

An estimate of Domestic Savings is given in Table 4 below.

**TABLE 4**  
**Domestic Savings**

	Rs. Million				
	1973	1974	1975*	1976*	1977*
1. G.D.P. at market prices ...	16,741	21,581	24,063	26,375	31,204
2. External Resources (Net imports of goods and non-factor services)	135	1,040	1,203	427	-852
3. Investment ...	2,629	3,139	3,909	4,193	5,194
4. Domestic Savings (3 - 2) ...	2,494	2,099	2,706	3,766	6,046
5. Savings ratio (4 as % of 1) ...	14.9	9.7	11.2	14.3	19.4

*Source:* Central Bank of Ceylon

\*Provisional

The ratio of domestic savings to Gross Domestic product has continued to improve since 1974. In 1977, the ratio was 19 per cent compared to 14 per cent in the previous year.

#### AGRICULTURAL PRODUCTION

The salient features of agriculture in 1977 was the recovery of the tea industry from the low it reached in 1976, the improved performance of paddy production and a sharp decline in the output of coconut. Improved weather in 1977 was the major factor responsible for the better performance of the tea and the paddy sectors; while the lagged effect of the inclement weather in 1976 had its adverse impact on the coconut industry in 1977. The fact that the tea production rose and rubber was able to hold its own, more or less, showed that the effect of highly favourable prices during the year was able to offset the inevitable short-term disruptive effects of the second land reform of late 1975.

Several important policy decisions were made by the Government in regard to the agricultural sector in 1977. First, the large state land management institutions - the Janavasama and the Usavasama - were transferred from the Ministry of Agriculture to the Ministry of Plantation Industries. This corrected an incongruous situation where the responsibility for a large acreage of highly productive tea and rubber lands was divided between two Ministries, resulting in a lack of co-ordinated effort. Subsequently, the Usavasama was abolished and the lands managed by it were allocated between the Janavasama and the State Plantations Corporation. Secondly, the personnel of Agricultural Productivity Committees set up under the Agricultural Productivity Law to oversee agricultural activity on a spatial basis were temporarily replaced by government officials, with the ultimate aim of introducing an elective process for selection of such committee members. Further institutional reforms in the agrarian structure are being contemplated. Thirdly, criteria for agricultural lending under the Comprehensive Rural Credit Scheme were drastically relaxed for the 1977/78 Maha season. The consequent loan recovery problem is now being examined. Fourthly, the Government's guaranteed price for paddy was raised from Rs. 33 to Rs. 40 per bushel, from November, 1977. Fifthly, the Government gave high priority to an expansion of paddy/rice storage and paddy milling

capacity in view of the highly favourable forecasts of paddy production for 1978. There exist now a closer co-ordination between paddy-buying Paddy Marketing Board and rice-buying Food Commissioner's Department. Sixthly, the principle of establishing buffer stocks for subsidiary food items with pronounced seasonal features such as chillies was accepted, to even out fluctuations in producer and consumer prices. As a result, the imports of such items were renewed.

The unification of the exchange rate in November, 1977 would have given substantial windfall profits to the Tea, Rubber and Coconut industries, which transacted on the lower rate of the dual exchange rate system that prevailed upto that time. However, most of these windfall gains were siphoned out by a simultaneous increase in the export taxation of plantation crops. Meanwhile, the increase in the domestic price of fertilizer arising from the exchange reform was absorbed by the Government by increasing the subsidy to farmers from 50 to 75 per cent.

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

The drought-stricken tea industry of 1976 showed some recovery in 1977, mainly as a result of better weather and a favourable response to improved prices during the year. Production rose from 433 to 460 million pounds or by 6 per cent. This production level, however, was lower than the levels attained in most years of the last decade and considerably lower than the record output of 503 million pounds achieved in 1965.

Whereas the drop in 1976 production was accounted for by all three elevational categories of tea, this trend was reversed in 1977. The low-grown tea production rose by 13 per cent and accounted for more than half the overall increase. High-grown tea production rose by 4 per cent; and the medium-growns, which accounted for half the decline in 1976, rose by 3 per cent.

Tea yield per acre showed an increase in 1977 despite a reduction in fertilizer application from 95,263 metric tons in 1976 to 80,394 metric tons in 1977. Evidently, there was a drop in fertilizer issues to the tea sector due to supply/distribution problems experienced during the year. The improved performance of the tea industry despite this handicap could be attributed to favourable weather and producer response to a sharp increase in prices.

