

## II. ECONOMIC AND FINANCIAL TRENDS—1974

### (A) National Product and Expenditure

#### I. Introduction

##### Gross National Product

According to provisional estimates, Gross National Product at constant (1959) prices increased by 3.4 per cent in 1974. This is marginally lower than the increase of 3.5 per cent in the real Gross National Product in 1973.

Table II (A)I shows a breakdown of Gross National Product at constant 1959 prices, for the years 1973 and 1974, and the relative contribution of each sector to real Gross National Product.

Real Gross National Product in absolute terms increased by Rs. 348 million in 1974 compared with the increase of Rs. 353 million in 1973. An examination of the sectoral composition of real Gross Domestic Product, shows that the main sectors contributing to economic growth in 1974, were agriculture and services, and to a lesser extent construction. The increase in output in the agriculture sector, because of its relative importance in the Gross National Product, exerts a large influence on overall economic growth. In 1974, the increase in agriculture, forestry, hunting and fishing is estimated at 5 per cent, compared with the decline of 2.6 per cent in 1973.

The increase in the output of the agriculture sector, reflects mainly the increase in the production of paddy and subsidiary food crops, which was substantially higher than in 1973. In plantation agriculture, tea and rubber production was lower than in 1973, while coconut production is estimated to have increased marginally above the 1973 level. The increase in output in the construction sector was due chiefly to the improved supply position of building materials. The share of the public sector in the increase in output of the construction sector was higher than in 1973. The output of the manufacturing sector, fell by 4.1 per cent in 1974 due mainly to the fall in the output of factory industry, and the fall in real value added in the processing of plantation crops. The increase in production in agriculture and construction exerted an upward influence on the level of economic activity in the services sector. The value of output in the services sector increased by 5.3 per cent in 1974. Of this increase transport and trade contributed Rs. 102 million or 4.2 per cent. A significant feature of changes in the sectoral composition of Real Gross National Product in recent years has been the relative decline in the contribution of the agriculture sector. The share of agriculture, forestry, hunting and fishing has declined from an average of 39 per cent in the years 1959 to 1970 to an average of 33.7 per cent in the years from 1971 to 1974. This is partly because the fall in production in the plantation sector has dampened the overall rate of growth of output in the agriculture sector and on account of the fact that the output of the agriculture sector has been increasing in absolute terms. It is also evident that the fall in the share of agriculture in total Gross National Product has also been due to the higher rate of increase in the growth of the other sectors.

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

Sectors	1959		1973		1974	
	Amount (Rs. Mn.)	Per- centage	Amount (Rs. Mn.)	Per- centage	Amount (Rs. Mn.)	Per- centage
1. Agriculture, Forestry Hunting and Fishing ..	2,302	39.1	3,388	32.6	3,558	33.1
2. Mining and Quarrying ..	31	0.5	266	2.6	191	1.8
3. Manufacturing ..	682	11.6	1,417	13.6	1,359	12.6
4. Construction ..	283	4.8	516	4.9	553	5.1
5. Electricity, Gas, Water and Sanitary Services ..	10	0.2	31	0.3	32	0.3
6. Transport, Storage and Communication ..	541	9.2	1,019	9.8	1,054	9.8
7. Wholesale and Retail Trade ..	801	13.6	1,383	13.3	1,450	13.5
8. Banking, Insurance and Real Estate ..	51	0.9	142	1.4	165	1.5
9. Ownership of Dwellings ..	201	3.4	318	3.1	344	3.2
10. Public Administration and Defence ..	301	5.1	567	5.5	609	5.7
11. Services ..	728	12.3	1,379	13.3	1,441	13.4
12. Gross Domestic Product ..	5,930	—	10,426	—	10,755	—
13. Net Factor Income from Abroad ..	-37	-0.6	-44	-0.4	-24.9	-0.2
14. Gross National Product ..	5,893	100.0	10,383	100.0	10,731	100.0

*Source: Central Bank of Ceylon*

In analysing the growth of Real Gross National Product the change in the terms of trade has to be taken into account since it alters the import capacity of exports and results in a net outflow of resources. In 1974, the import price index increased by 17.7 per cent while the export price index increased by 15.5 per cent. As a result the terms of trade deteriorated by 10.7 per cent in 1974 compared with 13.3 per cent in 1973. In consequence, real Gross National Product adjusted for changes in the terms of trade (Real National Income) increased by 4.1 per cent compared with the increase of 1.7 per cent in 1973. Gross National Product at current factor cost prices is estimated to have increased by 30 per cent in 1974, compared with the increase of 20 per cent in 1973.

