9. TRADE, BALANCE OF PAYMENTS AND TOURISM

9.1 Overview

Sri Lanka's balance of payments (BOP), after five consecutive years of overall surpluses, recorded an overall deficit of SDR 62 million in 1995, mainly as a result of a decline in private capital inflows. However, on the positive side, exports fared well and the trade and current account deficits dropped sharply. The trade deficit narrowed significantly from SDR 1,089 million (13.3 per cent of GDP) in 1994 to SDR 921 million (10.8 per cent of GDP) in 1995 due to the improved export performance as well as a sharp drop in the growth of imports. With this improvement in the trade account, a small surplus in the services account and higher net private transfer receipts, the current account deficit dropped from SDR 526 million (6.5 per cent of GDP) in 1994 to SDR 358 million (4.2 per cent of GDP) in 1995.

The export sector benefitted from improved international prices for most agricultural and some industrial products, the depreciation of the exchange rate and conducive weather conditions for major plantation crops, and registered a growth rate of 12 per cent in SDR terms as compared with 9 per cent in the previous year. Meanwhile, the import growth rate decelerated sharply from 16 per cent in 1994 to 3 per cent in 1995 as a consequence of the drop in imports related to foreign private investment and a reduction in imports of durable consumer goods with the depreciation of the exchange rate. The terms of trade declined by 1.3 per cent, due to a rise in the prices of major import commodities such as wheat, sugar, milk products and fertiliser against favourable prices for major agricultural export products.

Net capital inflows dropped to half their level in 1994, despite a 19 per cent increase in net inflows of official

TABLE 9.1

Balance of Payments-Analytic Presentation 1991-1995

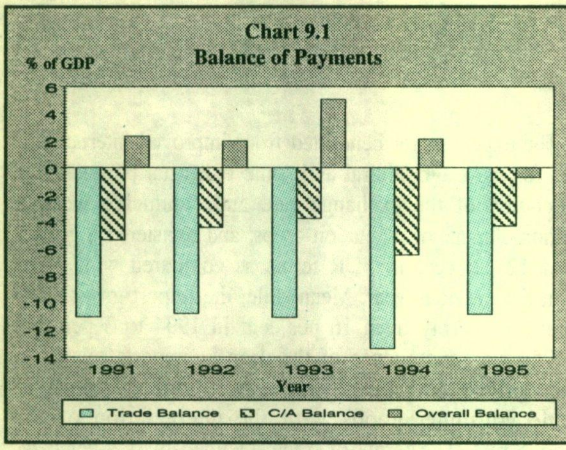
Item	SDR Million					Rupees Million				
	1991	1992	1993	1994	1995(a)	1991	1992	1993	1994	1995(a)
1. Merchandise	-726	-740	-825	-1,089	-921	-41,253	-45,784	-55,486	-77,190	-71,529
Exports	1,491	1,745	2,046	2,235	2,504	84,378	107,855	138,174	158,554	195,117
Imports	2,217	2,485	2,872	3,324	3,425	125,631	153,640	193,660	235,744	266,646
2. Services	-66	-24	28	8	8	-3,773	-1,430	1,821	520	639
Receipts	439	489	535	627	688	24,897	30,256	36,050	44,363	53,487
Payments	505	513	507	619	680	28,670	31,686	34,229	43,843	52,848
3. Goods and Services (1+2)	-791	-763	-797	-1,081	-913	-45,026	-47,214	-53,664	-76,671	-70,890
4. Transfers(Net)	441	457	517	554	554	25,030	28,280	34,839	39,245	43,101
Private(Net)	293	328	402	438	448	16,623	20,253	27,090	30,989	34,820
Official(Net)	148	130	115	117	107	8,407	8,027	7,749	8,257	8,282
5. Current Account Balance (3+4)	-350	-306	-280	-526	-358	-19,996	-18,935	-18,825	-37,425	-27,789
6. Non Monetary Capital(Net)	475	381	612	700	350	27,171	23,450	41,066	49,912	27,221
Direct Investment	46	86	134	111	38	2,633	5,315	9,107	7,815	2,931
Portfolio Investment	24	18	48	20	-2	1,329	1,122	3,272	1,334	-90
Private Long-term(Net) (b)	-18	18	135	216	52	-1,005	1,162	8,998	15,628	4,011
Private Short-term(Net)	35	91	105	182	58	2,105	5,652	7,110	12,930	4,486
Government Long-term(Net)	366	189	190	172	204	20,849	11,494	12,579	12,204	15,883
Inflows	463	313	334	311	344	26,378	19,193	22,317	22,026	26,779
Outflows	97	124	144	139	140	5,529	7,699	9,738	9,822	10,896
Government Short-term (Net)	23	-22	0	0	0	1,260	-1,295	0	0	0
7. Valuation Adjustments						235	1,555	-1,420	-1,380	6,394
8. SDR Allocations										
9. Errors and Omissions	27	59	44	-1	-54	2,730	3,398	3,328	6,059	-4,390
10. Overall Balance	152	133	375	173	-62	10,140	9,469	24,149	17,166	1,437
11. Monetary Movements(Surplus)	-152	-133	-375	-173	62	-10,140	-9,469	-24,149	-17,166	-1,437
Exchange Rate Rs/SDR						56.61	61.75	67.39	70.75	77.74
Ratios to GDP in Percentages										
Trade Account						-11.07	-10.82	-11.10	-13.32	-10.80
Current Account						-5.37	-4.47	-3.77	-6.46	-4.20
Current Account without Grants						-7.62	-6.37	-5.32	-7.89	-5.45

(a) Provisional.

Source: Central Bank of Sri Lanka

(b) Includes adjusment to capital inflows in 1993, 1994 and 1995 on account of import of five aircraft for which advance payments had been made in previous years.

Note: All transactions in the Monetary Sector are converted at the end of year exchange rate.



capital and the receipt of SDR 25 million on account of the sale of a major share holding of Colombo Gas Co. Ltd. Direct foreign investment dropped to one third of the 1994 level due to the cautious attitude of foreign private investors in the aftermath of a change of government in 1994, labour unrest and uncertainties regarding the domestic security situation after the breakdown of the government initiated peace negotiations with the separatist terrorists. Inflows of private loan capital also dropped mainly due to tapering off of the financing arrangements under Air Lanka's refleeting programme during the first half of the year and a reduction in import related short term trade credits.

There were several positive developments on the policy front. Reflecting the Government's continued commitment to an open trade and exchange system, the tariff structure was further rationalised during the year by reducing the maximum tariff from 45 to 35 percent, reducing the number of tariff rate bands from 4 to 3 and eliminating ad hoc duty

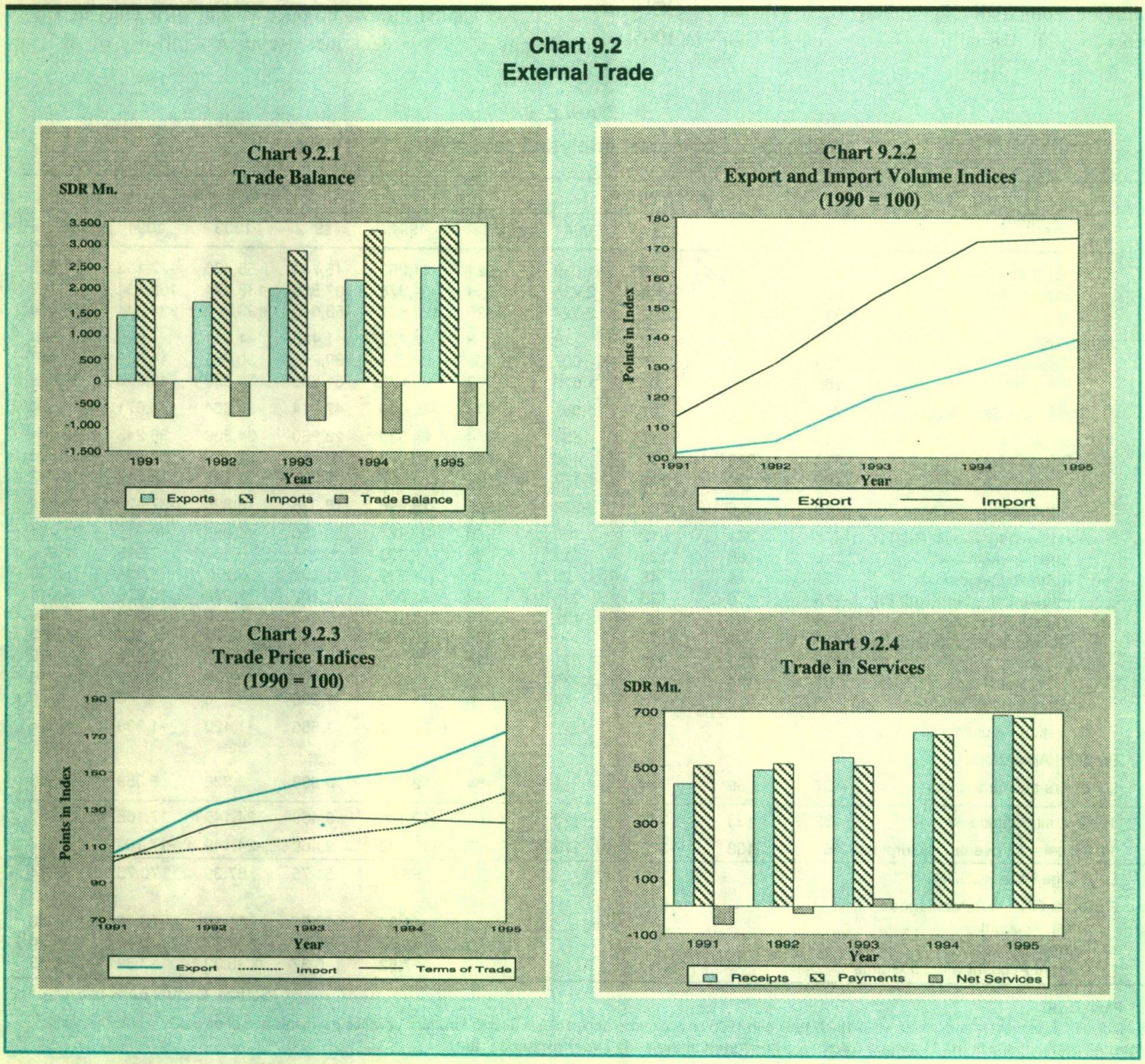


TABLE 9.2
External Trade Performance 1991-1995

Year	Growth Rates		Price Indices (1990=100)			Ratios
	Exports	Imports	Exports	Imports	Terms of Trade(a)	Export/ Imports
1991	3.1	13.0	105.0	103.9	101.1	0.65
1992	20.3	11.2	131.6	108.8	121.0	0.70
1993	17.1	15.4	144.7	114.6	126.3	0.71
1994	9.2	15.7	151.2	121.0	125.0	0.67
1995(b)	12.0	3.0	172.5	139.8	123.4	0.73

Sources: Sri Lanka Customs
Central Bank of Sri Lanka

(a) (Export price index / Import price index) x 100.
(b) Provisional.

exemptions. The exchange rate was largely market determined and it reflected the underlying macroeconomic fundamentals. The external payments system remained transparent with the convertibility of the rupee being assured for all current account transactions, all capital inflows, debt repayments and other reasonable capital outflows including foreign investments abroad on a case by case basis. In addition, the setting up of a separate body on privatisation, the Public Enterprises Reform Commission (PERC), with well defined functions was intended to build up foreign investor confidence.

