

II. ECONOMIC AND FINANCIAL TRENDS-1972

(A) National Product and Expenditure

1. Introduction

Gross National Product

Sri Lanka's economic performance as measured by Gross National Product at constant 1959 prices, increased by 2.5 per cent in 1972 as compared to a rise of 0.9 per cent in 1971.

The mid-year population of 1972 is provisionally estimated to have increased by 2.1 per cent as compared to 2.0 per cent in 1971.

In per capita terms Gross National Product at constant prices increased by only 0.4 per cent as against a fall of 1.1 per cent in 1971.

National product by industrial origin at (1959) constant prices is shown in the following table.

TABLE II (A) 1
Sectoral Composition of Gross National Product
at Constant (1959) Factor Cost Prices.

Sectors	1959		1971		1972	
	Amount (Rs. Mn.)	Percentage	Amount (Rs. Mn.)	Percentage	Amount (Rs. Mn.)	Percentage
1. Agriculture, Forestry, Hunting and Fishing ..	2,302	39.1	3,375	34.5	3,478	34.7
2. Mining and Quarrying ..	31	0.5	67	0.7	68	0.7
3. Manufacturing ..	682	11.6	1,379	14.1	1,401	14.0
4. Construction ..	283	4.8	550	5.6	505	5.0
5. Electricity, Gas, Water and Sanitary Services ..	10	0.2	29	0.3	24	0.2
6. Transport, Storage and Communications ..	541	9.2	920	9.4	988	9.9
7. Wholesale and Retail Trade ..	801	13.6	1,316	13.5	1,327	13.2
8. Banking, Insurance and Real Estate ..	51	0.9	129	1.3	136	1.4
9. Ownership of Dwellings ..	201	3.4	307	3.1	313	3.1
10. Public Administration and Defence ..	301	5.1	488	5.0	522	5.2
11. Services ..	728	12.3	1,297	13.3	1,334	13.3
12. Gross Domestic Product ..	5,930	—	9,856	—	10,095	—
13. Net Factor Income from Abroad ..	- 37	- 0.6	- 76	- 0.8	- 72	- 0.7
14. Gross National Product ..	5,893	100.0	9,779	100.0	10,023	100.0

Source: Central Bank of Ceylon

Gross national real product indicates an increase of Rs. 244 million over 1971 in absolute terms. The highest contribution to gross national real product came from the agricultural sector mainly as a result of an increase in output of goods for domestic use. In fact, output of tea, rubber and paddy declined somewhat, but the increases in other domestically produced and consumed goods more than offset this decline in production.

The second biggest contribution to the increase in gross national real product was from the public administration and services sectors, while transport, storage and communication also accounted for almost an equivalent increase in output.

The rise in the import price level, caused mainly by inflationary tendencies abroad and currency realignments, resulted in the terms of trade deteriorating further by 3.7 per cent. Export prices, however, increased somewhat, thus reducing the rate of decline in the terms of trade of 7.6 per cent in 1971 to 3.7 per cent in 1972. Consequently, import capacity declined and when allowance is made for such adverse movements of the terms of trade, the rate of increase in real national income was 2.6 per cent.

According to provisional estimates, Gross National Product in 1972, at current prices, increased by 7.1 per cent compared to an increase of 1.8 per cent in 1971. In per capita terms, Gross National Product at current prices increased by 5.0 per cent.

Resources and Uses

Table II (A) 2 gives an indication of the total resources available through production and imports on the one hand and their utilization in consumption, capital formation and exports. Total resources available to the economy in 1972 was Rs. 15,991 million, an increase of 5.8 per cent over the previous year. Imports increased by 4.9 per cent in 1972, while domestic production at market prices increased by 6.0 per cent.