The area replanted in 1977 was 3,067 acres, an increase of 11 per cent over 1976. This increase reversed the declining trend observed in replanting since 1971, although it was yet below the desired levels and the achievement in the past. Annual replanted area is expected to increase further with the upward revision in the replanting subsidy from Rs. 4,500 to 6,000 per acre in November, 1977. The total replanted tea area stood at 73,757 acres by end of 1977, which is about 12 per cent of the total acreage. This is not an encouraging position, considering the need for increasing productivity in this vital sector.

TABLE 5

## Key Indicators of Principal Agricultural Crops, 1968-1977

	1968	1969	1970	1971	1972	1973	1974	1975	1976(a)	1977(a)
<b>Production</b>										
Tea (Mn. lbs.) ...	496	484	468	480	471	466	450	471	433	460
Rubber (Mn. lbs.) ...	328	333	351	312	309	341	291	328	335	333
Coconut (Mn. nuts) ...	2601	2440	2510	2610	2963	1935	2031	2398	2330	1900
Paddy (Mn. bushels) ...	64.6	65.9	77.4	66.9	62.9	62.9	76.8	55.3	60.0	80.4
<b>Acreage</b>										
Tea — Total ...	597,490	596,514	597,499	597,171	597,645	598,740	598,466	597,691	594,481	598,000
Replanted Annual ...	5,266	6,500	6,857	6,640	6,418	5,953	4,282	4,356	2,756	3,067
Replanted Cumulative ...	26,928	33,428	40,285	46,925	53,343	59,296	63,578	67,934	70,690	73,757
Rubber— Total ...	569,207	568,633	568,900	567,994	567,060	565,000	563,406	562,494	560,872	559,850
Area under Tapping ...	488,121	493,712	496,210	494,355	491,324	475,529	475,165	477,110	474,626	469,626
Replanted Annual ...	13,047	12,084	10,214	8,476	8,722	4,964	7,076	7,980	6,298	6,464
Replanted Cumulative ...	264,042	276,126	286,340	294,816	303,538	308,502	315,578	323,558	329,856	336,320
Coconut—Total ...	(1962)	(1,152,418)								
Paddy — Total ('000 Acres) ...	1,742	1,709	1,876	1,794	1,795	1,792	2,038	1,719	1,789	2,046
Area harvested ('000) ...	1,634	1,539	1,776	1,714	1,579	1,660	1,969	1,476	1,570	1,933
High yielding varieties ('000) ...	1,083	1,108	1,325	1,204	1,252	1,284	1,647	1,285	1,381	
<b>Yield per acre</b>										
Tea ...	830.1	811.4	811.0	833.0	816.0	805.0	882.0	920.0	839.1	899.5
Rubber ...	671.7	673.5	707.2	657.0	658.0	694.0	634.0	691.1	705.0	708.8
Coconut ...	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Paddy ...	46.49	50.33	51.30	45.91	46.87	44.58	45.65	44.04	44.91	48.92

(a) Provisional

Sources: Tea Commissioner's Department,  
Rubber Control Department,  
Department of Census & Statistics,  
Coconut Marketing Board,  
Central Bank of Ceylon.

After the Land Reforms of 1972 and 1975, about 63 per cent of the total tea lands were vested with the state. The management of a major share of these lands is now in the hands of two government owned agencies, namely, the Janavasama and the State Plantations Corporation. In addition to managing the estates, the Janavasama also entered the fertilizer trade by acquiring the fertilizer mills owned by Shaw Wallace and Hedges Ltd. in April 1977. While ensuring an adequate supply of fertilizer for its own use, Janavasama plans to meet, at least partly, the fertilizer needs of the village sector in the neighbourhood of its plantations.

### **Rubber**

Rubber production declined marginally from 335 million pounds in 1976 to 333 million pounds in 1977. A reduction in the area under tapping, from 474,626 acres in 1976 to 469,626 acres in 1977, explains this decline in production.

The area replanted in 1977 was 6,464 acres as against 6,298 acres in 1976. This slightly improved performance is still far below the annual target of 15,000 acres which is based on the economic life span of the rubber tree. The total replanted rubber acreage by end of 1977 was 336,320, representing only 60 per cent of the total area under cultivation. Efforts to increase local rubber production are much needed if the industry is to meet the increasing domestic and foreign demand for rubber. Hence, the annual replanting targets must be achieved while expanding fertilizer use on young plantations, aided with better extension work. It is expected that the increasing of the replanting subsidy from Rs. 2,000 to Rs. 3,000 per acre and the new planting subsidy from Rs. 1,800 to Rs. 2,700 in November, 1977 will assist the industry to improve its productivity in the long run. However, a more concerted effort is required in this regard as the bulk of the rubber land is operated as relatively small holdings.