In 1994, the country received SDR 56 million from the International Monetary Fund (IMF) as the first instalment under the third Enhanced Structural Adjustment Facility (ESAF) programme. The ESAF programme with the IMF expired during the first quarter of 1995 without the second instalment of SDR 56 million being drawn. The above developments in the external sector led to a drop in Sri Lanka's gross external assets by SDR 63 million during 1995. The level of gross external assets which stood at SDR 1,729 million at the end of the year was sufficient to finance 5.4 months of imports projected for 1996. The debt service ratio as a percentage of earnings from goods and services increased to 13.8 per cent, from 13.3 per cent in the previous year.

9.2 Exports

Plantation Crops

Export earnings from plantation crops grew by 15 percent and contributed to the entirety of the 12 per cent growth in agricultural exports in 1995. The value of tea increased by 7 per cent to SDR 317 million in 1995 owing to a volume increase of 5 per cent and a price increase of 2 per cent. A drop in world tea stocks due to supply shortfalls in major producing countries, increased global demand for tea due to some recovery of markets in the former Soviet Union, now the Commonwealth of Independent States (CIS), and an improvement of the quality of Sri Lanka's tea led to a considerable improvement in tea prices during the second half of the year. Reflecting the

TABLE 9.3
Composition of Exports 1991-1995

Category	SDR Million					Rs. Million				
	1991	1992	1993	1994	1995(a)	1991	1992	1993	1994	1995(a)
1. Agricultural Exports	469	429	469	490	546	26,537	26,504	31,618	34,692	42,478
Tea	316	241	295	296	317	17,867	14,893	19,911	20,964	24,638
Rubber	47	48	46	51	74	2,641	2,960	3,086	3,582	5,713
Coconut	46	60	41	53	68	2,619	3,691	2,796	3,761	5,271
Kernel Products	31	43	27	35	45	1,769	2,665	1,847	2,476	3,520
Other	15	17	14	18	23	850	1,026	949	1,285	1,751
Minor Agricultural Products	60	80	87	90	88	3,409	4,959	5,825	6,385	6,857
2. Industrial Exports (b) (c)	904	1,251	1,502	1,672	1,887	51,188	77,281	101,437	118,544	147,095
Textiles and Garments	588	862	1,009	1,081	1,218	33,261	53,209	68,150	76,685	94,946
Petroleum Products	58	45	57	56	56	3,289	2,771	3,801	3,959	4,374
Other	258	345	437	535	613	14,638	21,301	29,486	37,900	47,774
3. Mineral Exports	45	45	54	60	57	2,562	2,749	3,653	4,293	4,447
Gems	42	40	50	55	51	2,358	2,482	3,402	3,917	3,972
Other	4	4	4	5	6	204	267	251	375	475
4. Unclassified (c) (d)	34	22	21	13	14	1,938	1,321	1,467	1,025	1,096
Total Exports (b) (d)	1,452	1,747	2,046	2,235	2,504	82,225	107,855	138,175	158,554	195,116

(a) Provisional.
(b) Adjusted.
(c) Revised.
(d) Includes re- exports.

Sources : Sri Lanka Customs
Ceylon Petroleum Corporation
Central Bank of Sri Lanka

attempts made by Sri Lanka to recapture its share in the emerging markets, tea exports to the CIS increased by kg 27 million and accounted for 17 per cent of total tea exports in 1995 as compared with 5 per cent in the previous year. This was at the expense of tea exports to the Middle Eastern market. In addition, a 2 per cent increase in tea production in 1995 also helped to increase export supply.

Export earnings from rubber recorded a significant increase of 46 per cent to SDR 74 million entirely due to an upsurge in international prices (47 per cent) following a recovery of demand in industrialised countries particularly in Japan and the USA. This was due to revival of the car manufacturing industry, increased demand from China and sluggish supply from major rubber producers such as Malaysia. In addition, there is a growing global demand for natural rubber by certain industries such as surgical gloves and heavy duty tyres.

Earnings from exports of coconut products rose by 28 per cent to SDR 68 million in 1995 entirely due to higher volumes of exports. Increased domestic supply due to favourable weather conditions as well as over supply in other major coconut producing countries depressed coconut prices in the first half of the year. However, the average export price of coconut products in 1995 increased in US dollar terms although in SDR terms it dropped by 2 per cent.

Other Agricultural Products

Earnings from exports of other agricultural products declined by 2 per cent in 1995 in contrast to a 4 per cent increase registered in 1994. This was partly the result of a decline in domestic production of some agricultural crops due to rainy weather conditions that prevailed during the flowering season. In addition, gherkin exports, according to sources in the industry, suffered a setback owing to sharp competition from India since 1995. Export volumes of vegetables dropped sharply by 49 per cent entirely due to a 64 per cent volume drop of gherkins, while volumes of coffee and pepper declined by 71 per cent and 21 per cent, respectively.

Industrial Products

Industrial exports rose by 13 per cent to SDR 1,887 million in 1995 with major increases recorded in textiles and garments (13 per cent) and other non-petroleum industrial exports (15 per cent).

The average export prices of textiles and garments remained stable in SDR terms as in 1994. Textile and garment exports continued to be the leading export sub-category, contributing to about two thirds of total industrial exports. The volume of garment exports alone rose by 8 per cent while prices increased by 4 per cent. This was reflected in higher exports to both 'quota' and 'non-quota' markets, with a more pronounced growth of exports to non-quota markets. The normal annual increases in quotas, lowering of quota limits in under-utilised categories and increasing quota limits in the more popular categories with the rescheduling of the U.S. quota year from July-June to a calendar year, and the more liberal and transparent management of quotas helped to increase exports.

Earnings from petroleum products exports remained around the same level (SDR 56 million) as in the previous year. Petroleum products accounted for 3 per cent of industrial exports and a mere 2 per cent of total exports. The temporary closure of the refinery in early 1995 for maintenance purposes and the fire damage to oil storage facilities in October led to higher than expected import outlay on refined petroleum products. However, exports of petroleum products were not affected. In fact, the volume of petroleum product exports rose marginally in 1995 with prices remaining at more or less the same level as in the previous year.

Earnings from other non-petroleum industrial products rose by 15 per cent in 1995 and accounted for 32 per cent of total industrial exports. Among the major categories, increases were recorded in leather, rubber, paper, wood and ceramics (17 per cent), diamonds (6 per cent), food, beverages and tobacco (8 per cent), machinery, mechanical and electrical appliances (27 per cent) and jewellery (25 per cent). Financial and institutional incentives extended to non-traditional exports, particularly by the Export Development Board (EDB), continued to facilitate these export items. In addition, the diamonds and jewellery export sector benefitted from the liberalisation of the import of rough gemstones and exemption of import duty and turnover tax on machinery, equipment and other items used in the gem and jewellery industry introduced in November 1995. As in the recent past, this other industrial exports category reflected continued dynamism and helped to diversify the export base.

Mineral Products

The export earnings from minerals dropped by 5 per cent to SDR 57 million owing to a drop in gem exports. The volume of gem exports declined by 11 per cent due to low domestic production. The cost of mining increased mainly due to higher costs of deeper mining as well as inputs such as fuel and machinery. In addition, the sector is facing stiff competition in international markets particularly from low cost producing countries such as Madagascar which entered the market recently. Export earnings from other mineral products rose by 13 per cent to SDR 6 million benefitting from the higher demand for graphite and mineral sands.

9.3 Imports

Consumer Goods

Imports of consumer goods declined marginally with the outlay on food and drinks rising by 2 per cent and on other consumer goods declining by 3 per cent. There was a sharp drop in durable consumer goods imports. Demand for these items was sluggish due to the depreciation of the rupee in 1995. Major decreases were recorded in motor cars and motor cycles (17 per cent) and radio receivers and television sets (21 per cent). The diesel tax which was introduced with the 1995 budget and discontinuation of duty concessions for car imports to the public sector also contained import demand for motor vehicles in 1995.

The impact of increased international prices of rice and sugar (6 per cent each) on the trade account was offset by lower volumes of imports due to increased domestic production of rice and draw down on available stocks. Consequently, import outlays of rice and sugar dropped by 83 per cent and 11 per cent, respectively. Reflecting increased international prices, the import outlay on milk and milk products rose by 19 per cent.

Intermediate Goods

Imports of intermediate goods rose by 13 per cent reflecting major increases in wheat grain (57 per cent), fertiliser (30 per cent), petroleum (23 per cent) and paper and paper boards (21 per cent). Increased international wheat prices due to historically low levels of production in major wheat producing countries and of world wheat stocks in 20 years in the context of growing demand in major consuming countries, raised the world wheat prices as much as 33 percent in 1995. The impact of these high prices on Sri Lanka was further compounded by higher volumes of imports due to increased domestic demand following the introduction of a wheat flour subsidy in 1994. Imports of textiles grew by only 6 per cent against a 13 per cent growth in exports of textiles and garments, as part of the raw material needs were met by drawing down of stocks and increased domestic production of yarn. In the case of fertiliser, a higher volume had to be imported to meet the anticipated increase in domestic demand after the reintroduction of the fertiliser subsidy. In addition, world fertiliser prices increased due to lower supplies from the Ukraine and increased demand from other countries such as India and China. While the volume of crude oil imports dropped by 2 per cent as a result of the temporary closure of the refinery at the beginning of the year for maintenance, import outlay on petroleum products rose due to increased volumes of refined petroleum products imports resulting from losses suffered as a result of the fire at the oil storage facilities. The average import price of petroleum products also rose by 3 per cent in 1995. In response to sustained high demand from the manufacturing sector, imports of all other intermediate goods rose by 10 per cent in 1995.

