

The expansion of the money supply in 1976 was exceptionally large. During the year, the money supply increased by Rs. 1,077 million, an increase of 34.9 per cent compared to an increase of 4.8 per cent in 1975. The principal factors responsible for the expansion were the financial operations of the Government and the increase in net external banking assets. The increase resulting from the former was Rs. 540 million, while the contribution made by the latter was Rs. 470 million.

ECONOMIC GROWTH

Overall Performance

The 1976 Gross National Product at current factor cost prices is provisionally estimated at Rs. 24,087.8 million. This is an increase of 9.8 per cent from the corresponding estimate for 1975. When allowance is made for price increases, the Gross National Product at constant (1959) prices, increased by 3.0 per cent in 1976, compared to 3.6 per cent in 1975.

The provisional estimate of the mid-year (1976) population of Sri Lanka is 13.7 million indicating an increase of 1.6 per cent. The GNP per capita at constant (1959) prices increased by only 1.3 per cent, compared to an increase of 2.0 per cent in 1975. The 1976 GNP per capita in real terms was Rs. 833 compared to Rs. 822 in 1975. The GNP and GNP per capita at constant prices and their annual growth rates for the past decade are given in Table 1.

Owing to the importance of foreign trade in the economy of Sri Lanka, changes in the terms of trade have an important bearing on the real national income. An improvement in the terms of trade increases the quantum of imports which could be obtained with a given quantum of exports and thereby increases the exchange value of the goods and services produced. The real Gross National Product when adjusted for the changes in the terms of trade provides estimates of the real national income.

Since the terms of trade improved by 35 per cent in 1976, the real national income increased by 4.0 per cent while the real national product increased by only 3.0 per cent. The per capita real income increased by 2.4 per cent, although the GNP per capita increased by only 1.3 per cent.

In other words, due to the improvement in the terms of trade in 1976, real national income increased by more than the real national product. Increases in real national income provide a measure of the increase in real resources available through production as well as through international exchange. The improvement in 1976 is in contrast to the position in 1975 when there was a decline in the terms of trade by 20.6 per cent. In that year the real national product increase of 3.6 per cent was reduced to a real national income increase of only 1.7 per cent.

TABLE 1

**Gross National Product & Gross National Product Per Capita at Constant
(1959) Prices and their Growth Rate - 1967 - 1976**

Year	Gross National Product		Gross National Product Per Capita	
	Rs. Million	Growth Rate	Rs.	Growth Rate
1967	8,210	5.0	702	2.8
1968	8,901	8.4	742	5.7
1969	9,301	4.5	759	2.3
1970	9,686	4.1	774	2.0
1971	9,725	0.4	766	-1.0
1972	10,039	3.2	770	1.2
1973	10,419	3.8	784	2.7
1974	10,730	3.0	807	1.4
1975	11,115	3.6	822	1.9
1976	11,443	3.0	833	1.3

Estimates for 1974 to 1976 are provisional

Source: Central Bank of Ceylon.

Analysis of GNP Performance

The sectoral composition of Sri Lanka's Gross National Product at constant (1959) factor cost prices is given in Table 2. This table indicates the relative importance of the different sectors of the economy each year, and the growth of each sector since 1972 compared to the base year 1959.

The Gross National Product in real terms increased by 3.0 per cent in 1976 as compared to 3.6 per cent in 1975 and 3.0 per cent in 1974. The slower rate of growth in 1976 was mainly due to the fall in output in the agricultural sector, where the fall in output was mainly in the plantation crops, tea and coconut, whose decline in production could not be offset by the increases in production of paddy, rubber and subsidiary crops.

The output of the agriculture, forestry and fishing sector declined by 0.9 per cent as compared to an increase of 1.2 per cent in 1975. The output of tea, the major export commodity, declined by 8.1 per cent while coconut production declined by 12.8 per cent. Rubber, on the other hand, showed an increase in output of 2.2 per cent. The total output of paddy in 1976, at 60 million bushels was 8.5 per cent higher than in 1975. The output of subsidiary food crops, such as maize, meneri, cowpea and red onion increased by 3.8 per cent in 1976 compared to an increase of 12.0 per cent in the previous year. The output of minor export crops increased significantly by 20.0 per cent.