In 1974 Sri Lanka's population was estimated at 13.4 million an increase of 1.6 per cent over 1973. Real Gross National Product per capita, increased from Rs. 784 in 1973 to Rs. 801 in 1974. At current prices per capita Gross National Product is estimated to have increased from Rs. 1144 in 1973 to Rs. 1470 in 1974.

#### **Resources and Uses**

Table II (A) 2 shows total resources available to the economy in 1974 and their utilisation. Total resources available to the economy consisting of domestic production and imports at market prices amounted to Rs. 26,394 million compared with Rs. 19,592 million in 1973. The increase in total resources was made up of an increase of Rs. 4,840 million in the Gross National Product and an increase of Rs. 1,962 million in imports. The weight of imports in total resources increased from 14.6 per cent in 1973 to 18 per cent in 1974 reflecting the increase in import prices between 1973 and 1974. The real increase in resources in 1974 came solely from the increase in domestic production; real imports as measured by the Central Bank's index of import volumes having fallen by 29.1 per cent in 1974.

TABLE II (A) 2

## Total Resources and their Uses

Items	1972	1973	1974	Percentage change over previous year	
	Amount (Rs. Million)			1973	1974
<b>A. Resources</b>					
Gross Domestic Product ..	13,634	16,741	21,581	+ 22.8	+ 28.9
Imports of goods and non-factor services ..	2,480	2,851	4,813	+ 15.0	+ 68.8
Total ..	16,114	19,592	26,394	+ 21.6	+ 34.7
<b>B. Utilization</b>					
Consumption ..	11,697	14,246	19,470	+ 21.8	+ 37.0
Gross Domestic Capital Formation ..	2,118	2,630	3,140	+ 24.2	+ 19.4
Exports of goods and non-factor services ..	2,300	2,716	3,784	+ 18.1	+ 39.3
Total ..	16,114	19,592	26,394	+ 21.6	+ 35.1

Source: Central Bank of Ceylon

An analysis of the allocation of available resources in 1974, shows that the share of consumption in total resources increased from 72.7 per cent in 1973 to 74 per cent in 1974, while the share of capital formation decreased from 13 per cent to 12 per cent and the share of exports remained constant at 14 per cent.

Total resources spent on consumption amounted to Rs. 19,470 million in 1974 compared with Rs. 14,246 million in 1973, an increase of 37 per cent. Resources utilised for capital formation increased from Rs. 2,630 million in 1973 to 3,140 million in 1974. A major influence on the level of consumption and capital formation was the increase in import prices. According to the Central Bank's index (1967 = 100) import prices increased by 77 per cent between 1973 and 1974. As a result there was a decline of 29.1 per cent in the volume of imports. The effect of the increase in import prices was reflected chiefly in the imports of capital goods which declined by 40.5 per cent. The effect of the fall in the imports of capital goods was offset by the increase in government fixed capital formation in sectors with a low import content such as agriculture and construction. As a result Gross Fixed Capital Formation is estimated to have increased by 19.2 per cent at current market prices in 1974 compared with 13.0 per cent in 1973.

In 1974 the value of exports was Rs. 3,784 million compared with Rs. 2,716 million in 1973, an increase of 39.3 per cent. The increase in the value of exports reflected the large increase in export prices. The volume of exports in 1974 as measured by the Central Bank's index, declined by 13.4 per cent as compared with the fall of 1.1 per cent in 1973.

## 2. Trends in Production

### Agriculture

#### Tea

Tea production in 1974 was 449.8 million pounds a decline of 6.7 per cent as compared with 1973. A breakdown of production by elevational category shows that this was solely due to the fall in production of low country teas, marginal increases being recorded in the production of mid and up country teas.

The fall in production was chiefly due to reduced fertilizer application, fragmentation of estates, uncertainty regarding land reform and unfavourable weather conditions during the latter part of the year. The area under tea cultivation in 1974 was 598,466 acres as compared with 598,740 acres in 1973. Payments under the tea replanting subsidy scheme, amounted to Rs. 22.5 million in 1974 as compared with Rs. 22.2 million in 1973. The acreage replanted in 1974 was 4,284 acres, a decrease of 167 acres over 1973. Under the tea factory modernization scheme Rs. 4.7 million was approved as loans in 1974.