### **Coconut**

Coconut production which reached a peak in 1972 with 2,963 million nuts had been fluctuating around a declining trend since then. In 1977 the nut production declined substantially to 1,821 million nuts from the previous year's production of 2,330 million nuts. This is the lowest production recorded since 1968.

This fall in production is mainly due to lagged effect of prolonged drought conditions experienced in 1975 and 1976 and a consequent drop in the use of fertilizer. Fertilizer consumption fell by 1,499 metric tons from 30,683 metric tons in 1976 to 29,184 metric tons in 1977. The annual replanted and newly planted coconut acreage increased from 13,110 in 1976 to 13,671 in 1977. This indicates that coconut cultivation is now recovering after prolonged drought conditions, even though the replanted and newly planted acreage in 1977 is still far short of the 18,800 acres achieved in 1972. The fall in production had its impact internally on the cost of living, resulting in high prices of fresh coconut and coconut oil. It also reduced the foreign exchange earning capacity of the industry. As was stressed in the previous Annual Report, immediate corrective measures need to be taken to improve the management of coconut lands to achieve higher productivity.

## Paddy

According to estimates of the Department of Census and Statistics, paddy production in the cultivation year 1977 (Maha 1976/77 and Yala 1977) was 80.4 million bushels. This was a substantial increase (20 million bushels or 34 per cent) over production of 1976. It was the highest production recorded to date, exceeding the earlier record of 77.4 million bushels in 1970.

The 1977 production consisted of 54.8 million bushels in Maha and 25.6 million bushels in Yala, which are new peaks for both seasons. The increased production was made possible by larger extents cultivated and harvested, both during Maha and Yala seasons, and higher yields obtained. Furthermore, favourable weather conditions and an assured water supply in the Dry Zone through Mahaveli river diversion enabled a high response to increased fertilizer use.

The gross extent sown in 1977 has been estimated at 2.05 million acres, which denotes an increase of 14 per cent over that of previous year. The corresponding increase in the total area cultivated from 1975 to 1976 was only 4 per cent. In 1977, the area harvested has been estimated to be 1.93 million acres. The difference between the sown and harvested extent was 113,126 acres or 6 per cent of the sown area, when compared to 218,610 acres or 12 per cent of the area sown but not harvested in the previous year. This indicates that the extent of crop failure was significantly less in 1977 than in the previous year.

The average yield per acre for the cultivation year 1977 was 48.9 bushels, which is 4 bushels higher than the average yield per acre in the previous year.

Fertilizer issues to the paddy sector by the Rural Institutions and Productivity Law Division (Agrarian Services Division) of the Ministry of Agriculture and Lands showed an increase of 10 per cent from 73,059 tons in 1976 to 80,123 tons in 1977. According to the Ceylon Fertilizer Corporation, the total fertilizer issues for paddy during 1977 amounted to 123,810 tons, representing a substantial increase of 77.4 per cent over the previous year. The increase in fertilizer use could be attributed to positive response of farmers to the reduction in fertilizer prices in 1975, to the increase in cultivated area as a result of favourable weather and the increase in irrigation facilities, particularly in the Dry Zone.

The total quantity of paddy purchased by the Paddy Marketing Board in 1977, under the Guaranteed Price Scheme, amounted to 24.6 million bushels. This reflects a substantial increase of 11.8 million bushels or 92 per cent over the quantity purchased during 1976. The 1977 purchases accounted for about 31 per cent of the total paddy production of the year. This is an improvement on the purchase of 21 per cent of the produce in 1976. The Board managed to increase its purchases in 1977 despite numerous constraints experienced such as inadequate storage, transportation and milling facilities.

Milling capacities with both the Board and the private sector were found to be insufficient to cope with the rise in paddy production. The present milling capacity of the Board is about 12,000 paddy tons per month while the private sector mills have a capacity of about 42,850 paddy tons per month. It is reported that serviceable capacity of the privately owned mills is much below this figure, on account of long-term neglect. The inadequate milling capacity of the Board has tended to delay the transfer of paddy in rice form to the Food Commissioner, thereby necessitating the Board to carry a large stock of unmilled paddy in their godowns and requiring the Food Commissioner to import rice to meet ration requirements. This in turn has blocked much needed storage space to allow smooth paddy procurement under the Guaranteed Price Scheme. The Board has already initiated a programme to expand and improve its own milling capacity as well as to finance private millers to improve their capacities.