The output in the mining and quarrying sector increased by 42.7 per cent in 1976 as compared with an increase of 30 per cent in 1975. The high rate of growth in this sector was mainly due to an increase in the mining of precious stones whose value of production rose sharply from Rs. 188 million in 1975 to Rs. 287 million in 1976. Increases were also recorded in the production of graphite and salt. Except for a setback in 1974, mining and quarrying has shown a high level of activity during the last few years.

TABLE 2

Sectoral Composition of Gross National Product at Constant (1959) Factor Cost Prices.

(Amount in Rs. Mn.)

Sectors	1959		1972		1973		1974		1975		1976	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
1. Agriculture, Forestry, Hunting & Fishing	2,302	39.1	3,476	34.6	3,420	32.8	3,558	33.1	3,602	32.4	3,568	31.2
2. Mining & Quarrying	31	0.5	68	0.7	266	2.5	191	1.8	248	2.2	354	3.1
3. Manufacturing	682	11.6	1,400	14.0	1,421	13.6	1,359	12.6	1,462	13.2	1,489	13.0
4. Construction	283	4.8	505	5.0	516	5.0	553	5.1	503	4.5	531	4.6
5. Electricity, Gas, Water & Sanitary Services	10	0.2	31	0.3	31	0.3	32	0.3	33	0.3	36	0.3
6. Transport, Storage & Communication	541	9.2	988	9.8	1,019	9.8	1,054	9.8	1,100	9.9	1,143	10.0
7. Wholesale & Retail Trade	801	13.6	1,327	13.2	1,383	13.3	1,450	13.5	1,501	13.5	1,545	13.5
8. Banking, Insurance & Real Estate	51	0.9	136	1.4	142	1.4	165	1.5	184	1.7	191	1.7
9. Ownership of Dwellings	201	3.4	313	3.1	318	3.1	344	3.2	350	3.1	353	3.1
10. Public Administration and Defence	301	5.1	522	5.2	567	5.4	609	5.7	646	5.8	676	5.9
11. Services	728	12.3	1,334	13.3	1,379	13.2	1,441	13.4	1,513	13.6	1,593	13.9
12. Gross Domestic Product	5,930	—	10,098	—	10,462	—	10,755	—	11,142	—	11,480	—
13. Net Factor Income from Abroad	-37	-0.6	-60	-0.6	-44	-0.4	-24.9	-0.2	-26.9	-0.2	-36.9	-0.3
14. Gross National Product	5,893	100.0	10,038	100.0	10,419	100.0	10,731	100.0	11,115	100.0	11,443	100.0

Estimates for 1974 to 1976 are provisional

Source: Central Bank of Ceylon

(5)

Value added in the manufacturing sector (including the processing of tea, rubber and coconut, milling of rice and baking of bread) increased marginally by 1.9 per cent, compared to an increase of 7.5 per cent in 1975. Value added in the processing of tea, rubber and coconut taken together, declined by 6 per cent as compared to an increase of 7.5 per cent in 1975. Despite this decline, the manufacturing sector showed a growth rate of 1.9 per cent due to an increase in the output of factory and cottage industries. In factory industries, the increase in the value added was 4.8 per cent as compared to an increase of 8.0 per cent in 1975. The output of cottage industries in 1976 increased by 8.1 per cent, which is a higher rate of increase than in 1975 when it increased by 3.3 per cent. Increased output in cottage industries was in the production of textiles.

During the year, construction activity was concentrated mainly in the Government and Corporation sectors. The value added in construction in 1976 increased by 5.5 per cent as against a decline of 8.9 per cent in 1975. Although the availability of building materials improved in 1976, the limited supply and availability of cement and the higher prices of building materials were major constraints on a more rapid expansion of construction. The production of this vital material increased by only 7.7 per cent in 1976 after a decrease of 20.0 per cent in the previous year. Furthermore, towards the latter part of the year, the distribution of cement was beset with transport problems.

The output of the services sector which increased by 4.6 per cent in 1975 increased by only 3.9 per cent mainly due to the fall in production in the plantation sector. The output of financial services increased by only 1.4 per cent and the output of public administration and defence increased by 4.7 per cent.

