quantitative and other restrictions in expanding exports to major markets in developed countries, whereas Sri Lanka provided them with further opportunity for export expansion.

The FIAC had approved 21 industries with an investment of Rs. 121 million, two-thirds of which was from abroad. Of these, 11 firms accounting for 32 per cent of the foreign investment were in the field of chemicals, rubber and plastics, and 7 firms accounting for another 27 per cent of the foreign investment were in textiles and garments. In the case of 2385 industries approved by LIAC, 1315 or 55 per cent, involving 43 per cent of the total investment were in textiles and garments. In the chemicals and fabricated metal products and machinery fields, there were 651 approvals accounting for 27 per cent of the investment. Generally speaking, most of the new industries approved outside GCEC were also in the field of textiles and garments. Most of the industries approved by the FIAC were export oriented, but most of the LIAC - approved industries were concerned with the domestic market. Of the industries approved by the LIAC, there were some involving advanced technology in the chemical, machinery and precision equipment fields.

The authorities have been concerned by the heavy concentration of industry in and around the city of Colombo. A survey has revealed that over 80 per cent of manufacturing industry accounting for 90 per cent of the value of production and 81 per cent of the workforce was located in the Colombo district. Several fiscal and other concessions are contemplated to foster a more balanced regional dispersal of industry. But modern industry tends to be footloose; and for such industries the contemplated concessions could be only marginal. Hence it might be advisable to foster regional dispersal of industries by setting up regional industrial centres, with the necessary infrastructure to attract investment outside the Colombo district.

PRICES

The Colombo Consumers' Price Index, prepared by the Department of Census and Statistics and the Wholesale Price Index prepared by the Central Bank are the only published indicators of the changes in price levels in the economy. The former measures the changes in retail prices and in 1978, recorded an increase of 12·1 per cent as against an increase of 1·2 per cent in each of the previous two years. Serious shortcomings of this index has been spotlighted in past issues of the Annual Report. The Wholesale Price Index[1], on the other hand, showed a rise of 15·8 per cent in 1978, compared to an increase of 20 8 per cent[2] last year, indicating a moderation in price rises in the year under review. The Implicit Price Index, which is the ratio of Gross National Product at current market prices to the Gross National Product at 1959 constant prices showed an increase by 15 per cent in 1978, as against an increase of 16 per cent in the previous year, confirming the foregoing inference.

1. The primary marketing pertaining to a product may be considered as the first major commercial transaction in the chain of sales of the product. Therefore, Wholesale Price would mean mostly the producers' price of locally produced goods and import prices of imported goods. They are thus different from what are referred to in common parlance as wholesale prices.

2. Revised figure.

These indicators show that the rate of inflation in the economy in 1978 would have been between 15 to 16 per cent, a rate lower than that indicated in the previous year of 16 to 20 per cent.[1] This shows that the upward pressure exerted on prices by the substantial depreciation of the exchange rate, the removal of price controls on a large number of consumer items in November 1977, the increase in wages of both private and public sector employees in December 1977, the removal of rice and sugar subsidies from a large proportion of households in 1978 and the upward revision of the price of wheat flour in three stages in 1978 was more than offset by other factors. These other factors included the increased supply of imported goods after liberalization, more competition in the import and distribution trade, improvements in transport facilities due to a substantial increase in the number of commercial vehicles, particularly lorries, higher production of major consumer goods, particularly rice, lowering of business turnover tax and the import duty on many items and the relatively moderate increase in the money supply (11 per cent as against an increase of 29 per cent in the previous year). Nevertheless, a two-digit rate of inflation should not be a cause for satisfaction, because containing cost escalations should be a primary objective of an economy hoping to achieve export-led economic growth. Needless to say, a country has to remain competitive in international markets if it were to make a breakthrough on the export front.