TABLE 9.4

End-Use Classification of Imports 1991-1995

Category	SDR Million					Rs. Million				
	1991	1992	1993	1994	1995(a)	1991	1992	1993	1994	1995(a)
1. Consumer Goods	572	521	555	648	646	32,357	32,197	37,372	45,985	50,309
Food and Drinks	296	298	299	337	343	16,750	18,395	20,066	23,914	26,724
Rice	28	46	35	9	2	1,589	2,852	2,386	655	122
Flour	0	0	9	0	0	1	3	552	19	4
Sugar	91	80	84	125	112	5,138	4,952	5,621	8,875	8,716
Other	177	172	171	203	230	10,020	10,588	11,507	14,365	17,882
Other	276	224	256	311	303	15,607	13,802	17,306	22,071	23,585
2. Intermediate Goods	1,135	1,337	1,539	1,689	1,909	64,265	82,592	103,952	119,829	148,624
Petroleum	228	226	221	206	255	12,887	13,938	14,920	14,641	19,829
Fertiliser	43	38	46	44	57	2,430	2,366	3,108	3,097	4,436
Chemicals	64	67	78	84	94	3,643	4,125	5,244	5,975	7,329
Wheat	58	74	83	82	129	3,303	4,549	5,609	5,825	10,014
Textiles and Clothing	364	543	617	723	763	20,611	33,552	41,740	51,299	59,383
Other	378	390	494	550	612	21,391	24,062	33,331	38,992	47,633
3. Investment Goods	526	604	750	952	782	29,792	37,294	50,508	67,524	60,907
Machinery and Equipment	210	277	332	390	331	11,881	17,098	22,377	27,635	25,762
Transport Equipment (b)	134	128	224	316	200	7,607	7,889	15,012	22,425	15,562
Building Materials	121	129	138	168	179	6,840	7,936	9,342	11,898	13,956
Other	61	71	56	79	72	3,464	4,371	3,777	5,566	5,627
4 Unclassified Imports	4	24	26	32	83	229	1,472	1,718	2,238	6,479
Total Imports (c)	2,237	2,487	2,870	3,321	3,421	126,643	153,555	193,550	235,576	266,319

(a) Provisional.
(b) Includes the values of aircraft imported by Air Lanka in 1993, 1994 and 1995.
(c) Adjusted.

Sources: Sri Lanka Customs
Co-operative Wholesale Establishment
Ceylon Fertiliser Co Ltd. & other major importers of fertiliser
Ceylon Petroleum Corporation
Central Bank of Sri Lanka

Investment Goods

Imports of investment goods dropped significantly by 18 per cent to SDR 783 million in 1995 mainly due to decreases in transport equipment (37 per cent), machinery and equipment (15 per cent) and other investment goods (8 per cent). Investment goods imports excluding aircraft imports by Air Lanka declined by 10 per cent in 1995. The outlay on transport equipment (excluding aircraft) dropped by 18 per cent mainly due to significant decreases in imports of public transportation vehicles and tractors. The drop in the machinery and equipment category was reflected in a reduction in the imports of sewing machines. Reflecting the continued expansion in the construction sector, imports of building materials rose by 7 per cent in 1995. The overall drop in investment goods imports warrants serious consideration as it corresponds to a drop in domestic investment which would constrain the future growth potential of the economy.

TABLE 9.5

Volume of Major Imports in 1995

Metric Tons

Month	Rice	Wheat(a)	Sugar(a)	Petroleum (crude oil)	Fertiliser(a)
January	7,828	128,472	45,900	111,051	88,200
February	240	82,056	26,383	97,169	44,200
March	97	104,293	60,659	123,745	52,100
April	83	52,133	25,115	55,525	29,100
May	173	104,160	37,324	235,982	45,300
June	63	57,073	13,756	160,880	22,700
July	65	166,370	14,702	146,073	13,100
August	204	52,080	36,737	146,074	10,800
September	106	104,452	43,239	291,508	32,300
October	210	100,653	23,532	164,033	32,500
November	100	53,573	38,650	164,021	36,500
December	287	52,080	50,912	164,035	45,600
Total	9,456	1,057,395	416,909	1,860,096	452,400

(a) Adjusted.

Sources : Sri Lanka Customs
Co-operative Wholesale Establishment
Ceylon Fertiliser Co Ltd. & other major importers of fertiliser
Ceylon Petroleum Corporation

9.4 Services

In 1995, net foreign exchange receipts on account of services remained around the same level as in the previous year with both receipts and payments increasing by 10 per cent each to SDR 688 million and SDR 680 million, respectively. Major items that contributed to the increase in receipts were passenger fares, investment income and other services while higher outflows were also observed in the same categories. Increase in passenger fare earnings reflected the expansion of activities of Air Lanka after refleeting by increasing the frequency and capacity of its flights.

Tourist arrivals upto September 1995 recorded an overall increase compared to 1994. However, with the significant decline in arrivals during the fourth quarter of the year, particularly in the month of December, the year ended with a marginal decrease of 1 per cent in arrivals. In addition, the average length of stay declined in 1995. The combined outcome was a 2 per cent decline in earnings from tourism in US dollar terms, although the decline was greater in SDR terms. With the increase in income levels and a completely liberalised current account, there has been an increase in the demand for foreign travel by residents as evidenced by the number of package tours offered by travel agents. This situation coupled with increased travel for education and migration for employment abroad resulted in higher outflows in the travel category than in the previous year.

Although the external assets of the country decreased by SDR 63 million, interest earnings increased corresponding to the investments made at higher international interest rates during the first half of the year and appropriate shifts made in the foreign investment portfolio of the Central Bank. Due to the cautious attitude of investors against the backdrop of an unsettled conflict with the terrorists, outflows on account of profits and dividends continued rather than being used for reinvestments in Sri Lanka.

9.5 Transfers

Net transfers remained at SDR 554 million during 1995, despite a fall in official transfers from SDR 117 million in 1994 to SDR 107 million in 1995. As migration for employment abroad continued and remittances for family maintenance took place as usual, the growth of private transfer receipts was sustained at 12 per cent in US dollar terms, although it showed a slower growth rate in SDR terms than in the previous year.

9.6 Capital Movements

The poor performance of the capital account which recorded a sharp reduction in net inflows from SDR 700 million in 1994 to SDR 350 million in 1995 had a pronounced effect on the trade account (i.e. a reduction in imports) and the overall balance, as well as the future growth potential of the economy.

Long-Term Capital

The inflow of long-term capital to the Government increased by 11 per cent, although it was somewhat lower

TABLE 9.6
Services and Transfers 1991-1995

Item	SDR Million					Rupees Million				
	1991	1992	1993	1994	1995(a)	1991	1992	1993	1994	1995(a)
Port Transportation & Insurance	28	32	74	96	88	1,588	1,964	4,944	6,826	6,802
Credits	150	157	171	207	223	8,497	9,696	11,509	14,626	17,352
Debits	122	125	98	111	136	6,910	7,731	6,565	7,801	10,549
Travel	45	60	60	43	26	2,545	3,711	3,985	2,995	2,031
Credits	116	139	146	161	149	6,571	8,573	9,815	11,375	11,569
Debits	71	79	86	118	123	4,026	4,862	5,831	8,380	9,539
Investment Income	-130	-127	-88	-117	-91	-7,367	-7,821	-5,979	-8,310	-7,082
Credits	40	48	79	100	140	2,259	2,997	5,366	7,111	10,868
Debits	170	175	168	217	231	9,627	10,818	11,345	15,422	17,950
Profits and Dividends	-13	-22	-19	-51	-46	-718	-1,391	-1,316	-3,666	-3,599
Credits	2	1	4	1	1	89	84	279	33	54
Debits	14	24	24	51	47	807	1,476	1,595	3,699	3,654
Interest	-117	-104	-69	-66	-45	-6,649	-6,430	-4,662	-4,645	-3,483
Credits	38	47	75	99	139	2,170	2,913	5,087	7,078	10,814
Debits	156	151	144	165	184	8,820	9,342	9,750	11,723	14,296
Government Services	-3	-3	-11	-5	-7	-170	-176	-714	-373	-568
Credits	17	14	11	17	13	953	826	736	1,225	995
Debits	20	16	22	23	20	1,123	1,001	1,450	1,598	1,563
Other Services	-5	15	-6	-9	-7	-369	891	-415	-617	-544
Credits	117	132	127	142	163	6,616	8,165	8,623	10,025	12,703
Debits	122	117	134	151	170	6,985	7,273	9,038	10,642	13,247
TOTAL SERVICES	-65	-23	28	8	8	-3,773	-1,430	1,821	520	639
Credits	440	489	535	627	688	24,897	30,256	36,050	44,363	53,487
Debits	505	513	507	619	680	28,670	31,686	34,229	43,843	52,848
Private Transfers	293	328	402	438	448	16,623	20,253	27,090	30,989	34,820
Credits	323	389	454	499	526	18,311	24,037	30,592	35,345	40,891
Debits	30	61	52	61	78	1,688	3,784	3,501	4,357	6,071
Official Transfers	148	130	115	117	107	8,407	8,027	7,749	8,257	8,282
Credits	148	130	115	117	107	8,407	8,027	7,749	8,257	8,282
Debits	0	0	0	0	0	0	0	0	0	0
TOTAL TRANSFERS	441	457	517	554	554	25,030	28,280	34,839	39,245	43,101
Credits	471	519	569	616	633	26,718	32,064	38,341	43,602	49,173
Debits	30	61	52	61	78	1,688	3,784	3,501	4,357	6,071

(a) Provisional

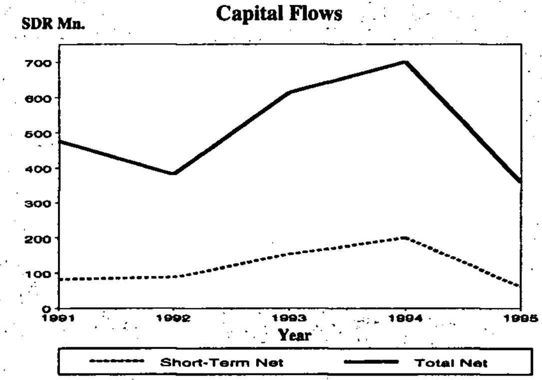
Source: Central Bank of Sri Lanka

Note: Services sector breakdown, particularly with respect to categories 1,4 and 5, may not be directly comparable with previous years as the data collection system has been revised since 1993.

than what was anticipated in the Budget due to under utilisation of project aid in some projects. The major sources of concessional assistance continued to be Japan (SDR 135 million), the International Development Association (IDA) (SDR 71 million) and the Asian Development Bank (ADB) (SDR 58 million) which together accounted for about 77 per cent of total inflows of SDR 344 million. Gross inflows increased mainly due to higher disbursements relating to recently committed foreign loans.