The rapid expansion in the tourist industry seen in the past few years continued in 1976. Foreign exchange earnings from the industry increased for the fifth successive year when Rs. 198 million was earned in 1976 compared to Rs. 124 million in 1975. This increase was due to both an increase in the number of tourists as well as an increase in their average expenditure.

Resources and their Utilization

As can be seen from Table 3 the total resources available to the economy in 1976 was Rs. 32,119 million compared with Rs. 29,694 million in the previous year. Of the additional resources available in 1976, 95.3 per cent was from domestic production and 4.7 per cent from imports. The proportion of imports in total resources declined from 19.0 per cent in 1975 to 17.9 per cent in 1976 due to a decline in import prices and an increase in domestic prices. Of the total resources, Rs. 4,194 million or 13.1 per cent was utilized for domestic capital formation. Nearly half of domestic capital formation was in the Government and public corporation sector.

Capital formation in Government and public corporations in 1976 increased by 12.1 per cent, while the increase in the private sector was 3.3 per cent. The overall increase in capital formation in the economy in 1976 was 7.3 per cent.

TABLE 3
Composition and Utilization of Resources.

	1975		1976		% Change Over Previous Year	
	Amount (Rs. Mn)	% of Total	Amount (Rs. Mn)	% of Total	1975	1976
A. Total Resources	29,694	100.0	32,119	100.0	12.5	8.2
1. G.D.P. (Market prices)	24,063	81.0	26,375	82.1	11.5	9.6
2. Import of Goods and Non-factor services	5,631	19.0	5,744	17.9	17.2	2.0
B. Utilization	29,694	100.0	32,119	100.0	12.5	8.2
1. Consumption	21,358	71.9	22,608	70.4	9.7	5.9
2. Gross Domestic Capital Formation	3,908	13.2	4,194	13.1	24.4	7.3
of which						
(a) Government	1,307	4.4	1,496	4.7	50.1	14.5
(b) Public Corporations	466	1.6	492	1.5	21.4	5.6
(c) Private Sector	2,135	7.2	2,206	6.9	13.3	3.3
3. Export of goods and Non-factor services	4,428	14.9	5,317	16.5	17.0	20.1

Source: Central Bank of Ceylon.

The relative importance of External Resources and domestic savings in the financing of investment is given in Table 4. This table shows that the rate of domestic savings (the ratio of domestic savings to Gross Domestic Product) have improved since 1974; increasing from 9.7 per cent in 1974, to 11.2 per cent in 1975, and 14.3 per cent in 1976.

Agricultural Production

Agricultural production of 1976 is discussed in relation to the trends in recent years. The key indicators of performance of the four principal crops, tea, rubber, coconut and paddy during the last decade are given in Table 5.

Tea Production

Tea production declined in 1976 by 8.1 per cent from 471 million pounds in 1975 to 433 million pounds. This drop in production of 38 million pounds is in contrast to the 1975 production increase of 21 million pounds. The volume of production in 1976 is the lowest since 1959. During the last decade, after a slight increase in production from 487 million pounds in 1967 to 496 million pounds in 1968, production has fluctuated between 484 and 433 million pounds and remained well below the peak level of 503 million pounds reached earlier in 1965.

Table 6 shows the country's tea production by the three elevational categories of low-grown, mid-grown and high-grown. This analysis discloses that tea production in 1976 declined in all three categories, but was sharpest in the mid-grown category where it fell by 19.1 million pounds.

TABLE 4

Consumption, Investment and Domestic Savings 1970-1976

(Amount in Rs. Million)