Wholesale Price Index

An analysis of quarterly data of the Wholesale Price Index shows that the index dropped by 2·2 per cent in the second quarter. The trend was reversed in the third and fourth quarters, the Index rising by 2·8 and 5·8 per cent, respectively. Prices of food and miscellaneous groups dropped in the second quarter. In the third, prices of all items other than textiles, footwear and 'miscellaneous' items rose. In the fourth quarter, there were increases in all sub-categories other than in the chemical and chemical products group.

Further analysis of the Wholesale Price Index shows that the average price level of textiles and footwear, paper products, chemical and chemical products, non-metallic products, metal products, fuel and light and miscellaneous groups increased by as much as 20 per cent to 48 per cent, whereas food, alcoholic drinks, transport equipment, electrical goods and machinery recorded moderate increases ranging from 5 per cent to 11 per cent, while prices of petroleum products remained unchanged.

In the food group, sharp price increases were recorded in import prices of rice, wheat flour and sugar. Other notable increases were in sorghum (30 per cent), maize (49 per cent), beef (27 per cent), eggs (24 per cent), fish (32 per cent), pepper (25 per cent), mustard (55 per cent), and maldive fish (187 per cent) Moderate increases were indicated in free market paddy (13 per cent), kurakkan (18 per cent), chicken (2 per cent), dried fish (18 per cent), potatoes (6 per cent), coconut (12 per cent), coriander (11 per cent), fresh milk (5 per cent) and condensed milk (13 per cent). The impact of these price increases were cushioned to some extent by lower prices of green gram (19 per cent), non-seasonal vegeta-

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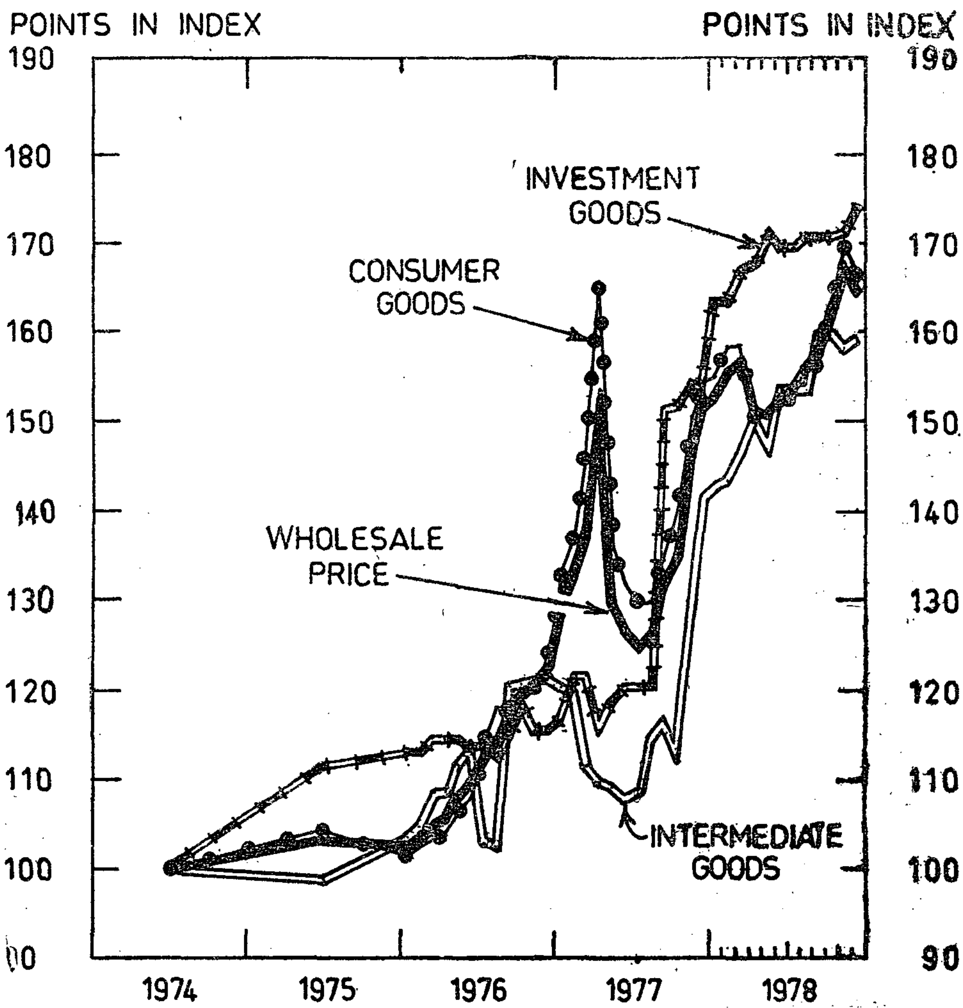
1· Revised figure.