Foreign direct investment which included privatisation proceeds from the sale of Colombo Gas Co Ltd, declined by 66 per cent to SDR 38 million in the wake of the uncertain security situation since April, the recent experiences of labour unrest and uncertainty regarding possible implications of the proposed Workers' Charter and the investors' cautious approach following the change of government in 1994 after 17 years.

Chart 9.3
Capital Flows



In 1995 the financing arrangements for Air Lanka's refleeting programme arrangement came to an end with the import of the fifth and final aircraft (SDR 68 million) and the inflows of private long term loans during 1995 were lower than those in the previous two years. Due to a cashflow mismatch and resource problems, the two development finance institutions raised US dollars 57 million from abroad towards end 1995 to continue their long-term lending operations. However, only US dollars 14 million was disbursed out of these loans in 1995. Investors' attitude to utilise existing capacity rather than install additional capacity also reduced the flow of long term loan capital. Meanwhile, FCBU lending to BOI enterprises increased significantly by an estimated SDR 35 million during the year, thereby helping to maintain economic activities and new investments to some extent.

Short-Term Capital

Net short-term capital flows to the private sector declined to SDR 58 million in 1995 from SDR 182 million in the previous year. The CPC made a further net repayment of SDR 10 million in 1995 on account of import credits. The overall drop in short-term trade credits was reflected in the depressed level of new investment as well as sluggish growth of intermediate goods imports relative to their corresponding manufactured exports growth rates. The manufacturers minimised the utilisation of trade credits for working capital requirements by allowing stocks to deplete in the wake of increased opportunity costs of carrying high stocks. Meanwhile, off-shore balances held by BOI enterprises rose significantly, leading to higher outflows of short-term capital. Had the domestic investment climate been more favourable some of these funds may have been reflected as reinvestments by these enterprises.

Portfolio investment through the share market remained sluggish during the year. However, there was some positive development between June and November, 1995, when net inflows of foreign capital of about SDR 9 million virtually offset the net outflows which occurred during the first five months of the year. After the Mexican crisis, which had a destabilising effect on world financial and foreign exchange markets, foreign investors generally shied away from emerging markets such as Sri Lanka back to established financial centres.

9.7 External Assets

Sri Lanka's gross external assets decreased by 4 per cent to SDR 1,729 million at the end of 1995 from SDR 1,792 million at end 1994. The decline was entirely reflected in the commercial bank assets which dropped by SDR 62 million to SDR 341 million in 1995. Gross official reserves comprising foreign assets of the Central Bank and the Government declined marginally from SDR 1,389 million to

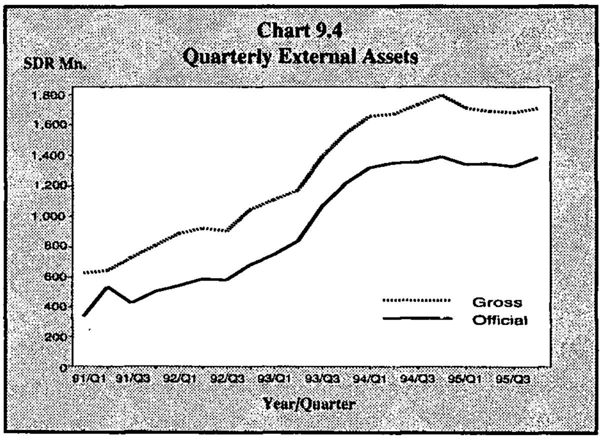


TABLE 9.7

External Assets of Sri Lanka 1991-1995

Ownership	SDR Million(a)					Rupees Million				
	1991	1992	1993	1994	1995	1991	1992	1993	1994	1995
Government (b)	27	23	23	16	12	1632	1482	1597	1132	938
Government Agencies	-	-	-	0	0	1	1	1	0	0
Central Bank (c)	476	658	1,194	1,373	1,375	28,957	41,592	81,404	99,859	110,521
Commercial Banks	306	366	326	403	341	18,633	23,161	22,256	29,349	27,446
Total	809	1,047	1,544	1,792	1,729	49,223	66,236	105,258	130,340	138,905
Gross External Assets in months of										
Merchandise Imports	4.4	5.1	6.5	6.5	6.1					
Import of Goods and Services	3.6	4.2	5.5	5.5	5.1					

Source: Central Bank of Sri Lanka.

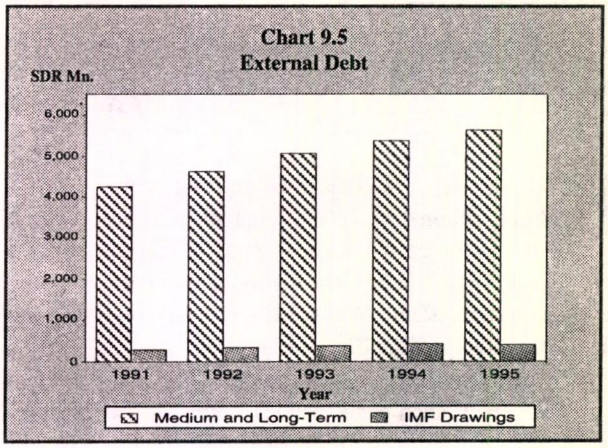
(a) Converted at the following end year rates except for certain items in the International Reserve of the Central Bank which were converted at the representative rate agreed with the IMF:

Year	1991	1992	1993	1994	1995
Rs. per SDR	60.85	63.33	68.19	72.76	80.39

(b) Figures since 1985 have been revised to include DST's Special Revolving Credit Balances.

(c) Figures since 1993 have been revised to include foreign currency of commercial banks deposited with the Central Bank as reserve requirement on their foreign currency deposits.

SDR 1,387 million between the two years. Gross external assets at the end of 1995 were sufficient to finance 5.4 months of imports projected for 1996 while gross official reserves were sufficient for financing of 4.3 months of projected imports.



9.8 Exchange Rate Movements

The Sri Lanka Rupee depreciated against its intervention currency, the US Dollar, by 7.5 per cent and against the SDR by 9.5 per cent between the end of December 1994 and end December 1995 amidst high volatility of exchange rates among key currencies in international exchange markets. Meanwhile, the combined Nominal Effective Exchange Rate (NEER) index against trading partners and competitors depreciated by 8 per cent, while the corresponding Real Effective Exchange Rate (REER) index depreciated by 3 per cent during this period, a favourable movement in Sri Lanka's competitiveness indicator in 1995.

TABLE 9.8
Exchange Rate Movements 1991-1995

Currency	End of Year Rates in Rs. per unit of Foreign Currency					Percentage Changes (a) (b)				
	1991	1992	1993	1994	1995	1991	1992	1993	1994	1995
Deutsche Mark	28.0178	28.5714	28.7371	32.1622	37.7638	-6.65	-1.94	-0.58	-10.65	-14.83
French Franc	8.1924	8.3857	8.4655	9.3151	11.0493	-5.86	-2.31	-0.94	-9.12	-15.70
Indian Rupee	1.6352	1.7520	1.5774	1.5926	1.5448	36.57	-6.67	11.07	-0.95	3.09
Japanese Yen	0.3390	0.3699	0.4433	0.5004	0.5255	-13.19	-8.35	-16.56	-11.41	-4.78
Pound Sterling	79.5820	69.4278	73.4972	78.0513	84.2465	-5.02	14.63	-5.54	-5.83	-7.35
US Dollar	42.5800	46.0000	49.5615	49.9800	54.0475	-5.50	-7.43	-7.19	-0.84	-7.53
SDR	60.8464	63.3337	68.1932	72.7604	80.3875	-5.91	-3.93	-7.13	-6.28	-9.49

Source: Central Bank of Sri Lanka.

(a) Changes computed on the basis of foreign currency equivalent of Sri Lanka Rupees.
(b) A minus sign indicates depreciation.

9.9 External Debt

Sri Lanka's total outstanding external debt at the end of 1995 was estimated at SDR 6,460 million recording an increase of SDR 369 million during the year. This increase was reflected mainly in the medium and long term debt of the Government, predominantly concessional assistance from Japan and the IDA. Meanwhile, outstanding government guaranteed debt of public corporations rose to SDR 370 million mainly due to the loan obtained by Air Lanka as final instalment of the refleeting package. There were no new government guaranteed private sector loans taken in 1995. Outstanding private sector external debt without government guarantees increased from SDR 237 million to SDR 259 million entirely due to FCBU borrowings of BOI enterprises. With the repayment of SDR 22 million and no further IMF drawings during the year, total outstanding debt to the IMF declined to SDR 400 million at the end of 1995.

The stock of short term capital was limited to acceptance credits of the Ceylon Petroleum Corporation (CPC), import related trade credits of both Board of Investment (BOI) and non-BOI enterprises and net short-term FCBU borrowings of BOI enterprises. Outstandings on such capital rose by SDR 58 million between the two years, 1994 and 1995.

9.10 Debt Service Payments

Debt service payments consisting of amortisation of medium and long term loans and interest payments on all

Box 5

Effective Exchange Rates

An exchange rate can be expressed either in terms of the national currency value of a unit of foreign currency (price quotation system) or foreign currency value of a unit of the national currency (volume quotation system). While it is customary to express the exchange rate in the former, the latter is a more appropriate indicator to assess the extent of appreciation and depreciation of the national currency[1]. For example, the annual average exchange rate of the rupee against the US dollar moved from Rs.49.42 in 1994 to Rs.51.25 in 1995, and hence the US dollar value of the rupee dropped from 20.23 US cents to 19.51 US cents per rupee during this period. Accordingly, the average nominal exchange rate (NER) of the rupee against the US dollar depreciated by 4 percent in 1995, in nominal terms.

Two other widely used indicators to measure exchange rate changes are the Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER)[2].

The NEER is a weighted average of major bilateral nominal exchange rates, with weights based on the trade shares reflecting the relative importance of each currency in the effective exchange rate basket[3]. The REER is obtained by adjusting the NEER for inflation differentials with the countries whose currencies are included in the basket. As the inflation rate in each country is assumed to broadly indicate the trends in domestic costs of production, the REER is expected to reflect foreign competitiveness of domestic products. However, one cannot solely rely on the REER indicator to gauge the variations in competitiveness, as it does not adequately capture the impact of a host of other factors such as the changes in macro-economic policies, changes in the trade and exchange system including the changes in the regulatory and institutional environment and productivity changes. In addition, there could be data deficiencies, particularly in the price indicators.

Nevertheless, effective exchange rate indicators are widely used to assess competitiveness. The main focus of the NEER and the REER is on the trade balance, particularly the exchange rate induced changes in trade flows. A trend appreciation of the real effective exchange rate is considered unfavourable for the growth of export and import competing industries.