#### Rubber

The production of rubber in 1974 is estimated at 301 million pounds, as compared with 340 million pounds in 1973, a decline of 11.5 per cent.

The fall in production was due to adverse weather conditions which reduced the number of tapping days, reduced application of fertilizer and the reduction in the area under cultivation because areas on the margin of profit were abandoned.

The area under cultivation in 1974 was 563,474 acres compared with 565,000 acres in 1973. A total of 7,076 acres was replanted in 1974 bringing the total area replanted to 315,578 acres or 56 per cent of the total acreage under rubber.

In 1974 the subsidy payments under the rubber replanting subsidy scheme was increased to Rs. 2,000 per acre as the cost of replanting had increased considerably in recent years. Subsidy payments under the rubber replanting subsidy scheme amounted to Rs. 12.8 million in 1974, compared with Rs. 15.8 million in 1973.

#### Coconut

Coconut production in 1974 was 2,031 million nuts compared with 1,935 million nuts in 1973, an increase of 5 per cent. The slower growth of production was due to drought conditions, the coconut pest which affected certain areas, lower fertilizer application and the dislocation of production due to land reform.

Fertilizer issued under the subsidy scheme declined by 66.0 per cent from 49,350 tons in 1973 to 16,745 tons in 1974.

### *Paddy*

Total paddy production in Maha 1973/74 and Yala 1974 is estimated by the Department of Census and Statistics at 76.8 million bushels, an increase of 22 per cent over production in the previous year. This increase in production was made up of an increase of 10.6 million bushels in Maha 1973/74, and an increase of 3.3 million bushels in Yala 1974. The increase in production of paddy was due mainly to the increase in the area under cultivation particularly in Yala 1974. The total area under cultivation in Maha 1973/74 and Yala 1974 was 2.0 million acres compared with 1.8 million acres in the corresponding seasons of the previous year. The yield per acre in the two harvesting seasons of 1974 was 45.7 bushels per acre, compared with 44.6 bushels per acre in the previous year.

Fertilizer issued for paddy increased from 96,816 tons in 1973 to 115,702 tons in 1974. Loans granted under the new agricultural credit scheme for paddy cultivation in 1974 amounted to Rs. 109.0 million compared with Rs. 28.3 million in 1973. The quantity of paddy purchased under the guaranteed price scheme in 1974 was 20.8 million bushels compared with 22.8 million bushels in 1973. A detailed analysis of paddy production is given in section II (B)—Domestic Agriculture.

### *Subsidiary Food crops and Minor Export Crops*

The output of subsidiary food crops is estimated to have increased by 14.4 per cent in 1974 compared with the increase of 34.9 per cent in 1973. The crops which recorded large increases last year were kurakkan, maize, manioc, sorghum, cowpea and red onions.

The increase in output was due mainly to the incentive provided by higher producer prices for these commodities as well as the impetus given to production by the government's food drive.

The f.o.b. value of minor export crops increased by 50 per cent, compared with an increase of 73 per cent in 1973. Significant increases in output were recorded in betel, cocoa, cinnamon and papain.

### **Mining & Quarrying**

The output in this sector, declined by 28.3 per cent in 1974, as compared with the output in 1973. It must be pointed out however that the output of this sector increased phenomenally in 1973, recording an increase of 294 per cent over output in 1972. A high level of activity was maintained in this sector in 1974. The f.o.b. value of gems, exported in 1974 was Rs. 132.6 million, a decrease of 13 per cent over exports in 1973. The value of stocks held with the Gem Corporation in 1974, declined by Rs. 9.0 million.

Increases in the production of graphite, ilmenite, limestone and clay also made significant contributions to output in this sector.

### **Livestock**

The value added in livestock products declined by 7.5 per cent in 1974 compared to a decline of 3.5 per cent in 1973. The production of milk declined substantially from 300 million bottles in 1973 to 233 million bottles in 1974. Egg production declined by 9.2 per cent in 1974.

## **Fish**

Total fish production increased by 2.5 per cent in 1974 as compared to the increase of 0.9 per cent in 1973. This increase came mainly from the high level of production of the private sector. Fresh fish landed by the Fisheries Corporation declined by 6.4 per cent in 1974.

