present government is unlikely to significantly depreciate the currency. Hence, it is likely that the real exchange rate will continue its two and a half year appreciation. In tandem with the withdrawal of concessional duty waivers, many exporters could find themselves with rapidly shrinking profit margins.

## Inflation on a downward trend

The Colombo Consumers' Price Index (CCPI base 1952 = 100) as computed by the Department of Census & Statistics, for September 1994, was 1467.3. This represents a decline of 3.5 per cent in comparison with the previous months' level of 1520.7 per cent.

The point to point increase of the Index (September 1994 over September 1993) was 4.2 per cent. The annual average increase of the CCPI for the 12 month period ending September is 10.3 per cent.

A decline of food prices by 5.6 per cent in September contributed to the fall in the consumer price index. The reduction in the price of wheat flour from Rs. 11.80 to Rs. 7.45 per kg. and of bread from Rs. 5.00 to Rs. 3.50 per loaf (450 g.) was the major cause for the decline in food prices during September. As a consequence of the Yala harvest coming into the market, the price of rice remained

low. Moreover, price declines were recorded for potatoes, dried chillies, B. onions and most varieties of fresh fish. In contrast, prices of coconut, limes and beef increased during the month.

Prices in the Fuel & Light category rose by 3.3 per cent mainly due to the escalation in the price of firewood. Prices in the clothing category rose marginally by 0.3 per cent.

The Greater Colombo Consumers' Price Index (GCPI base Jan. — June 1989 = 100) continued to indicate a lower level of inflation than the Colombo Consumer's Price Index. The latest figure available for this index was 170.5 for August. The 12 month annual average increase of the Greater Colombo Consumers' Price Index as at August was 6.7 per cent as compared to 10.8 per cent for the Colombo Consumers' Price Index for the same month.

— Central Bank of Sri Lanka

## Metropolitan chosen for technology award

Metropolitan Group was awarded the Runner-up for the Best Computer Technology demonstrated at Infotel Lanka '94. Metropolitan Computers which is a wholly owned subsidiary of the Metropolitan Group are the Sole Distributors in Sri Lanka for Acer Computer Systems, Novell Netware, Canon Bubble Jet Printers and Imaging Systems. At their stall, a Pentium server was networked with several Personal Computer systems including third party products. This was based on Novell Netware. In addition to the

such as Malaysia, Thailand, Indonesia and Philippines. Novell Netware is considered the de facto standard in networking. Canon pioneered the Bubble Jet Printer technology and is a market leader in this category. The Canon imaging system "Canofile" when networked provides imaging solutions that were only possible upto now on much more expensive computer systems.

The Metropolitan Group stall at the Infotel which was held