TABLE II (A) 2
Total Resources and their Uses

Items	1970	1971	1972	Percentage change over previous year	
	Amount (Rs. Million)			1971	1972
A. Resources					
Gross Domestic Product ..	12,710	12,744	13,511	+ 0.3	+ 6.0
Imports of goods and non-factor services ..	2,549	2,365	2,480	- 7.2	+ 4.9
Total ..	15,259	15,108	15,991	- 1.0	+ 5.8
B. Utilization					
Consumption ..	10,558	10,639	11,697	+ 0.8	+ 9.9
Gross Domestic Capital Formation ..	2,463	2,249	1,994	- 8.7	- 11.3
Exports of goods and non-factor services ..	2,237	2,220	2,300	- 0.8	+ 3.6
Total ..	15,259	15,108	15,991	- 1.0	+ 5.8

Source: Central Bank of Ceylon

As in the past years, aggregate demand as measured by consumption and capital formation, showed an increase in 1972. Consumption rose by 9.9 per cent while capital formation inclusive of changes in stocks, fell by 11.3 per cent but total demand increased by 6.2 per cent. The high rate of increase in consumption

in the face of the slow growth of Gross National Product was the main reason for the gap between the aggregate demand and total resources available through production.

2. Production Trends

Agriculture

Tea

The production of tea in 1972 was 470.6 million pounds compared to 480.1 million pounds in 1971 showing a decline of 9.5 million pounds or 2.0 per cent. This fall in production was experienced by all three categories of tea, namely, high, medium and low grown. In the case of high grown tea there was a decline of 7 million pounds which accounts for a major part of the fall in production. The decline in production is mainly attributed to adverse weather conditions.

The total area under tea at the end of 1971, was 597,171 acres and in 1972, 597,645 acres, of which 576,553 acres were under plucking. During 1972, a total of 6,418 acres were replanted as against 6,640 acres in the previous year, bringing the total replanted acreage to 53,343. The amount paid as subsidies under the Replanting Subsidy Scheme was Rs. 21.7 million, while Rs. 22.6 million was paid in 1971.

The Tea Factory Modernisation Scheme which was started in 1966, continued to operate in 1972. The total value of loans approved under this scheme amounted to Rs. 18.4 million compared to Rs. 15.3 million in 1971.

Rubber

Rubber production in 1972 is estimated at 309.5 million pounds, a decrease of 0.7 per cent over the previous year. This slight fall in production was due to a decline in area under bearing. The yield per acre in 1972 was 658 pounds, which is about the same as the average yield in 1971.

According to the registers of the Rubber Control Department, at the end of 1972, 567,060 acres were under rubber as compared to 567,994 acres at the end of 1971. In 1972, 8,722 acres were replanted bringing the total replanted acreage to 303,538 or 53.5 per cent of the total. Of the total area of 567,060 acres under rubber, only 470,324 acres is provisionally estimated to have been in bearing during the year.

The amount paid under the Rubber Replanting Subsidy Scheme was Rs. 18.2 million in 1972, compared with Rs. 16.7 million in 1971. A total of 773 tons of fertilizer was issued under this subsidy scheme in 1972 as against 628 tons in 1971.

Coconut

The production of coconut, estimated as the nut equivalent of internal consumption and exports, amounted to 2,963 million nuts in 1972 compared to 2,617 million nuts in the previous year, showing an increase of 13.2 per cent. The

Central Bank's estimate of coconut production has been obtained by adding nut equivalent of coconut exports to domestic consumption which is estimated from the relevant data of the Socio-Economic Survey of 1969/70 carried out by the Department of Census & Statistics.

The quantity of coconut exports, calculated on a nut equivalent basis, increased by 23.4 per cent from 1,020 million nuts in 1971 to 1,258 million nuts in 1972.

According to the estimates of the Coconut Cultivation Board, 38,000 tons of fertilizer were issued in the year 1972. Under the Coconut Subsidy Scheme, 1,186,935 seedlings were distributed among the cultivators in the year under reference.

Paddy

The production of paddy in 1972 is estimated at 62.9 million bushels. This is a decrease of 4.0 million bushels or 6.0 per cent over the previous year. The output in the Maha season increased slightly from 41.6 million bushels in 1970/71 to 42.3 million bushels in 1971/72. The increase in production in Maha 1971/72 is mainly due to higher yields, and is estimated at 48.1 bushels per acre compared to an estimate of 44.9 bushels per acre for Maha 1970/71. Paddy production in Yala 1972 is estimated at 20.6 million bushels. This is the lowest level reached since 1969 and the decline in production is chiefly due to the serious drought that occurred in the 1972 Yala season.