Chart 1
Nominal Effective Exchange Rate
(1990 = 100)

1 The British use the 'volume quotation system' where the exchange rate for the Sterling Pound is generally expressed in terms of foreign currency per Sterling Pound.

2 The notion of Nominal Effective Exchange Rate was developed by Hirsch and Higgins (1970) and later extended by others. See 'A Revised Weighting Scheme for Indicators of Real Effective Exchange Rate', IMF/Working Paper WP/87/87 for details.

3 **Nominal Exchange Rate (NER)**

$E_{SL,i}$ = Bilateral nominal exchange rate with the i^{th} country in units of i^{th} country currency per Sri Lanka rupee.

Nominal Effective Exchange Rate (NEER)

$$NEER = \prod_{i=1}^{n} (E_{SL,i})^{wi}$$

Weighted geometric average of bilateral nominal exchange rates where Wi is weight assigned to the i^{th} country.

Real Effective Exchange Rate (REER)

$$REER = \prod_{i=1}^{n} \left(E_{SL,i} \cdot \frac{P_{SL}}{P_i}\right)^{wi}$$

Weighted geometric average of the inflation adjusted bilateral nominal exchange rates, where P_{SL} is Sri Lanka's inflation index and P_i is the inflation index of the i^{th} country.

NEER and REER are generally shown as indices calculated by using indices for bilateral exchange rates in the formulae. A drop in any of these indices indicates depreciation.

Box 5 (contd.)

Sri Lanka's NEER with trading partner/competitor countries, taking 1990 as the base year, stood at 78.2 at end 1995, indicating a depreciation of 22 per cent during the past five years. This reflects faster depreciation of the Sri Lanka rupee in nominal terms than its partner/competitor countries' currencies. The REER, which is also affected by variations in domestic and foreign inflation rates, in addition to the variations in the NEER, fluctuated within a range of -3 per cent and +13 per cent around the base period index of 100 during 1990 - 1995.

In 1995, the combined inflation rate of the trading partner/competitor countries was around 5.5 per cent as compared with an annual inflation rate of 11.5 per cent (point to point) in Sri Lanka. Despite relatively higher inflation in Sri Lanka, the REER depreciated by 3.1 per cent in 1995, following the depreciation of the NEER.

Chart 2
Real Effective Exchange Rate
(1990 = 100)

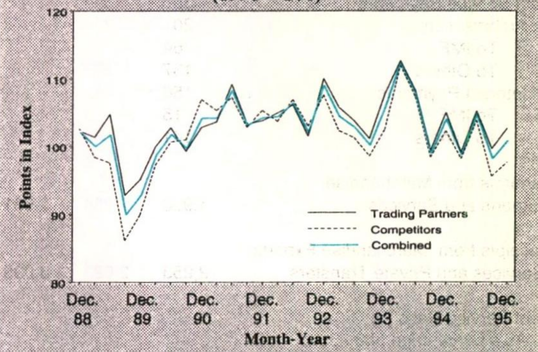


TABLE 9.9
Disbursed and Outstanding External Debt 1991 - 1995

Item	SDR Million					Rupees Million				
	1991	1992	1993	1994	1995(a)	1991	1992	1993	1994	1995(a)
1 Medium and Long-term Debt	4246	4,624	5,060	5,384	5,695	255,798	289,679	345,083	391,714	442,425
Government	3,589	3,841	4,123	4,214	4,507	218,400	243,251	281,142	306,615	350,425
Public Corporations with Government Guarantee	141	176	246	349	370	8,578	11,121	16,804	25,414	28,751
Private Sector with Government Guarantee	120	129	144	159	157	7,319	8,173	9,821	11,576	12,229
Public Corporations without Government Guarantee	3	2	1	1	1	197	151	97	95	93
Private Sector without Government Guarantee	113	139	170	237	259	6,867	8,784	11,566	17,281	19,824
IMF Drawings	280	338	376	422	400	14,437	18,199	25,653	30,734	31,104
2. Short-term Debt	350	421	526	707	765	20,200	24,579	31,689	44,619	59,479
Government	21	0	0	0	0	1,275	0	0	0	0
Central Bank Borrowings	0	0	0	0	0	0	0	0	0	0
Other (b)	329	421	526	707	765	18,925	24,579	31,689	44,619	59,479
3. Total Debt (1+2)	4596	5,045	5,586	6,091	6,460	275,998	314,257	376,772	436,333	501,904
MEMORANDUM ITEMS										
Medium and Long-term Debt										
(1) Project Loans	2,393	2,556	2,711	2,891	3,103	145,631	161,873	184,859	210,354	241,238
(2) Non-Project Loans	1,177	1,251	1,305	1,239	1,262	71,600	79,234	88,984	90,147	98,131
(3) Suppliers' Credits	30	61	119	111	114	1,805	3,873	8,087	8,051	8,876
(4) IMF Drawings	280	338	376	422	400	14,437	18,199	25,653	30,734	31,104
(5) Other Loans (c)	366	418	550	721	816	22,325	26,499	37,500	52,429	63,075

Sources: Central Bank of Sri Lanka
External Resources Dept.

(a) Provisional.
(b) Includes acceptance credits of Ceylon Petroleum Corporation, trade credits and short-term borrowings from FCBUs.
(c) Includes long-term loans of public corporations and private sector institutions.

TABLE 9.10
External Debt Service Payments 1991-1995

Item	SDR Million					Rupees Million				
	1991	1992	1993	1994	1995(a)	1991	1992	1993	1994	1995(a)
1. Debt Service Payments	356	382	357	379	441	20,173	23,671	24,066	26,734	34,161
Amortisation	201	231	213	214	257	11,353	14,329	14,317	15,012	19,865
To IMF	64	54	18	9	22	3,600	3,359	1,119	616	1,650
To Others	137	177	195	205	234	7,753	10,969	13,198	14,396	18,214
Interest Payments	156	151	144	165	184	8,820	9,342	9,750	11,723	14,296
To IMF	15	8	5	5	5	830	481	363	348	407
To Others	141	144	139	160	179	7,990	8,862	9,387	11,374	13,889
2. Earnings from Merchandise Exports and Services	1,930	2,234	2,581	2,862	3,192	109,275	138,111	174,224	202,917	248,603
3. Receipts from Merchandise Exports, Services and Private Transfers	2,253	2,623	3,035	3,361	3,718	127,586	162,148	204,815	238,262	289,495
4. Debt Service Ratio (b)										
As a percentage of 2 above										
Overall Ratio	18.5	17.1	13.8	13.3	13.8	18.5	17.1	13.8	13.2	13.7
Excluding IMF Transactions	14.4	14.3	12.9	12.8	12.9	14.4	14.4	12.9	12.7	12.9
As a percentage of 3 above										
Overall Ratio	15.8	14.6	11.8	11.3	11.8	15.8	14.6	11.8	11.2	11.8
Excluding IMF Transactions	12.3	12.2	11.0	10.9	11.1	12.3	12.2	11.0	10.8	11.1
5. Government Debt Service Payments										
As a share of 1 above (c)	178.0	205.9	221.6	233.4	240.7	10,075.0	12,713.0	14,933.5	15,833.3	18,712.0
As a percentage of 1 above	50.0	53.9	62.0	61.5	54.6	49.9	51.0	62.1	59.2	54.8

Source: Central Bank of Sri Lanka.

(a) Provisional.
(b) Debt service ratios calculated in Rupee values and SDR values differ due to variations in exchange rates during the year.
(c) Excludes IMF transactions.

foreign loans, increased by 16 per cent to SDR 441 million in 1995. Both amortisation and interest payments increased by SDR 43 million and SDR 19 million, respectively. Amortisation payments to the IMF increased due to the commencement of repayments on account of the Structural Adjustment Facility (SAF) taken in 1989. Amortisation payments to others increased by SDR 29 million. Despite the growth of exports by 12 per cent during the year, the debt service ratio rose from 13.3 per cent in 1994 to 13.8 per cent in 1995 indicating that debt service payments have outpaced the growth in exports. Debt service payments as a ratio of receipts from the exports of goods, services and private transfers also increased from 11.3 per cent to 11.8 per cent between the two years.

9.11 External Sector Policy

Exchange Rate

Taking into account a number of economic and financial indicators including recent trends in the Real Effective Exchange Rate (REER), the Central Bank announced the daily buying and selling rates for the intervention currency, the US dollar, with a 2 per cent margin between these two rates and was ready to buy or sell the US dollar for Sri Lanka rupees. This wide margin provided the necessary flexibility for commercial banks to quote their own buying and selling rates. The behaviour of the exchange rate in the market in relation to the Central Bank's buying and selling rates was an indicator of the short-term exchange market conditions. For the most part of 1995, the market rate remained very close to the Central Bank's buying rate with the exception of a few short periods of intense speculation during which the market rate depreciated considerably and later corrected itself.

Import and Export Controls

Sri Lanka maintained an open trade policy regime with only a few exceptions as in the past. Four categories of exports remained under licence (coral chunk and shells, wood and articles of wood, ivory and ivory products and passenger motor vehicles registered in Sri Lanka prior to 1945) on the grounds of protection of environment and preservation of antiques. The remaining import licencing requirements were due mostly to public health, public morals, environmental protection and national security reasons. The import licencing requirement of four items, namely, wheat, meslin, wheat and meslin flour was maintained in terms of a past contract entered into by the Government with a private flour milling company. Certain agricultural items, namely potatoes, big onions, chillies and maize, remain under licence with the objective of providing protection to domestic producers.

Textile Quota Allocation

To ensure the continuous availability of quotas to deserving exporters, allocation of textile quotas is primarily based on their past performance. Once the initial allocation is made, two per cent of the balance is allocated to other registered exporters who have "small quota holdings" (none or less than 5,000 dozens for the preceding year), on a pro-rata basis of the number of employees. The remainder is put to a common pool and allocated among exporters, taking into consideration other factors such as payments of EPF and ETF contributions. The pool quota scheme improves allocation and utilisation of quotas and also provides opportunities to both existing "small quota" holders as well as newcomers to the industry.

Tariffs and Taxes on External Trade

Under the ongoing tariff reforms, the country made further progress in the rationalisation of the tariff system in 1995. The four band import tariff structure with 45, 35, 20 and 10 per cent rates which came into effect in November 1993 was replaced in February 1995 by a three band system with 35, 20 and 10 per cent rates. However, a few categories of imports remained outside the new system i.e. tobacco, liquor, crude oil and some categories of motor vehicles.