	1970	% of GDP	1971	% of GDP	1972	% of GDP	1973	% of GDP	1974	% of GDP	1975	% of GDP	1976	% of GDP
1. Gross Domestic Product at Market Prices	12,782	100	12,708	100	13,634	100	16,741	100	21,581	100	24,063	100	26,375	100
2. External Resources (net Imports of G & NFS)	278	2.2	180	1.4	180	1.3	135	0.8	1,040	4.8	1,203	5.0	427	1.6
3. Consumption	10,505	82.2	10,639	83.8	11,697	85.8	14,246	85.1	19,471	90.2	21,358	88.8	22,608	85.7
Public	1,649	12.9	1,790	14.1	1,924	14.1	2,043	12.2	2,771	12.8	2,508	10.4	3,050	11.6
Private	8,856	69.3	8,849	69.7	9,773	71.7	12,203	72.9	16,700	27.4	18,850	78.4	19,558	74.1
4. Investment	2,555	20.0	2,249	17.6	2,118	15.5	2,629	15.7	3,139	14.6	3,909	16.2	4,193	15.9
Public	785	6.1	588	4.6	342	2.5	677	4.0	871	4.1	1,307	5.4	1,496	5.7
Private	1,770	13.9	1,661	13.0	1,776	13.0	1,952	11.7	2,268	10.5	2,602	10.8	2,697	10.2
5. Residual (Including Private Sector Stocks)	30.4	0.2	136.4	1.1	154.0	1.1	185.8	1.1	151.3	0.7	184.7	0.8	161.8	0.6
6. Domestic Savings (i.e. (4)-(2))	2,277	17.8	2,069	16.3	1,938	14.2	2,494	14.9	2,099	9.7	2,706	11.2	3,766	14.3

Estimates for 1974 to 1976 are provisional.

Source: Central Bank of Ceylon

TABLE 5
Key Indicators of Principal Agricultural Crops 1967 - 1976

	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976(a)
Production										
Tea (Mn. lbs.)	487	496	484	468	480	471	466	450 ^o	471	433
Rubber (Mn. lbs.)	316	328	333	351	312	309	341	291	328	335
Coconut (Mn. nuts)	2,416	2,601	2,440	2,510	2,610	2,963	1,935	2,031	2,398	2,093
Paddy (Mn. bushels)	55.1	64.6	65.9	77.4	66.9	62.9	62.9	76.8	55.3	60.0
Acreage										
Tea - Total	598,814	597,490	596,514	597,499	597,171	597,645	598,740	598,466	597,691	594,527
Replanted Annual	5,269	5,266	6,500	6,857	6,640	6,418	5,953	4,282	4,356	2,758
Replanted Cumulative	21,662	26,928	33,428	40,285	46,925	53,343	59,296	63,578	67,934	70,692
Rubber - Total	569,121	569,207	568,633	568,900	567,994	567,060	565,000	563,406	562,494	560,000
Area under Tapping	487,702	488,121	493,712	496,210	494,355	491,324	475,529	475,165	477,110	474,626
Replanted Annual	10,076	13,047	12,084	10,214	8,476	8,722	4,964	7,076	7,980	6,298
Replanted Cumulative	250,995	264,042	276,126	286,340	294,816	303,538	308,502	315,578	323,558	329,856
Coconut - Total (1962)		(1,152,418)								
Paddy - Total ('000 Acres)	1,639	1,742	1,709	1,876	1,794	1,795	1,792	2,038	1,719	1,789
Area Harvested ('000)	1,567	1,634	1,539	1,776	1,714	1,579	1,660	1,969	1,476	1,570
High yielding varieties ('000)	n.a.	1,083	1,108	1,325	1,204	1,252	1,284	1,647	1,285	1,381
Yield Per Acre										
Tea	813.3	830.1	811.4	811.0	833.0	816.0	805.0	882.0	920.0	846.0
Rubber	647.3	671.7	673.5	707.2	657.0	658.0	694.0	634.0	691.1	705.0
Coconut	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Paddy	41.27	46.49	50.33	51.30	45.91	46.87	44.58	45.65	44.04	44.91

(a) Provisional
Notes on Sources :

Tea and Rubber statistics are from the Tea Commissioner and the Rubber Controller respectively. The estimate of coconut production is the Central Bank estimate, while the statistics of acreage available are those of the Census of Agriculture 1962. Paddy statistics are those of the Department of Census & Statistics.