The area harvested in Maha 1971/72 was 1,035 thousand acres compared to 1,089 thousand acres in Maha 1970/71. The area harvested in Yala 1972 was 543 thousand acres.

The quantity of paddy purchased by the Paddy Marketing Board under the Guaranteed Price Scheme was 26.1 million bushels in 1972 as compared to 32.7 million bushels in 1971.

Subsidiary Food Crops and Livestock

The value of subsidiary food crops produced in 1972, is estimated to have increased by 4.4 per cent at constant prices while at current prices it rose by 17.3 per cent. The total value of production in 1972 was Rs. 554 million compared to Rs. 473 million in 1971. There were substantial increases in the output of sweet potatoes, chillies, red onions, gingelly, pepper and potatoes. Increases in the production of subsidiary food crops have been mainly due to the incentives provided by higher producer prices.

The production of milk rose from 219.2 million bottles in 1971 to 300.4 million bottles in 1972. This was an increase of 37.0 per cent. Egg production also increased in 1972 by 7.3 per cent.

Fish

Fish production recorded an increase of 16.7 per cent. This is due to the increase in the number of fishing vessels (mechanised and non-mechanised) in operation.

Manufacturing

Increase in manufacturing output in real terms was 1.6 per cent compared to an increase of 3.3 per cent in the previous year. Value added in factory industries increased by 2.0 per cent as against a rise of 7.4 per cent in 1971. In 1972 value added in manufacturing at current prices rose by 14.9 per cent compared to 4.9 per cent in 1971.

Construction

Construction activity declined by 8.1 per cent in real terms: this decline in construction activity was mainly due to the relative shortages of available building materials and of locally produced cement products.

Services

Economic activity in the services sector, specially in banking and insurance, transport, storage and health and education was at a satisfactory level in 1972. The value added in this sector increased by 7.5 per cent at current prices and 3.8 per cent at constant prices.

3. Gross National Product at Factor Cost Prices

Value of Product at current prices

Table II (A) 3 shows estimates of Gross National Product at current factor cost prices. In 1972, Sri Lanka's Gross National Product recorded an increase of 7.1 per cent.

TABLE II (A) 3

Gross National Product at Current Factor Cost Prices

Sectors	1970	1971	1972	Percentage change over previous year	
	Amount (Rs. Million)			1971	1972
1. Agriculture, Forestry, Hunting and Fishing ..	3,949	3,893	4,119	- 1.4	+ 5.8
2. Manufacturing, Mining and Quarrying, Electricity and Gas ..	1,545	1,633	1,851	+ 5.7	+ 13.3
3. Construction ..	771	751	711	- 2.6	- 5.3
4. Trade, Transport and other Services ..	5,496	5,689	6,118	+ 3.5	+ 7.5
5. Gross Domestic Product ..	11,760	11,966	12,799	+ 1.8	+ 7.0
6. Net Factor Income from Abroad ..	- 142	- 138	- 137		
7. Gross National Product ..	11,618	11,828	12,662	+ 1.8	+ 7.1

Source: Central Bank of Ceylon

The value added in agriculture, forestry and fishing which had received a setback in 1971 improved a little in 1972 at current prices. Marked increases were recorded in the value of production of coconut, fish, milk and eggs while that of paddy declined. Value added in manufacturing (including mining and quarrying, electricity, gas etc.) showed an increase of 13.3 per cent as compared to 5.7 per cent in 1971. Manufacturing, other than the processing of tea, rubber and coconut, increased by 11.2 per cent in 1972, as against 12.1 per cent in 1971. The contribution of public sector industries to total industrial production was

about 35 per cent. Increases were recorded in manufacturing by public sector industries. There were large increases in the production of petroleum refinery products, textiles, iron and steel products.