With the 1995 budget, the tariff structure was further simplified by eliminating several ad hoc duty waivers and exemptions. Duty waivers were considerably reduced during the latter half of the year limiting them to well defined purposes. In an effort to help certain agricultural activities, as well as the printing, fishing, wood products and film industries, duties on imports for these sectors were reduced with the 1996 budget. Import duties were reduced from 35 per cent to 10 per cent for agricultural implements such as mamoties, forks, etc., printing and writing papers and exercise books. Import duty on fishing nets was reduced from 35 per cent to 20 per cent. Duty exemptions were granted for fibre-glass and certain other inputs and engines used in the construction of fishing boats, all varieties of imported timber in log or sawn form and raw films, movie cameras, movie projectors, screens and certain spare parts imported for the local film industry.

In order to promote gem and jewellery exports, raw materials, (i.e. gem stones, gold and other accessories) as well as imports of tools, machinery and equipment for cutting and processing of gems were permitted duty free. Moreover, the exemption from the National Security Levy given to imports used in manufacture for export was extended to cover consumables in the manufactured exports sector as well.

The export sector continued to be free from any ad-valorem sales taxes and duties during 1995, while export cesses and royalties on some items remained. In the wake of improved international rubber prices, the rubber export cess was first increased from Rs.2.21 per kg to Rs.4.91 per kg in February 1995 and later, to Rs. 5.41 per kg in July 1995.

Freight rates

During 1995, efficiency of shipping services improved further due to increased competition among shipping lines. The emergence of Non-vessel Operating Common Carriers (NVOCCs) in shipping which are known for their low cost operations resulted in a further lowering of freight charges during the year. Shipping lines covering major trade destinations such as the UK, North continent, Egypt and Syria changed their freighting structure from a commodity based system to a freight of all kinds (FAK) system in 1995, while shipping lines covering the Mediterranean, Singapore and France continued their FAK system which had been introduced earlier. Due to the adoption of the new system, freight rates for tea, desiccated coconut and garments to the UK and the North continent declined by 6 per cent while the freight rates for rubber, rubber gloves, activated carbon and brooms and brushes dropped by 12 per cent. The freight rates for all commodities shipped to the Mediterranean and France declined by 5 per cent each while the rates for Singapore remained unchanged. Freight rates for exports of garments and tea to the USA, East Canada and Japan were also reduced, while the rates to the Middle Eastern countries remained unchanged.

Incentives to Exporters

The export sector continued to be provided with several fiscal, financial and institutional incentives. The Duty Rebate scheme, the Manufacture-in-Bond Scheme and the Duty Free Clearance of Machinery scheme continued to operate in 1995. Financial assistance for both small scale and large scale exporters in the non traditional areas also continued during 1995.

In addition, the EDB provided a wide array of other services including the organisation of several local and foreign seminars and workshops, in order to enhance awareness of export procedures, marketing, packaging and

Box 6

Tariff Reforms in Sri Lanka

Sri Lanka had a highly distorted trade policy regime prior to 1977, consistent with the inward-oriented development strategy followed at that time. Both tariff and non-tariff barriers were extensively used to control imports, for balance of payment reasons, as well as to protect domestic economic activities and industrial enterprises, which were mostly state run, against import competition. The tariff structure had rates ranging from 10 per cent to 500 per cent and more than 19 major tariff bands. These restrictive trade policies had severe adverse implications on overall economic growth and social welfare. High tariffs and non-tariff restrictions distorted relative prices of traded and non-traded goods with adverse consequences on resource allocative efficiency. The excessive protection provided by the distorted trade policy regime encouraged inefficient import substitution industries. Meanwhile, a highly over valued exchange rate, shortage of imported inputs, high cost of domestically produced raw materials, high export duties and the restrictive regulatory mechanism operated through the government bureaucracy, retarded the growth of exports.

The first break-through towards trade liberalisation in Sri Lanka began in the late 1970s when the country embarked on a series of economic reforms directed towards an open economic policy setting. However, major tariff reforms were delayed until the late 1980s. Recent tariff reforms have focussed on rationalisation and simplification of the tariff structure, lowering of high tariff rates, removal of quantitative restrictions and reduction of exemptions. These reforms have been accompanied by other de-regulatory measures, namely, liberalisation of exchange controls and elimination of state monopolies on economic activities.

Through a gradual process, the number of tariff rate bands had been reduced from a highly dispersed structure to 13 major tariff rates by 1990. In 1991, the tariff structure was further rationalised with the implementation of a four band system consisting of 10, 20, 35 and 50 per cent tariff rates. This system covered approximately 97 per cent of the tariff lines at the four digit level, reducing the number of items remaining outside the four band system to about 3 per cent. In April 1993, distortions in the tariff system were reduced further by converting some specific tariffs to ad valorem rates of 100 per cent. The maximum rate was reduced to 50 per cent in November 1993. Further progress was made when motor vehicles were brought within the standard tariff bands. Tariff rates on motor vehicles were adjusted downwards, differentiated according to engine capacity, and were brought into a range between 50 per cent and 100 per cent.

TABLE 1
Effective Import Duty Collection Rates (a)

Percentage

Item	1994	1995
Consumer Goods	20.06	12.91
Food and Drink	22.65	13.88
Rice	35.17	38.50
Flour	0.04	0.12
Sugar	19.65	14.55
Milk and Milk Products	14.52	11.47
Dried Fish	5.16	1.95
Other Fish Products	5.50	4.62
Other Food Items	37.44	18.72
Non-Food Consumer Goods	17.25	11.62
Motor Cars & Cycles	24.09	21.70
Radio Receivers-Television Sets	6.08	6.87
Rubber Tyres & Tubes	41.44	33.63
Medicinal & Pharmaceutical Products	1.35	1.47
Other Non-Food Items	18.19	11.06
Intermediate Goods	7.95	9.10
Fertiliser	0.05	0.02
Crude Oil	42.95	44.47
Other Petroleum	18.66	23.43
Chemical Elements and Compounds	8.25	9.76
Dyeing, Tanning and Colouring Materials	9.64	8.79
Paper and Paper Boards	10.14	9.81
Textiles & Clothing	0.93	1.00
Other Intermediate Goods	8.45	9.23
Investment Goods	9.63	10.08
Building Materials	10.81	8.67
Transport Equipment	14.62	21.58
Machinery and Equipment	6.02	6.20
Other Investment Goods	15.00	10.13

Source: Sri Lanka Customs

(a) Actual duty collection as a percentage of import value.

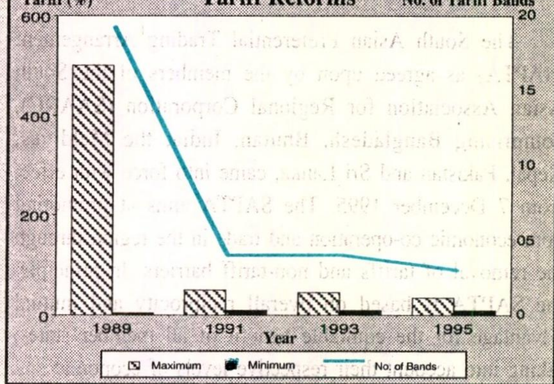
Despite the progress made, there were further significant distortions in the tariff structure due to exemptions, duty waivers, specific tariffs, additional charges and mark-ups due to non-transparent socio-political reasons.

The 1995 Budget made considerable progress in the tariff reform programme. With the medium-term

Box 6 (contd.)

objective of moving towards a lower uniform single tariff, a three band rate structure of 10, 20 and 35 per cent was put in place in February 1995 by reducing the maximum rate. However, higher import tariffs were maintained for liquor, tobacco, crude oil and some categories of motor vehicles for revenue and social reasons. In addition, to make the tariff structure more simple and transparent, some of the remaining concessions and exemptions were removed or modified under the new tariff structure. The revised tariff structure has reduced effective protection for domestic industries, thereby motivating them to be more efficient and to be more competitive in international markets.

Chart 1
Tariff Reforms



product development through technological improvement. The programme of assistance to export oriented Small and Medium Enterprises (SMEs) introduced in 1994 continued during 1995 with expanded activities. Accordingly, several workshops were organised for a number of non-traditional product sectors, which included high value added items such as handicrafts, jewellery and leather products. The EDB organised the "Apparel 95" fair in Colombo in October 1995 for garment manufacturers and providers of ancilliary services to the garment industry.

The Sri Lanka Export Credit Insurance Corporation (SLECIC) continued to assist exporters by way of issuing bank guarantees and providing insurance schemes. The total number of policies and enhancements issued during the year recorded a 43 per cent increase while the value of those policies increased by 71 per cent. However, the number of guarantees issued dropped by 10 per cent while the value of the guarantees issued declined by 19 per cent. The SLECIC continued its credit guarantee scheme introduced in 1994 to enable duty free access to foreign exhibitions for exporters of gems and jewellery, and also introduced a rebate scheme to encourage early redemption of guarantees. In addition, an insurance policy scheme to assist entrepot traders was introduced in 1995.

Sri Lanka entered into a joint venture during the year under the Bondsmen Concept with Russia to help reduce the storage costs of tea small holder exporters. A joint venture with Pakistan was also established in order to recapture the Pakistan market that was lost during the past few years. Tea is to be exported in bulk form to Pakistan which would then be packeted and marketted through 840 outlets in Pakistan.

Trade Relations, Trading Arrangements and Clearing Arrangements

Sri Lanka became a founding member of the World Trade Organisation (WTO) which was established in January 1995. Sri Lanka has bound all tariffs on agricultural products numbering 2,228 tariff lines at the rate of 50 per cent under her commitments to the WTO. The scope of tariff binding on industrial products has remained small with the same ceiling rates applicable as in agriculture. Sri Lanka's commitments under the General Agreement on Trade in Services (GATS) are limited to tourism and tourist related services. However, Sri Lanka's current trade policy regime is far more liberal than her commitments to the WTO. In particular, her actual maximum tariff rate of 35 per cent is below the bound rate of 50 per cent, while the services sector is already open for foreign competition (financial services are opened to foreign participation upto 49 per cent of total investment).

The WTO, in consultation with the Government and contracting parties, conducted a major review of Sri Lanka's trade policy regime and trade practices in 1995. The objective of this exercise was to assist in improving adherence to GATT/WTO rules, disciplines and commitments, thus contributing to smooth functioning of the multilateral trading system. The Trade Policy Review Committee was of the opinion that trade policies and practices have evolved in a positive direction and that Sri Lanka had made significant progress towards removing distortions created by the past import substitution policies. The Committee also recognised that trade liberalisation,

Box 7

South Asian Preferential Trading Arrangement

The South Asian Preferential Trading Arrangement (SAPTA) as agreed upon by the members of the South Asian Association for Regional Corporation (SAARC), comprising Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka, came into force with effect from 7 December 1995. The SAPTA aims at promoting both economic co-operation and trade in the region through the removal of tariffs and non-tariff barriers. In principle, the SAPTA is based on overall reciprocity and mutual advantage for the equitable benefit of all member states, taking into account their respective levels of economic and industrial development, the pattern of their external trade and their tariff policies. Recognising the wide differences in the level of economic development among the member states (Table 1), the SAPTA agreed to offer special treatment to the least developed contracting states in terms of duty free access and much wider tariff concessions, more flexibility in implementing trade liberalisation and additional trade measures and other safeguards.