(6)

TABLE 6
Tea Production by Elevational Categories - 1970-1976

	Mn. Lbs.						
	1970	1971	1972	1973	1974	1975	1976
High Grown	178.8	186.4	179.4	177.6	177.0	176.7	167.3
Medium Grown	159.2	167.5	165.1	155.2	155.4	161.1	142.0
Low Grown	129.8	126.2	126.0	132.8	117.3 ^b	133.2	123.9
Total	467.8	480.1	470.5	465.6	449.7	471.0	433.2

Source: Tea Commissioner's Department

Weather factors had an important bearing on the 1976 tea crops and perhaps on the use of certain inputs. In 1976 the Kandy and Nuwara Eliya districts recorded the lowest annual rainfall of the decade. Fertilizer applications declined from 106,517 tons in 1975 to 97,637 tons in 1976.

The area replanted, which showed an increasing trend till 1971, has shown a declining trend since. The area replanted in 1976 was only 2,758 acres and is a decrease of 36.7 per cent from the replanted area of 4,356 acres in 1975. About 12 per cent or 70,700 acres of the tea extent had been replanted by 1976.

Rubber

Rubber production increased from 328 million pounds in 1975 to 335 million pounds in 1976. This increase of 7 million pounds or 2.1 per cent followed on the increase of 37 million pounds in 1975. Crepe production increased, while sheet production declined slightly. The yield per acre was 705 lbs.

Rubber production which increased from 1967 to 1970 decreased somewhat in 1971 and 1972 and showed a sharp increase in 1973 followed by a drastic decline of 50 million pounds in 1974. The increases in 1975 and 1976 are signs of an up-trend which is due to increases in output from earlier replanted areas and possibly the result of the industry's response to the improved prices from the latter part of 1975.

Both the area replanted and the area newly planted in 1976 was less than in 1975. The area replanted fell from 7,980 acres to 6,298 acres. The amount paid under the replanting scheme therefore declined from Rs. 12.0 million to Rs. 11.1 million. The total area of rubber replanted is estimated at 329,856 acres and represents about 60 per cent of the area under rubber cultivation. The area newly planted was only 139 acres compared to 352 acres in 1975. These trends indicate that while production may increase in the short-run, owing to the earlier replanting, the long run production potential is not being increased adequately.

Coconut

The provisional estimate made by the Central Bank indicates that coconut production fell by 12.7 per cent from 2,398 million nuts in 1975, to 2,093 million nuts in 1976. This fall in production is attributed primarily to prolonged drought conditions and the lagged response to reduced fertilizer application in 1975.

The use of fertilizer has been falling since 1970 when it was around 60,000 tons to 39,311 tons and 24,463 tons in 1974 and 1975 respectively.

The annually replanted acreage which fell from 18,800 acres in 1972 to around 14,200 acres in both 1973 and 1974 increased again in 1975 to reach 17,400 acres but fell to 13,100 acres in 1976.

In the last decade coconut production showed annual fluctuations but an increasing trend till 1972, when it reached a peak level of 2,963 million nuts. Production dropped sharply by over a thousand million nuts to 1,935 million nuts in 1973, but increased by nearly 100 million nuts in 1974, and by 18 per cent or 367 million nuts in 1975. The significant increase in production in 1975 was primarily due to an improvement in weather conditions.

The fall in production has a two-fold impact. Internally, the consequent price increase of coconut, increases the cost of living, as this is an important component of household consumption, directly as nuts and indirectly as cooking oil. Internationally, it reduces the foreign exchange earnings although to some extent the price increases may offset this effect. For both these reasons, it is important to ensure the recovery of the coconut industry by investment and pursuit of proper cultivation practices. The expansion of the coconut acreage by underplanting and new planting and the cultivation of improved high yielding varieties is an immediate need to ensure the maintenance of the longer run production levels.

Paddy Production

In 1976 (Maha 1975/76 and Yala 1976) paddy production increased by about 5 million bushels or 8.5 per cent over that of 1975. This was due to a substantial increase in production of 7.8 million bushels in Maha 1975/76, which was somewhat offset by the decline in production in Yala 1976 by 3.1 million bushels. Production of 60 million bushels in 1976 consisted of 42.3 million bushels in Maha and 17.8 million bushels in Yala. The average yield per acre for the cultivation year was 44.9 bushels which is an increase of 2 per cent over that of the previous year.