Value added in construction decreased by 5.3 per cent in 1972, mainly due to scarcity of building materials.

Value added in the services sector increased by 7.5 per cent in 1972. The increase in the value of domestic production and also in the value of imports in 1972, resulted in an expansion in the services sector. Value of services provided by banking and insurance, wholesale and retail trade, and transport, storage and communication rose.

Gross Domestic Product at current prices rose from Rs. 11,966 million to Rs. 12,799 million in 1972. The net outflow of factor incomes from Sri Lanka amounted to Rs. 137 million compared to a net outflow of Rs. 138 million in 1971. Gross National Product which is obtained by adjusting Gross Domestic Product for the net outflow of factor incomes, recorded an increase of 7.1 per cent in 1972.

4. Gross National Product at (1959) Factor Cost Prices

Gross National Product at 1959 factor cost prices has been estimated to have increased by 2.5 per cent over 1971. Estimates are shown in Table II (A) 4.

TABLE II (A) 4

Gross National Product at (1959) Factor Cost Prices

Sectors	1970	1971	1972	Percentage change over previous year	
	Amount (Rs. Million)			1971	1972
1. Agriculture, Forestry, Hunting and Fishing ..	3,395	3,375	3,478	- 0.6	+ 3.1
2. Manufacturing, Mining, Quarrying, Electricity Gas, etc. ..	1,421	1,474	1,492	+ 3.7	+ 1.2
3. Construction ..	598	550	505	- 8.1	- 8.1
4. Trade, Transport and other Services ..	4,366	4,456	4,619	+ 2.1	+ 3.8
5. Gross Domestic Product ..	9,781	9,856	10,095	+ 0.8	+ 2.4
6. Net Factor Income from Abroad ..	- 85	- 76	- 72		
7. Gross National Product ..	9,695	9,779	10,023	+ 0.9	+ 2.5

Source: Central Bank of Ceylon.

Value added in agriculture which contributed 35 per cent to Gross National Product increased by 3.1 per cent. In the export agricultural sector an increase of 13.2 per cent was recorded in the value added in coconut growing. Value added in tea and rubber declined by 2.0 and 0.8 per cent respectively. In the case of subsidiary food crops the value added increased by 4.4 per cent which is a slight increase compared to the increase of 25.7 per cent in 1971. The increase of 13.2 per cent in coconut production, 26.5 per cent in livestock products and increases in fish and other subsidiary crops helped to more than offset the fall in output in the three agricultural crops, tea, rubber and paddy.

The real value of manufacturing sector which includes mining, quarrying, electricity, gas, etc., increased by 1.2 per cent. In the manufacturing sector, real output of public corporations rose resulting mainly from notable increases in the output of petroleum refinery products, textiles and iron and steel products.

Value added in the construction sector declined further in 1972. As compared to 1971, there was a decrease of 8.1 per cent in 1972. In the last two years this sector has experienced a shortage of building materials, mostly imported items. The value of total imported building materials in 1972 was Rs. 59.8 million as against Rs. 70.1 million in 1971.

Output in the services sector also increased in 1972. The value of banking and insurance is estimated to have increased by 5.5 per cent, inspite of the three months' commercial bank's strike. In 1972, 18 new branch offices including 3 Kachcheri banks and 131 rural banks were opened. Real output of transport, storage, and communications increased by 7.3 per cent in 1972. This reflected an increase in passenger transport services provided by the Ceylon Transport Board, Ceylon Government Railway and Air Ceylon. Total passenger mileage of Ceylon Transport Board increased from 7,419 million to 8,698 million in 1972. Total passenger mileage of Air Ceylon increased from 17.2 million to 38.3 million. Health and education services provided by the Government of Sri Lanka too increased.