The member states initially agreed to proceed with trade liberalisation through lowering or removal of tariffs, para tariffs and non-tariff barriers and to take other direct trade measures to promote mutual trade. At the end of the first round of trade negotiations, tariff concessions for 226 product categories (Table 2) were agreed upon. Although the progress achieved as at end 1995 was limited to tariff concessions for a limited number of products which covered around 1 per cent of the total trade of SAARC countries, further steps are to be taken to implement an accelerated process of trade liberalisation among the member states with wider trade coverage. The Inter-Governmental Group (IGG) on trade liberalisation of the SAPTA which met in December 1995 agreed to consider the removal of non-tariff and other trade barriers and enhance tariff concessions at the second round on trade liberalisation. To accelerate the trade liberalisation process, the IGG favoured sectoral and across-the-board tariff reductions in addition to the product-by-product approach which appeared to be time consuming and cumbersome.

Recognising the significance of private sector participation in economic activities in a liberalised trading environment in most member countries, it was expected that close co-operation among the private sectors of the SAARC countries would be established and maintained. Consequently, a forum of leaders in the business communities of SAARC countries met in Colombo in August 1995. At this meeting, a decision was taken to set up committees to discuss sectoral issues as a framework for further negotiations. The responsibilities of each committee were assigned to individual member countries to carry out further study and identify measures to be adopted for economic co-operation with the private sector. These will cover a wide spectrum of areas including agriculture (Bhutan), infrastructure and energy (Pakistan), industry (Bangladesh), investment and trade (Nepal), research and development (India), services (Sri Lanka) and tourism (the Maldives).

With the second round of negotiations of the IGG on trade liberalisation to be held in March 1996, deliberations were expected on modalities of implementing non-tariff measures, simplification, harmonisation and streamlining of customs procedures, elimination of para tariff and non tariff restrictions within a specified time frame, widening of product coverage and deepening of tariff cuts. With progressive trade liberalisation among the SAPTA member countries it is anticipated that SAARC would be transformed into a Free Trade Area, preferably by the year 2000 but not later than 2005.

TABLE 1

Comparative Indicators for SAPTA Member Countries

Country	Growth in Real GDP % 1980-1993	Growth in Investment % 1980-1993	Inflation Rate % 1980-1993	PPP of per capita GNP US$ 1993	Telephones Main Lines per 1,000 Persons 1992	Electricity Production Kwh/person 1992	Adult Literacy Rate % 1992	Primary Pupil Teacher Ratio 1992	Life Expectancy at Birth years 1993
Bangladesh	4.2	1.6	8.6	1,290	2	79	36.4	63	56
Bhutan			-	-	-	-	39.2	-	-
India	5.2	5.7	8.7	1,220	8	373	49.9	63	61
Maldives	-	-	10.0	-	-	-	92.6	-	63
Nepal	5.0	-	11.5	1,020	3	45	25.6	39	54
Pakistan	6.0	5.6	7.4	2,170	10	435	35.7	41	62
Sri Lanka	4.0	2.4	11.1	2,990	8	200	89.3	29	72

Sources: World Development Report-1995
Human Development Report-1995

Box 7 (contd.)

TABLE 2
SAPTA Schedules of Tariff Concessions

Country	No. of Tariff Lines	Major Product Categories	Concessions under SAPTA (As a % of Tariff)	Existing Tariff (a)
Bangladesh	12	Grapes, Cardamoms, Coconut Milk Powder, Surgical and Dental Products, First Aid Boxes and Kits, Essential Oil, Insecticides, Precious Stones.	10%	7.5% - 60%
Bhutan	11	Semi Processed and Processed Marine Products, Chocolates and Other Foods containing Cocoa, Preparations of Cereals, Flour and Starch, Beauty or Make-up and preparations, Laundry and Toilet Soaps, Rubber Tyres and Tubes, Rubber Gloves, Precious and Semi-precious Stones, Surgical Goods and Sports Goods.	10%-15%	10% - 50%
India	106	Dried Fish, Spices, Black Gram, Coconut Milk Powder and Cream, Cocoa and Cocoa preparations Fertiliser, Rubber Tyres and Tubes and Other Articles of Rubber, Articles of Leather, Paper and Paper Board, Cotton Yarn, Ceramic Products and Copper Waste and Scrap, Natural Graphite in Powder or in Flakes.	10%-100%	0% - 50%
Maldives	17	Lentils, Asparagus, Tomato Ketchup, Strawberries, Natural Graphite, Perfumes and Toilet Water, Rubber Tubes, Floor Covering and Mats, Leather and Leather Goods, Raw Jute, Carpets or Rugs of Wool and Sports Goods.	7.5%	15% - 25%
Nepal	14	Fruit Fresh or Dry, Spices, Coir Pith, Canned Fish, Chewing Gum whether or not Sugar Coated, Gypsum, Coal, Medicaments, Natural Rubber, Leather Made-ups and Wooden Furniture.	7.5%-10%	0% - 30%
Pakistan	35	Lentils, Spices, Medicinal Herbs, Ornamental Fish, Red Coral, Desiccated Coconut,I Natural Rubber, Natural Graphite, Bamboo, Betel Leaves Leather, Paper and Paper Board, Printed Books, Raw or Processed Jute, Vegetable Seeds, Iron Bars and Rods, Aluminium not alloyed and Densified Wood in Blocks.	10%-15%	10% - 70%
Sri Lanka	31	Maldive Fish and Dried Fish, Fruits and Processed Fruits, Corriander, Dried Ginger, Tanning & Dyeing extracts, Wood, Plywood and Densified Wood, Jute Yarn and Carpets, Iron Wires, Bars and Rods, Plates, Sheets and Strip of Aluminium, Machinery and Parts thereof, Parts and Accessories of Motor Vehicles, Motor Cycles and Cycles and Parts thereof.	10%-20%	10% - 35%
Total	226	All Items	32 (b)	

(a) Customs duties included in the national tariff schedules of the member countries
(b) Weighted simple average based on mid points in cases where a range is indicated.

TABLE 3
Key Economic Data for SAPTA Member Countries (a)

Country	Population Total	GDP	Country Share in Region's GDP	GNP per capita	Exports	Imports	Intra-trade in SAPTA as a % of Total trade
	Mn.	US$ Mn.	%	US$	US$ Mn.	US$ Mn.	%
Bangladesh	115.2	23,787	7.1	215	2,263	3,968	8.6
Bhutan	1.6	227	0.1	129	n.a	n.a	-
India	901.5	250,593	75.3	274	20,934	22,131	2.0
Maldives	0.2	152	0.0	633	35	185	16.4
Nepal	20.8	3,481	1.0	167	385	868	8.3
Pakistan	122.8	44,553	13.4	367	6,235	8,803	1.6
Sri Lanka	17.6	10,084	3.0	565	2,788	3,905	6.4
Total	1,179.7	332,876	100.0	280	32,638	39,860	3.2

(a) Data pertain to 1993.

Sources: International Financial Statistics Year Book 1995
Direction of Trade Statistics Year Book 1995

While trade among SAPTA member countries accounts for only 3 per cent of their total trade (Table 3) the importance of the SAPTA lies in the anticipated trade liberalisation in member countries with a view to promoting and expanding trade opportunities not only with each other, but with non-member countries as well. In this regard, while Sri Lanka currently has one of the most liberalised trade regimes among SAPTA member countries, it is expected that with regional co-operation under the SAPTA, all member countries would move towards fully liberalised trading systems in keeping with the objectives of the final Uruguay Round reforms which are expected to be implemented by the World Trade Organisation to achieve a free global trading system.

TABLE 4
Sri Lanka's Trade with SAPTA Countries in 1995 (US$ Mn.)

Country	Exports	Imports
Bangladesh	12.0	5.6
Bhutan	-	-
India	31.9	469.2
Maldives	14.3	16.8
Nepal	0.4	0.7
Pakistan	43.4	52.4
Percentage Share in SAPTA	2.7	10.5

Source: Central Bank of Sri Lanka

deregulation and privatisation have improved conditions for employment and growth and commended the efforts made to further streamline the tax and tariff structure. The Committee concluded that it was important for Sri Lanka to continue with its liberalisation agenda, accept a higher level of multilateral commitments and expeditiously implement WTO provisions.

Sri Lanka also participated at the second round of the Global System of Trade Preferences (GSTP), which is the first major proposal for intra-regional co-operation among developing countries who are members of the Group of 77. Sri Lanka has exchanged lists of requests and offers with 16 participating countries. Two sessions were held during 1995 and the negotiations are expected to be concluded by March 1996 well in advance for UNCTAD IX which is scheduled to be held in April 1996.

Sri Lanka continued to be a beneficiary of all schemes under the Generalised System of Preferences (GSP) which were in operation in 1995. There were 16 different schemes of GSP which were implemented by 27 preference giving countries including the USA, Japan and member countries of the European Union (EU). The revised EU GSP Scheme which came into force in January 1995 introduced new features such as the graduation principle applicable to developing countries, and special treatment to least developed countries and countries involved in eradicating drug trafficking. This scheme also dismantled all GSP quotas, ceilings and maximum limits and transformed them into tariff. Manufactured products covered by the EU Scheme have been categorised under 4 groups namely very sensitive, sensitive, semi-sensitive and non-sensitive. The products categorised as very sensitive include mainly textile products and tariff concessions granted under the GSP Scheme to this category have been reduced further. The Department of Commerce made representations about possible adverse effects on Sri Lanka of certain aspects of the new EU GSP scheme.

Sri Lanka became a signatory to the International Natural Rubber Agreement (INRA III) 1995, which could come into effect on or before January 1997. As in the previous agreement, natural rubber prices are to be stabilised through the operation of an international buffer-stock of 550,000 metric tons as the sole means of market intervention. Although Sri Lanka's total rubber production and its exports to the world market are relatively insignificant in influencing world market conditions, it was considered beneficial for Sri Lanka to be a participant in INRA III.