## **Manufacturing**

Value added in the Manufacturing sector was Rs. 1,359, million in 1974, a decline of 4.1 per cent over value added in 1973. This reflected the fall in the output of factory industry and in the manufacturing component of the plantation sector.

The decline in the value of output of factory industry in 1974 was 1.1 per cent, compared with the increase of 0.2 per cent in 1973. This was mainly due to the availability of raw materials being marginally lower than in 1973. According to the Central Bank index of import volume (1967=100) raw material imports declined from 47 in 1973 to 46 in 1974. The fall in the production of tea and rubber and the marginal increase in coconut production resulted in a fall in value added in real terms in the processing of tea, rubber and coconut.

The increase in the value of output of cottage industry came mainly from the increase in production of power loom and hand loom textiles. The value of output of the latter, increased by 56.4 per cent in 1974, compared with the increase of 29.5 per cent in 1973. This increase in output was due mainly to government incentives to rural handicrafts, the greater availability of yarn and other raw materials and the increase in rural incomes.

## **Construction**

In 1974 the value of output in the construction sector increased by 7.1 per cent as compared to the increase of 2.2 per cent in 1973. The increase in construction activity was due mainly to the increased availability of cement, iron and steel and imported building materials. The main contribution to the increase in the construction sector came from the increase in private construction activity.

## **Services**

The real product of the services sector increased by 5.3 per cent in 1974, compared with the increase of 4.1 per cent in 1973. Increases in the value of output in public administration and defence, trade and transport, banking and insurance, and services n.i.e. contributed to this increase. The value of output of trade and transport increased by 4.2 per cent in 1974 due mainly to the increase in the output of domestic agriculture.

## **3. Gross National Product at Current Factor Cost Prices**

Estimates of Gross National Product at current factor cost prices for the years 1972, 1973 and 1974 are summarised in Table II (A) 3 below.

TABLE II (A) 3

## Gross National Product at Current Factor Cost Prices

Sectors	1972	1973	1974	Percentage change over previous year	
	Amount (Rs. Million)			1973	1974
1. Agriculture, Forestry, Hunting and Fishing	4,119	5,026	8,356	+ 22.0	+ 66.3
2. Manufacturing Mining and Quarrying, Electricity, Gas, etc.	1,859	2,380	2,756	+ 28.0	+ 15.8
3. Construction ..	711	802	1,011	+ 12.8	+ 26.1
4. Trade, Transport and other Services ..	6,118	7,057	7,682	+ 15.3	+ 8.9
5. Gross Domestic Product	12,807	15,265	19,805	+ 19.2	+ 29.7
6. Net Factor Income from Abroad ..	- 137	- 111	- 111	-	-
7. Gross National Product	12,671	15,154	19,694	+ 19.6	+ 30.0

Source: Central Bank of Ceylon

It is estimated that in 1974 Gross National Product at current factor cost prices increased by 30.0 per cent compared with the increase of 19.6 per cent in 1973.

Value added in agriculture, forestry and fishing increased by 66.3 per cent compared with the increase of 22.0 per cent in 1973. The increase in value added in this sector came mainly from domestic agriculture. Value added in paddy production increased by 130.9 per cent over 1973, while value added in subsidiary food crops increased by 85.0 per cent during the same period. Value added in the plantation sector (tea, rubber and coconut) increased by 58.8 per cent in 1974 compared with the increase of 7.8 per cent in 1973. The increase in value added in domestic agriculture and plantation agriculture reflected, to a large extent, the increase in prices in these sectors.

Value added in mining and quarrying declined by 23.7 per cent in 1974 compared with the increase of 240.3 per cent in 1973.

Value added in manufacturing in 1974 was 22.7 per cent higher than in 1973. Value added in factory industry is estimated to have increased by 5.4 per cent in 1974 compared with the increase of 4.1 per cent in 1973. A significant contribution to value added in the manufacturing sector came from the output of handloom and power loom textiles which increased by 55.5 per cent. Value added in the processing of tea, rubber and coconut increased by 57 per cent as compared with 1973 due to higher export prices which prevailed in 1974.

Value added in construction was Rs. 1011 million in 1974, an increase of 26.1 per cent over 1973. The increase in building activity was mainly in private residential and non-residential construction.