5. Real Income

Table II (A) 4 shows the estimates of Gross National Product in real terms at constant 1959 prices. In view of the importance of the value of exports and of imports in relation to the level of national income, the expansion of real output in 1972 should be evaluated against the the movements of the prices of exports and imports. Therefore, Gross National Product at constant prices has been adjusted for the terms of trade effect and shown in Appendix II - Table 6. Sri Lanka's terms of trade declined further in 1972 due to a rise in the prices of imports. The all imports price index increased from 150.1 in 1971 to 157.6 in 1972, while the all exports price index increased from 117.1 in 1971 to 118.4 in 1972. Sri Lanka's terms of trade declined by 3.7 per cent in 1972. It is estimated that the loss of income resulting from the adverse movement of the terms of trade in 1972 from the base year 1959 was Rs. 970.1 million compared to a loss of Rs. 955.2 million in 1971. Real national income which is obtained by adjusting the estimates of real product for the loss of income due to the adverse terms of trade, amounted to Rs. 9,052.8 million in 1972 as compared to Rs. 8,824.0 million in 1971. This is an increase of 2.6 per cent in contrast to the rise of 2.5 per cent in real product. Since the rate of increase in real income was 2.6 per cent, the per capita real income in 1972 increased by 0.5 per cent.

6. Gross National Expenditure

Estimates of Gross National Expenditure at current market prices are shown in detail in Appendix II, Table 8. The following Table II (A) 5 summarises the main components of Gross National Expenditure.

TABLE II (A) 5
Gross National Expenditure at Current Market Prices

Items	1970	1971	1972	Percentage change over previous year	
	Amount (Rs. Million)			1971	1972
1. Private consumption	8,910	8,849	9,773	- 0.7	+ 10.4
2. Public consumption	1,649	1,790	1,924	+ 8.6	+ 7.5
3. Gross domestic capital formation	2,463	2,249	1,994	- 8.7	- 11.3
4. Gross domestic expenditure	13,022	12,888	13,691	- 1.0	+ 6.2
5. Net investment abroad	- 393	- 209	- 269		
6. Less: Net receipts of international gifts and transfers	- 60	- 74	- 48		
7. Gross National Expenditure	12,568	12,606	13,374	+ 0.3	+ 6.1

Source: Central Bank of Ceylon.

Gross National Expenditure in 1972, provisionally estimated at Rs. 13,374 million as compared to an estimate of Rs. 12,606 million in 1971, shows an increase of 6.1 per cent. This increase in Gross National Expenditure is the resultant of an increase of 9.9 per cent in consumption and a decline of 11.3 per cent in capital formation when compared to the corresponding figures for the previous year.

Consumer Demand

Total private consumption expenditure increased by Rs. 923 million or 10.4 per cent in 1972. As shown in detail in Appendix II, Table 10, expenditure on imported goods and services increased by 16.4 per cent and on locally produced goods and services by 9.2 per cent. The Table II (A) 6 shows private consumption expenditure at current market prices.

TABLE II (A) 6

Private Consumption Expenditure at Current Market Prices*

Items	1971		1972	
	Amount (Rs. Mn.)	Percent of row 16	Amount (Rs. Mn.)	Percent of row 16
1. Food	4,344	49.1	5,116	52.3
2. Beverages	292	3.3	329	3.4
3. Tobacco	550	6.2	576	5.9
4. Clothing and other personal effects	947	10.7	958	9.8
5. Rent, rates and water charges	406	4.6	412	4.2
6. Fuel and light	259	2.9	303	3.1
7. Furniture, furnishings and household equipment	224	2.5	257	2.6
8. Household operation	623	7.0	674	6.9
9. Personal care and health expenses	212	2.4	253	2.6
10. Transport and communication	808	9.1	968	9.9
11. Recreation and entertainment	458	5.2	476	4.9
12. Miscellaneous services	303	3.4	342	3.5
13. Expenditure of residents abroad	23	0.3	20	0.2
14. Less: Expenditure of non-residents in the country	- 350	- 4.0	- 486	- 5.0
15. Less: Govt. local purchases	- 250	- 2.8	- 425	- 4.3
16. Consumption expenditure of households and private non-profit institutions	8,849	100.0	9,773	100.0

Source: Central Bank of Ceylon

* This classification is based on 'A System of National Accounts and Supporting Tables', U. N., New York, 1964.