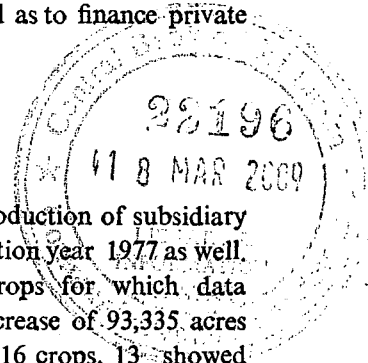
### Subsidiary Food Crops and Milk Production

The increasing trend in the area under cultivation and production of subsidiary food crops observed in the recent years, continued in the cultivation year 1977 as well. During this year, the extent under 16 subsidiary food crops for which data are available, amounted to 589,205 acres, representing an increase of 93,335 acres or 19 per cent over the acreage cultivated in 1976. Of these 16 crops, 13 showed an increase in cultivated acreage. The production of Maize, Ground Nuts, Green Gram, Sorghum, Soya Bean, Bombay Onions, Kurakkan, Gingelly, Meneri, Cowpea, Black Gram and Dhal have been estimated to have risen significantly while the production of yams, (Manioc, Sweet Potatoes and Potatoes) have declined. The lower level of production of yams could be attributed to the liberal availability of highly subsidized flour on ration and the increased supplies of rice in the open market. In the case of Potatoes, there was also a shortage of seed potatoes during the year.

According to the estimates of the Census and Statistics Department, the milk production increased from 440 million pints in 1976 to 468 million pints in 1977. However, the collection of milk by the National Milk Board decreased from 105 million pints in 1976 to 96 million pints in 1977.

### The Mahaveli Development Scheme

The Mahaveli Development Scheme is the largest multi-purpose river basin development project undertaken in Sri Lanka. Implementation of this scheme is based on a Master Plan prepared by the UNDP/FAO team in 1968. The entire Master Plan which envisages the irrigation of 900,000 acres of land and the generation of 2,037 million kilowatt hours of hydro electric energy from an installed capacity of 507 megawatts, was phased to be implemented over a time period of about 30 years. The capital cost was estimated at Rs. 5,583 million in 1968.



Construction work of the Mahaveli diversion commenced in 1970. The head-works including the tunnels of the Polgolla and Bowatenne complexes, the Elahera weir and canal improvement and the Sudu Ganga improvement were completed in 1976. Work in connection with the Kalawewa and Huruluwewa augmentations and the development of new land continued in 1977. The acreage so far benefited from the diverted Mahaveli water is shown in the following table :

**TABLE 6**  
**The Mahaveli Development Project Implementation 1976/1978**

Acreage Cultivated	1976 Yala	1976/77 Maha	1977 Yala	1977/78* Maha
Existing Land     ...     ...	89,716	145,790	130,675	134,142
New Land           ...     ...	800	4,200	6,000	11,404
Total           ...     ...	90,516	149,990	136,675	145,546

\* Provisional

*Source:* Mahaveli Development Board.

By the end of 1977, a total of 5,544 families have been settled in the Project Area. At the completion of development under Phase 1, the total extent of new land irrigated will be 91,000 acres.

In November, 1977 the Government decided to accelerate the pace of development of implementing the Mahaveli Project with a view to completing all works envisaged in the Master Plan in 5 to 6 years. The latest available information indicate a revised programme of implementation during the period 1978-82 involving a total investment of Rs. 11,000 million.

#### INDUSTRIAL PRODUCTION

The total value of industrial production has been estimated to have increased by 16 per cent from Rs. 6,061 million in 1976 to Rs. 7,004 million in 1977. In real terms, however, industrial production rose by only 1.3 per cent and the value added in industry by 1.1 per cent. This compared with a real growth rate of 1.2 per cent in 1976 and 3.2 per cent in 1975.

In contrast to 1976, when the increase in manufacturing output was mainly in the public sector industrial corporations, the increase in output in 1977 was primarily in the private sector. While production rose in the private sector industries, the output of state industrial corporations registered a decline in 1977. The higher level of production was made possible by enhanced allocations of foreign exchange to the private sector. The data also indicate that there was a greater availability of local raw materials.

Reflecting the modest growth in production, employment in manufacturing industry rose by 2 per cent. Capacity utilization registered an increase of 7 per cent. The share of foreign raw materials in total raw material consumption fell from 70 per cent in 1976 to 66 per cent in 1977, indicating greater use of local raw materials.