Value added in the services sector increased by 8.9 per cent in 1974 compared with the increase of 15.3 per cent in 1973. Increases in the services sector were mainly in public administration and defence, services n.i.e. and in trade and transport. Increased activity in tourism contributed to the increase in services n.i.e.

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

Table II (A) 4 shows Gross National Product at (1959) factor cost prices for the years 1972 to 1974. Gross National Product at Constant (1959) prices increased by 3.4 per cent in 1974 which is only marginally below the rate of increase of 3.5 per cent in 1973.

**TABLE II (A) 4**  
**Gross National Product at (1959) Factor Cost Prices**

Sectors	1972	1973	1974	Percentage change over previous year	
	Amount (Rs. Million)			1973	1974
1. Agriculture, Forestry, Hunting and Fishing ..	3,478	3,388	3,558	- 2.6	+ 5.0
2. Manufacturing, Mining, Quarrying, Electricity Gas etc. ..	1,499	1,715	1,582	+14.4	- 7.8
3. Construction ..	505	516	553	+ 2.2	+ 7.1
4. Trade, Transport and other Services ..	4,619	4,808	5,062	+ 4.1	+ 5.3
5. Gross Domestic Product	10,102	10,426	10,755	+ 3.2	+ 3.2
6. Net Factor Income from Abroad	- 72	- 44	- 24	-	-
7. Gross National Product ..	10,030	10,383	10,731	+ 3.5	+ 3.4

*Source:* Central Bank of Ceylon

The output of agriculture, forestry and fishing increased by 5 per cent in 1974 compared with a decline of 2.2 per cent in 1973. The rate of increase of this sector was mainly due to the increase in the output of domestic agriculture. Tea and rubber production both registered declines in 1974, while coconut production was only marginally above the 1973 level. By contrast, paddy production increased by 22 per cent in 1974 while the production of subsidiary foodcrops increased by 14.4 per cent.

Increases were also recorded in the output of minor export crops and fishing, while there was a substantial decline in the output of livestock.

The output of mining and quarrying declined by 28.3 per-cent in 1974. This was mainly because the value of gem production was lower than in 1973. The output of other products in this sector, mainly graphite and ilmenite registered increases in 1974.

The output of the manufacturing sector declined by 4.1 per cent in 1974 compared with the marginal increase of 1.2 per cent in 1973. The decline in the output of manufacturing was in factory industry and in the processing of tea and rubber. The output of cottage industry recorded a large increase of 56.4 per cent in 1974. The fall in the real product of factory industry was mainly due to the reduced availability of raw materials.

The fall in the manufacturing component of plantation agriculture, reflected the lower level of production and exports of these products in 1974.

Real output in the services sector increased by 5.3 per cent in 1974. Within the services sector there was a large increase in health and education due to the expansion of these services in 1974. The output of other government services (public administration and defence) increased by 7.5 per cent reflecting the increase in employment in this sector. Because of the higher level of activity in agriculture the output of transport and trade increased by 4.2 per cent, compared with 3.8 per cent in 1973.

The increase in the number of commercial bank branches and the setting up of agricultural service centres, both contributed to the increase of 16.2 per cent in the output of banking and financial services. In 1973 the output of this sector increased by 13.8 per cent.

Because Sri Lanka's national income is largely influenced by the level of imports and exports, an analysis of the real increase in gross national product must also take into account the effect of changes in the prices of imports and exports on real income. In 1974 export prices as measured by Central Bank's indices increased by 55.5 per cent while import prices increased by 77.0 per cent. In 1973 the increase in export and import prices were 16.1 per cent and 32.3 per cent respectively. In consequence, Sri Lanka's terms of trade declined by 10.8 per cent in 1974 compared with the decline of 13.3 per cent in 1973. Largely because of the upward movement of export prices as compared with 1973, the transfer of real resources as a result of the decline in the terms of trade was Rs. 1,143 million compared with Rs. 1,170 million in 1973. As a result real national income recorded a higher rate of increase than real Gross National Product. Real national income in 1974 was estimated at Rs. 9,587.1 million in 1974 compared with Rs. 9,212.4 million in 1973. Real Income per capita therefore increased from Rs. 695 in 1973 to Rs. 716 in 1974, an increase of 3.0 per cent.

## 5. Gross National Expenditure

The main components of Gross National Expenditure are summarised in Table II (A) 5.