Weather conditions have been mainly responsible for fluctuations in paddy production in the last few years. Total paddy production fell from 1970 to 1973 but increased substantially in 1974 to reach the second highest annual level of production of 76.8 million bushels. It decreased sharply in 1975 to 55.3 million bushels and has again increased in the year under review.

The Maha 1975/76 increase in production was due to both an increase in the area harvested and an increase in yields. The gross extent sown in the Maha season increased from 1.09 to 1.15 million acres, while the area harvested increased from 0.9 to 1.05 million.

The average yield per acre in Maha increased by 1 bushel from 46.2 to 47.2 bushels. There was an expansion of 13.6 per cent in the area under improved varieties, while fertilizer issues increased by as much as 58.6 per cent or 15,593 tons

over the previous Maha. These two factors may have accounted for the increase in yields. This significant increase in fertilizer issues was a response to the reduced fertilizer prices consequent on the increase in the fertilizer subsidy to 50 per cent.

The impact of unfavourable weather conditions on Yala production is indicated by the fact that the gross area harvested was 82,145 acres or 13.68 per cent less than the acreage in the previous Yala. In future years diversion of the Mahaweli will increase the area under cultivation in Yala and reduce crop losses caused by the inadequacy of water. The impact of this scheme is discussed separately because of its importance to the national economy.

In Yala 1976 the average yield per acre declined slightly to 40.3 bushels from 40.8 bushels the previous Yala. The increase in fertilizer issues in Yala was even sharper than in Maha 1975/76; it was as much as 87.1 per cent higher than in the previous Yala. Although the area cultivated declined, the total volume of fertilizer issues in Yala 1976 at 30,836 tons, was about the amount of fertilizer issued in Yala 1970, though lower than the peak level of 40,736 tons reached in Yala 1973. This indicates the farmers' response to the decreased fertilizer prices.

The quantity of paddy purchased by the Paddy Marketing Board in 1975/76 under the Guaranteed Price Scheme increased by 1.5 million bushels or 13.3 per cent. About 21.4 per cent of production was purchased in 1975/76 compared to 20.5 per cent the previous year. It is noteworthy that this increase, in both the total quantity purchased and in the proportion of total production purchased, was achieved after the PMB's monopoly of paddy purchases and the restrictions on the transport of paddy and rice were removed in October, 1975.

Subsidiary Food Crops and Milk Production

The area under cultivation and the volume of production of subsidiary crops have shown an increasing trend in recent years. The area under cultivation of 18 subsidiary food crops, for which statistics are available increased from 658,702 acres in 1974/75 to 741,720 acres in 1975/76. The output of subsidiary food crops increased by 4.1 per cent.

The estimates of the Department of Census and Statistics indicate that milk production has increased significantly in 1976 to reach 330 million bottles compared to 271 million bottles in 1975. The National Milk Board increased its collection by 35.4 per cent in 1976 to reach a record level of 104,766,000 pints, compared with 77,370,000 pints in 1975. This improvement occurred despite adverse weather conditions.

The Mahaweli Development Scheme

The diversion of the Mahaweli river to the Dry Zone was a significant event in the economic development of Sri Lanka. The Mahaweli Development Scheme when completed envisages, among other things, the provision of irrigation water for 654,000 acres of new land and a more certain supply of water for 246,000 acres of land already under cultivation. This Scheme, whose construction commenced in 1970, is expected to take twenty five years for its completion.

Major works of the Polgolla and Bowatenne complexes, the Elehera weir and canal, and the Sudu Ganga improvement were completed by the end of 1976, and made possible the diversion of the Mahaweli waters to several tanks mainly in the Anuradhapura and Polonnaruwa districts. This diversion created a potential to double crop 134,000 acres of paddy lands under irrigation tanks. However, it has not been possible to cultivate a greater part of this acreage in Yala 1976, largely due to the low rainfall in the catchment area of the Mahaweli river in the first half of 1976 and a high rate of water absorption by the soil due to the parched condition of many tanks and canals after the severe drought in 1975 and 1976.