Sri Lanka became a founding member of the South Asian Preferential Trading Agreement (SAPTA) which came into force on 7 December 1995, following intensive rounds of bilateral and multilateral negotiations. The SAPTA is aimed at promoting and maintaining mutual trade and economic co-operation among the contracting states of SAARC through exchange of trade concessions. Sri Lanka has offered concessions on 31 tariff lines in the Consolidated National Schedules of Concessions which altogether cover 226 tariff lines (India 106, Pakistan 35, Sri Lanka 31, Maldives 17, Nepal 14, Bangladesh 12 and Bhutan 11).

Sri Lanka continued to receive preferential treatment from other member countries such as Bangladesh, India, Laos and the Republic of Korea under the Bangkok Agreement.

On a bilateral level, the fourth session of the Sri Lanka - Maldives Joint Commission on Economic and Technical Co-operation was held in Colombo at Ministerial level in January 1995. The meeting focussed on enhanced co-operation between the two countries in the areas of trade and tourism, among others. Further, the Sub-Commission on Trade, Finance and Investment between Sri Lanka and India met in Colombo in February 1995. Bilateral co-operation in the respective areas was reviewed and decisions were taken towards facilitating trade flows and investment. This subject was taken a step further when the President and the Minister of Internal and External Trade, Commerce and Food visited India and Bangladesh in March 1995. During these discussions, Sri Lanka secured tariff concessions on a number of products of export interest. Sri Lanka also ratified bilateral trade agreements with Kuwait and Cyprus during 1995.

At a meeting held in Colombo in late 1995, the members of the Asian Clearing Union (ACU) agreed to adopt a clearing mechanism for US dollar denominated transactions under the ACU with effect from 1 January 1996 as the previous arrangement of clearing settlements only through national currencies using the SDR for the conversion rates appeared to hinder the growth of trade among ACU members.

Capital Controls

The capital controls system remained unchanged in 1995. The Board of Investment of Sri Lanka (BOI) continued to be the main authority responsible for foreign investment in Sri Lanka while capital outflows came within the purview of the Exchange Control Department. Foreign investment upto 100 per cent of issued share capital is allowed in most categories of investment. Certain other categories provide for upto 40 per cent automatic approval, while higher percentages may be approved on a case by case basis by the BOI and other relevant authorities. A few categories of investment continued to remain solely for Sri

Lankans. While capital outflows in the form of debt repayments are freely allowed through Authorised Dealers, foreign investment outflows were also allowed in 1995 on a case by case basis. Accordingly, establishment of two new bank branches by the Bank of Ceylon (BOC) in Madras and Karachchi was permitted in 1995. The BOC also raised US dollars 12 million through the issue of floating rate notes for its FCBU operations.

9.12 Internal Trade

In 1995, internal trade policy focussed mainly on consumer protection. The Department of Internal Trade (DIT) carried out the functions of eliminating malpractices in trade and administering specified guidelines on quality standards. The DIT extended its services in dispute resolving procedures for those consumers affected by trade malpractices. Accordingly, 429 cases were resolved out of 867 complaints received during the year. In addition, the Department continued to assist the Ministry of Agricultural Development in enforcing the Fertiliser Act, in an effort to contain malpractices in the fertiliser trade.

Certain amendments to the Consumers Protection Act were introduced in 1995, with a view to eliminating practical difficulties in implementing the provisions specified in the Act. However, no new directions were issued under the Act.

In order to consolidate the present legislation with respect to the use and control of measurement, the "Standards and Services" Bill was passed in Parliament during the year. The Bill would create a legal framework for issuing legally recognisable calibration certificates to protect public health, environment, and security standards.

In addition to regulating trading activities through supervision and inspection, the DIT conducted several consumer awareness programmes for the general public and school children during 1995.

The Fair Trading Commission (FTC) continued its activities relating to investigating monopolies, mergers and anti-competitive practices and determining maximum retail prices for pharmaceutical items, which is the only product category currently subject to price controls. Meanwhile, the prices of 12 locally manufactured essential drugs were de-controlled with effect from December 1995, following a Cabinet directive.

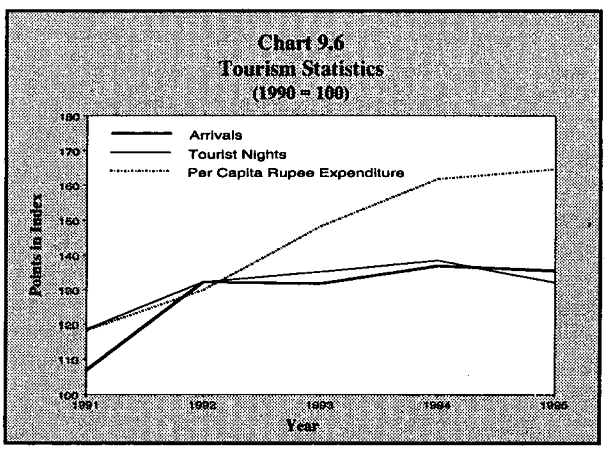
The FTC investigated anti-competitive practices in the cement and salt trade and orders were issued under the Consumer Protection Act to minimise malpractices. In addition, price reviews were carried out under the Industrial Promotion Act, on soaps, toothpaste, magazines, milk powder and biscuits, with a view to maintaining reasonable price levels in the market.

The Co-operative Wholesale Establishment (CWE) continued its importation, wholesale and retail sales of major food items and other consumables during 1995. In order to expand domestic sales of CWE packetted products, an islandwide Franchise Scheme was introduced in 1995 and 8,892 franchisees had been appointed as at end December 1995. The CWE maintained profitability of its importation and sales of big onions, potatoes and dried chillies, but in the face of competition from the private sector, its volume share of imports of big onions dropped from 27 per cent to 9 per cent while that of potatoes declined from 18 per cent to 8 per cent between 1994 and 1995. Meanwhile, its share of imports of red lentils rose from 35 per cent to 42 per cent. The CWE continued to operate as the sole importer of wheat grain in 1995. Inspite of the gradual reduction of the flour subsidy introduced in August 1994, the subsidy as at end 1995, amounted to Rs. 4.95 per kg on domestic wheat flour sales.[1]

The Commodity Purchases Department (CPD) continued to operate in the purchasing of sheet rubber from small holders. However, the Department purchased only a small percentage. These purchases helped the small holders to obtain remunerative prices as the Department announced producer prices for sheet rubber in line with international prices, which then operated as indicative prices for private dealers. In addition, the Department continued to distribute chemicals required for sheet rubber production.

9.13 Tourism

The Tourism sector suffered a major setback towards the end of the year. Even after the resumption of terrorist hostilities in April 1995 tourist arrivals increased by 5 per cent until September 1995. However, escalation of hostilities



1 Wholesale price of flour sales to co-operative societies.

TABLE 9.11
Tourism Statistics 1991-1995

Item	1991	1992	1993	1994	1995 (a)	Percentage Change 1994	Percentage Change 1995
1. Tourist Arrivals	317,703	393,669	392,250	407,511	403,401	3.9	-1.0
2. Arrivals by Region							
Europe	198,413	256,485	257,883	261,045	254,730	1.2	-2.4
France	35,279	40,206	34,770	30,510	30,996	-12.3	1.6
Germany	63,610	85,365	95,541	93,756	79,698	-1.9	-15.0
Italy	23,312	25,539	18,210	18,066	18,378	-0.8	1.7
U.K.	31,585	41,238	44,226	50,313	63,582	13.8	26.4
Other	44,627	64,137	65,136	68,400	62,076	5.0	-9.2
North America	11,519	12,954	13,743	15,612	14,565	13.6	-6.7
Canada	3,462	4,065	4,044	4,920	5,469	21.7	11.2
U.S.A.	8,057	8,889	9,699	10,692	9,096	10.2	-14.9
Asia	92,543	107,103	105,093	116,352	118,323	10.7	1.7
Japan	21,950	28,761	20,397	19,497	18,180	-4.4	-6.8
India	21,901	25,728	32,391	44,142	47,448	36.3	7.5
Pakistan	10,556	11,445	12,360	10,188	11,325	-17.6	11.2
Hong Kong	6,374	1,527	2,775	4,302	7,194	55.0	67.2
Other	31,762	39,642	37,170	38,223	34,176	2.8	-10.6
Australasia	12,247	12,759	11,610	12,033	10,254	3.6	-14.8
Australia	11,241	10,980	10,413	9,681	9,066	-7.0	-6.4
New Zealand	943	1,131	1,077	1,323	1,104	22.8	-16.6
Other	63	648	120	1,029	84	757.5	-91.8
Other Regions	2,981	4,368	3,921	2,469	5,529	-37.0	123.9
3. Arrivals by Purpose of Visit	317,703	393,669	392,250	407,511	403,101	3.9	-1.1
Pleasure	295,781	373,198	387,151	377,537	383,570	-2.5	1.6
Business	12,073	15,353	3,923	21,340	10,772	444.0	-49.5
Other	9,849	5,118	1,177	8,634	8,759	633.6	1.4
4. Tourist Nights ('000)	3,633	4,055	4,148	4,250	4,051	2.5	-4.7
5. Excursionist Arrivals	2,665	5,651	6,093	8,413	10,556	38.1	25.5
6. Gross Tourist Receipts (Rs. Mn.)	6,486	8,826	10,037	11,375	11,569	13.3	1.7
7. Per Capita Tourist Expenditure (Rs.)	20,415	22,420	25,588	27,913	28,396	9.1	1.7
8. Total Employment	64,507	69,096	73,704	84,154	87,360	14.2	3.8
Direct	26,878	28,790	30,710	35,064	36,260	14.2	3.4
Indirect	37,629	40,306	42,994	49,090	51,100	14.2	4.1

(a) Provisional.

Sources : Ceylon Tourist Board
Central Bank of Sri Lanka

led to a 17 per cent drop in arrivals during the last quarter. Total tourist arrivals dropped by 1 per cent for the year as a whole. The gross earnings from tourism in 1995 recorded an increase of 2 per cent in Rupee terms to Rs.11,569 million, while there was a drop of 7 per cent in SDR terms.

There was a significant drop in arrivals for business purposes, partly reflecting the drop in foreign private investment in 1995. Despite the drop in total arrivals the number of tourists brought in by Air Lanka flights rose by 3 per cent as a result of the expansion of Air Lanka's fleet.

The number of hotel units in the graded accommodation sector remained at the same level at 134 in 1995, while the total room capacity increased marginally to 10,868. The data on annual occupancy rate showed a drop from 56.6 per cent in 1994 to 53.1 per cent in 1995, reducing the profitability of the tourist hotel industry.

Meanwhile, following the growth in tourist arrivals and associated economic activities in the past few years, investment projects begun in 1994 in related sectors, such as the hotel industry, continued into 1995.