TABLE II (A) 5

### Gross National Expenditure at Current Market Prices

Items	1972	1973	1974	Percentage change over previous year	
	Amount (Rs. Million)			1973	1974
1. Private consumption .....	9,773	12,203	16,700	+24.9	+36.8
2. Public consumption .. .. .	1,924	2,043	2,771	+ 6.2	+35.6
3. Gross domestic capital formation	2,118	2,630	3,140	+24.2	+19.4
4. Gross domestic expenditure ..	13,814	16,876	22,610	+22.2	+34.0
5. Net investment abroad .. .. .	- 269	- 161	- 889	—	—
6. Less: Net receipts of international gifts and transfers .. .. .	- 48	- 84	- 252	—	—
7. Gross National Expenditure ..	13,497	16,630	21,469	+23.2	29.1

Source: Central Bank of Ceylon

In 1974, Gross National Expenditure at current market prices is estimated to have increased by 29.1 per cent. This reflects the increase in both consumption expenditure and capital expenditure. Consumption expenditure increased by 36.7 per cent while capital expenditure increased by 19.4 per cent. The high level of expenditure in 1974, as compared with 1973, also reflects the increase in prices during this period.

### Consumer Demand

Consumption expenditure increased by Rs. 4,497 million or 36.8 per cent in 1974. A breakdown of expenditure on consumption reveals that expenditure on locally produced goods increased by 34.4 per cent from Rs. 9156 million in 1973 to Rs. 12,307 million in 1974, while expenditure on imported goods increased by 59.5 per cent from Rs. 1300 million in 1973 to Rs. 2073 million in 1974. This is seen from table 10 in the Appendix. III

Table II (A) 6 shows the composition of private expenditure at current market prices in the years 1973 and 1974.

TABLE II (A) 6

#### Private Consumption Expenditure at Current Market Prices

Items	1973		1974	
	Amount (Rs. Mn.)	Percent of row 16	Amount (Rs. Mn.)	Percent of row 16
1. Food ..	7,054	57.8	10,020	60.0
2. Beverages ..	351	2.9	466	2.8
3. Tobacco ..	638	5.2	852	5.1
4. Clothing and other personal effects ..	1,032	8.5	1,453	8.7
5. Rent, rates and water charges ..	420	3.4	456	2.7
6. Fuel and light ..	316	2.6	351	2.1
7. Furniture, furnishings and household equipment ..	289	2.4	379	2.3
8. Household operations ..	719	5.9	885	5.3
9. Personal care and health expenses ..	247	2.0	317	1.9
10. Transport and communication ..	1,033	8.5	1,069	6.4
11. Recreation and entertainment ..	514	4.2	672	4.0
12. Miscellaneous services ..	344	2.8	470	2.8
13. Expenditure of residents abroad ..	—	—	—	—
14. Less: Expenditure of non-residents in the country ..	— 557	— 4.6	— 610	— 3.6
15. Less: Government local purchases ..	— 197	— 1.6	— 79	— 0.5
16. Consumption expenditure of households and private non-profit institutions ..	12,203	100.0	16,700	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.

It is seen that expenditure on food, beverages and tobacco accounted for 67.9 per cent of expenditure compared with 65.9 per cent in 1973. As compared with 1973, therefore, a smaller proportion of expenditure has been spent on items other than on food.

The increase of Rs. 4,497 million in private consumption expenditure was allocated as follows: food, beverages and tobacco 73.4 per cent, clothing 9.4 per cent; transport and communication 0.8 per cent, and recreation and entertainment and other services 16.4 per cent.

## 6. Gross Fixed Capital Formation

A detailed breakdown of gross fixed capital formation is given in table 7 in Appendix III. In 1974, gross fixed capital formation increased by Rs. 471.1 million or 19.2 per cent. Government fixed capital formation increased by 37.4 per cent while capital formation in the private sector and public corporations increased by 13.6 per cent. Available data on the prices of imported and locally produced goods indicate that a significant part of this increase would be accounted for by the increase in prices. Thus the Central Bank's index of import prices (1967=100) shows that the price of imported investment goods increased from 140 in 1973 to 208 in 1974.