As envisaged in the overall plan of the Mahaweli Development Scheme, land development commenced in State II of Project I which envisages development of 71,000 acres of land in the Kalawewa area. In 1976, the asweddumized acreage under the existing irrigation network and the extent newly opened in the Kalawewa area amounted to 20,000 acres. Nearly 55 per cent of this acreage is for irrigated paddy cultivation while the remainder is for highland crop cultivation. However, owing to the delay of the North-East Monsoon and the low discharge of Mahaweli waters in 1976, farmers were unable to cultivate their Maha crops in time and only about 3,000 acres of paddy and 2,000 acres of highland crops have been cultivated in the Kalawewa area during Maha 1976/77. During 1976, nearly 3,000 farmers have been settled in the Special Project Area of development in Stage II.

By the end of 1976 the total committed expenditure on the Scheme was Rs. 557 million. Of this sum Rs. 121 million was spent during 1976.

Industrial Production

The total value of industrial production in the public and private sectors increased by 9 per cent from Rs. 5,556 million in 1975 to Rs. 6,061 million in 1976. The value added in industry rose by 6 per cent. In real terms, however, industrial production and the value added in industry increased by 1.2 and 4.0 per cent, respectively. The increase in production was mainly in the public sector industrial corporations.

Reflecting the rise in production, employment in the industrial sector increased by 5 per cent, while capacity utilization also registered an increase. The higher level of production was made possible by the increased availability of imported inputs. The quantum of intermediate goods imports as measured by the import volume index (1967 = 100) rose from 56 in 1975 to 68 in 1976.

Significant increases in industrial exports were recorded in ready-made garments, petroleum products, ceramics and canned fruits. It is noteworthy that industrial exports which accounted for only 9 per cent of the total value of industrial production in 1975 rose to 12 per cent in 1976.

In 1976, the major areas of expansion in industrial production occurred in the following broad categories; manufacture of non-metallic mineral products (excluding petroleum and coal), manufacture of fabricated metal products, machinery and transport equipment, manufacture of food, beverages and tobacco and the manufacture of chemicals, petroleum, rubber and plastic products in that order of importance.

The rate of growth was highest in the industrial group, non-metallic mineral products (excluding petroleum and coal). Higher levels of production of ceramics, cement, bricks and tiles were responsible for the gain in production in this sector. It is significant that the imported raw material content of this category of industry is one of the lowest among the industrial groups. It is also noteworthy that the labour absorption by this group is high and that its rate of growth in value added of 45 per cent was one of the highest recorded in 1976.

Industrial production has continued to be concentrated in consumer and intermediate goods which account for about 90 per cent of the total value. Industrial groups food, beverages and tobacco; textiles, wearing apparel and leather products; chemicals, petroleum, coal, rubber and plastic products account for as high a share as 80 per cent of total industrial production.

Among these categories, it is observed that the manufacturing output of the sub-group food, beverages and tobacco, has risen appreciably. Milk and milk products, flour milling and sugar production showed substantial gains while production of cigarettes declined marginally. Petroleum production also registered a small increase.

There was a marked decline in the value of textile production despite a sharp increase in exports of garments. For instance, the output of textiles in all production units owned by the National Textile Corporation fell by 15 per cent. Consequently there was an increase of more than 100 per cent in the value of imports of textiles.

A sharp reduction was also recorded in the industrial group paper and paper products. This has been attributed partly to a decline in production due to inadequate water for processing owing to drought conditions during part of the year, and partly to lower availability of imported paper and paper-board for manufacture of paper products.

A noteworthy development in the industrial sector in 1976 was the conclusion of a contract for the setting up of a urea fertilizer plant, whose total capital cost is estimated at Rs. 1,200 million with a capacity of 310,000 tons.

PRICES AND WAGES

Prices

In 1976, the Colombo Consumers' Price Index, the only available indicator of the general consumer price level in the country, increased by 1.2 per cent, as against an increase of 6.7 per cent in 1975 and 12.3 per cent in 1974. According to the implicit price index¹, the price increase during the year was 6.6 per cent.

The increase of 1.2 per cent in the Colombo Consumers' Price Index during the year is the net effect of a price decline to the extent of 1.1 per cent in the food group,

¹ The implicit price index is the ratio of the Gross National Product at current prices to the Gross National Product at constant (1959) prices.