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tructuring Committee (PRU) and the management companies to find ways of providing direct financial assistance to the plantation management companies.

However, the sources said the decision of the ADB would largely depend on the terms of the new contracts that would be offered to the management companies.

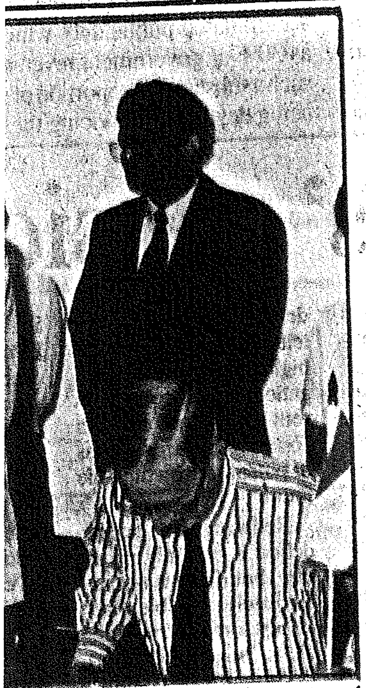
When asked about the terms of the contracts the Plantations Industries Minister said though the contracts were going to be for a long period it would not be a lease of the land but would be a management contract with the lease of other assets on the plantations.

He said the ministry was having discussions with the banks before finalising the terms to see whether the contracts that are to be offered enabled the management companies to raise the bank loans.

When the companies took over last year the government plantations boards that ran the industry has accumulated losses of around Rs. 13 billion.

Sri Lanka's output of tea is around 1000 kg. a hectare and is believed to be half that of Indian plantations and even further below those of Kenya.

Plantations sources said with less than 10 per cent of Sri Lankan tea output converted to CTC from the country also needed substantial investments in new factories.



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He said the British-Sri Lanka Business Council would be set up on the lines of the 13 other councils set up by the chamber with other countries.

Alan Green, leader of the 28-member British delegation said the Association of British Chambers of Commerce represented the largest business network in Britain with a direct membership of 214,000 companies.

Heated debate on high interest rates

By Our Financial Correspondent

A heated debate on high interest rates last week between private and government economists has stirred an old controversy as to whether the Central Bank is doing the right thing.

"I don't agree that high interest rates will bring down inflation. It is on the other hand depressing credit and squeezing the industrialist," said Dr. Howard Nicholas, a director of Econsult, a private think-tank and economic research agency.

But Dr. P.B. Jayasundera, the Central Bank's deputy director of economic research, countered: "if that is so, your position appears to be contradictory because according to your (Econsult) statistics industrial growth would rise by seven per cent this year."

Dr. Nicholas said the rise was mainly due to the expansion of the garments industry's 200 garments factories scheme which received special benefits and concessions.

The forum for the two opposing views was a discussion on the economy at a meeting of some key foreign institutional fund managers held in Colombo. The conference was organised by Asia Stockbrokers Ltd. and W.I. Carr of Hongkong.

One of the fund managers agreed with the Central Bank view of using high interest rates as a hedge against rising inflation, saying: "the high rates do not seem to affect borrowings because credit demand is growing."

Some of the fund managers had indulged in buying stocks through broker Asia sending up the Colombo stockmarket index and turnover to new highs.

Central Bank officials, including Economic Research director Dr. W. Hettiarachchi, said high interest rates - now running at 20 per cent - were intended to curb inflation which was pegged at 12 per cent last month.

Dr. Hettiarachchi said the high rates were just a short-term phenomenon "until inflation comes down". Dr. Nicholas said inflation was always imported - meaning something had to be done in this sector than in curbing money supply.

Dr. Nicholas said there were more industrial failures now because of high interest rates, a view not held by the Central Bank team. The panelists also included Dr. Gamani Corea, Dr. Nimal Sanderatne (an Institute of Policy Studies consultant) and Hiran Mendis, from Econsult.

Among other matters of interest that emerged were:

- The VAT (value added tax) scheme will be operative only in 1995 and not 1994 as expected earlier because next year is an election year and implementation would be politically unfavourable to the government.
- Government may cut capital expenditure in budget next year.
- Corporate taxes expected to be cut to 40 per cent from 35 per cent in 1994 budget.
- Foreign reserves now at all-time high of two billion rupees which is worth 6.5 months of imports.
- Even if there is an end to the Tamil rebel war next year, government defence spending is unlikely to fall, because at least 80 per cent of the defence budget is spent on salaries and the balance 20 per cent on hardware.
- Inflation will peak at 13 per cent this year from 11.4 per cent in the end 1992.
- Treasury bill rates likely to end at 22 per cent this year.
- US dollar expected to equal 50.60 rupees or even 51 rupees by year's end.

Econsult in its report given to fund managers said monetary authorities had repeatedly sought to justify high rates of interest in terms of the need to combat demand pull inflationary pressure.

"The reality, however, appears to be that they have had little choice in the matter, having agreed with the IMF and the World Bank to a policy of switching funding of the budget deficit away from low cost captive sources to relatively higher cost money market sources," it said.

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market share he said it had captured 30 per cent of the more than 6000 cellular phone users and hoped to reach 40 per cent by March 1994.

He said there would be a continuous Call link cellular corridor from Colombo to Kandy and from Chilaw to Matara apart from Kurunegala, Kuliyapitiya and Ratnapura, shortly.

Mr. Singh said Call link, collaboration of Singapore Telecom International, the International Finance Corporation of the World Bank and Capital Development and Investment Company Ltd. would be eventually put to the stock market.