### Government Sector

Fixed capital formation in the government sector increased by 37.4 per cent in 1974 compared with 14.2 per cent in 1973. A breakdown of government fixed capital formation by industrial category is given in the table below:-

**TABLE II (A) 7**  
**Industrial Classification of Government Fixed Capital Formation**

Sectors	1973		1974	
	Amount (Rs. Mn.)	Percentage of Total	Amount (Rs. Mn.)	Percentage of Total
1. Agriculture, Forestry and Fishing ..	198	33.6	316	39.0
2. Manufacturing ..	9	1.5	9	1.1
3. Electricity, Gas, Water and Sanitary Services ..	17	2.9	14	1.8
4. Transport, Storage and Communication ..	165	28.0	164	20.2
5. Ownership of Dwellings ..	11	1.9	8	1.0
6. Public Administration ..	101	17.1	139	17.1
7. Services ..	89	15.1	161	19.8
<b>Total</b> ..	<b>590</b>	<b>100.0</b>	<b>811</b>	<b>100.0</b>

Source: Central Bank of Ceylon

Note: Based on estimates of expenditure of the government of Sri Lanka.

In 1974 the share of investment in agriculture, forestry and fishing in total government investment was 39 per cent while investment in transport, storage and communication accounted for 20.2 per cent of government investment. Government investment in these sectors therefore amounted to 59.2 per cent of total government expenditure compared with 61.0 per cent in 1973 and 61.3 per cent in 1972. The allocation of government expenditure has therefore followed the same pattern as in recent years. The share of government investment in other sectors in 1974 has been as follows: manufacturing 1.1 per cent, public administration and defence 17.1 per cent and services 19.8 per cent.

## Private Sector and Public Corporations

The distribution of gross fixed capital formation of the private sector and public corporations classified according to type of assets is shown in Table II (A) 8.

**TABLE II (A) 8**

### Fixed Capital Formation in the Private Sector (including Public Corporations) according to Type of Asset.

Type of Asset	1972		1973		1974	
	Amount (Rs. Mn.)	Percent of Total	Amount (Rs. Mn.)	Percent of Total	Amount (Rs. Mn.)	Percent of Total
1. Planting, replanting and land development	112	6.6	111	5.8	98	4.5
2. Building and other construction ..	927	54.9	1,029	54.1	1,334	61.7
3. Plant and machinery ..	237	14.0	379	19.9	200	9.3
4. Transport equipment ..	278	16.5	245	12.9	279	12.9
5. Other capital goods ..	135	8.0	139	7.3	250	11.6
<b>Total ..</b>	<b>1,689</b>	<b>100.0</b>	<b>1,903</b>	<b>100.0</b>	<b>2,161</b>	<b>100.0</b>

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. In this table, from total private sector capital formation which is estimated by using the commodity flow approach, the data supplied by public corporations are deducted to give a residual estimate of capital formation in the household and corporate sectors. Therefore the data shown here are comparable with the estimates of capital formation in public corporations and the private sector for the previous years.

Fixed capital formation in the private sector and public corporations is estimated to have increased by 13.5 per cent in 1974 as compared to the increase of 12.7 per cent in 1973.

The increase in fixed capital formation in 1974 was mainly in building and other construction, transport equipment and in other capital goods.

The share of fixed capital formation in building and other construction, in total fixed capital formation was 61.7 per cent, while the share of transport equipment and other capital goods was 12.9 per cent and 11.6 per cent respectively.

An important influence on the level of capital formation in the private sector and public corporations in 1974 was the fall in the level of imports of investment goods. According to the Central Bank's index (1967=100) the volume of imports of investment goods fell from 84 in 1973 to 50 in 1974 a decline of 40.5 per cent. The reduction in the imports of investment goods was reflected in the fall in fixed capital formation in plant and machinery and the marginal increase in fixed capital formation in transport equipment. Fixed capital formation in building and other construction recorded a high rate of increase of 29.6 per cent in 1974 compared with 11.0 per cent in 1973.

In 1974 gross fixed capital formation in the private sector and public corporations is estimated to have increased by 19.2 per cent at current market prices compared with 13.7 per cent in 1973.

### **Import Content of Gross Domestic Expenditure**

Table 13 of the appendix III shows the direct import content of Gross Domestic Expenditure.

The direct import content of private consumption which was 7.6 per cent in 1973 increased to 10.3 per cent in 1974. The import content of capital formation fell from 20.4 per cent in 1973 to 13.3 per cent in 1974.