According to the pattern of consumption revealed by the table, expenditure on food, beverages and tobacco comprised 61.6 per cent of private consumption in 1972 while in 1971 it was 58.6 per cent; 9.8 per cent in clothing; 9.9 per cent on transport and communication; 6.9 per cent on household operation and 4.9 per cent on recreation and entertainment.

Of the increase of Rs. 923 million in private consumption expenditure Rs. 835 million consisted of expenditure on food, beverages and tobacco and Rs. 160 million on transport and communication.

7. Gross Fixed Capital Formation

Estimates of gross fixed capital formation are given in Appendix II, Table 7. In 1972, gross capital formation, inclusive of changes in stocks, declined by Rs. 254.8 million or 11.3 per cent. There was a drawing down of inventories by Rs. 320.8 million over the level of the previous year. Gross fixed capital formation on the other hand increased by Rs. 66.0 million or 3.1 per cent.

Government Sector

The Table II (A) 7 shows Government's fixed capital formation classified according to industrial categories.

TABLE II (A) 7

Industrial Classification of Government Fixed Capital Formation

Sectors	1971		1972 (a)	
	Amount (Rs. Mn.)	Percentage of Total	Amount (Rs. Mn.)	Percent- age of Total
1. Agriculture, Forestry and Fishing ..	169	34.3	196	37.9
2. Manufacturing ..	14	2.8	15	2.9
3. Electricity, Gas, Water and Sanitary Services ..	10	2.0	14	2.7
4. Transport, Storage and Communication ..	90	18.3	121	23.4
5. Ownership of Dwellings ..	1	0.2	16	3.1
6. Public Administration ..	119	24.1	80	15.5
7. Services ..	91	18.5	75	14.5
Total ..	493	100.0	517	100.0

Source: Central Bank of Ceylon.

(a) Based on the Estimates of Expenditure of the Government of Sri Lanka for 1971-72 (pro rata for 12 months)

According to the estimates of expenditure of the Government of Sri Lanka for 1972, the total fixed capital formation was Rs. 517 million which is an increase of 4.8 per cent. Of this total amounting to Rs. 517 million, 37.9 per cent was invested in agriculture, forestry and fishing; 23.4 per cent in transport, storage and communication and 15.5 per cent in public administration.

Private Sector and Public Corporations

The data on fixed capital formation in the private sector includes capital expenditure by public corporations. The distribution of private sector fixed capital formation according to type of asset is shown in Table II (A) 8.

TABLE II (A) 8
Fixed Capital Formation in Private Sector (including Public Corporations) according to Type of Asset.

Type of Asset	1970		1971		1972	
	Amount (Rs. Mn.)	Percent of Total	Amount (Rs. Mn.)	Percent of Total	Amount (Rs. Mn.)	Percent of Total
1. Planting, replanting and land development ..	114	6.1	111	6.7	112	6.6
2. Building and other construction ..	1,055	56.4	993	60.3	927	54.9
3. Plant and machinery ..	322	17.2	287	17.4	237	14.0
4. Transport equipment ..	245	13.1	171	10.4	278	16.5
5. Other capital goods ..	136	7.3	85	5.1	135	8.0
Total ..	1,872	100.0	1,647	100.0	1,689	100.0

Source: Central Bank of Ceylon

Note: Since some public corporations did not furnish data in time, it was not possible to estimate separately fixed capital formation in the public corporations sector. Our method of estimation is such that from total private sector capital formation estimated by using the flow of goods method, the data supplied by the corporations are deducted to give the residual estimate of capital formation in the household and corporate sectors. Therefore, the aggregate data for the private sector shown in this table are comparable with sum total of data on public corporations and the private sector for the previous years.

Total investment in the private sector in 1972, increased by 2.6 per cent compared to a fall of 12.0 per cent in the previous year. Building and other construction in 1972 amounted to Rs. 926.8 million which is a decrease of 6.7 per cent compared to a decline of 5.9 per cent in 1971. Investment in plant and machinery amounted to Rs. 236.9 million.