WHOLESALE PRICE INDEX

1974 – 100

1975 ANNUAL, 1976 ONWARDS MONTHLY

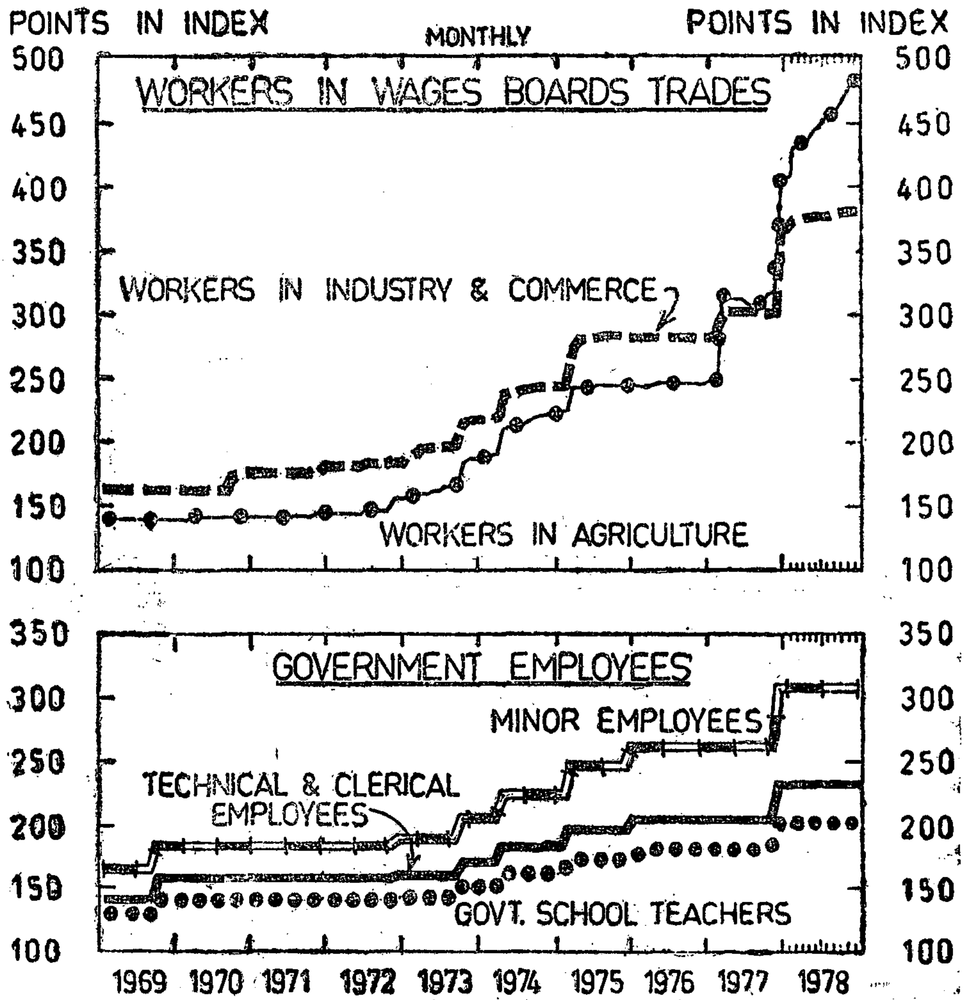


Dept. of Economic Research

Source: Central Bank of Ceylon

WAGE RATE INDEX NUMBERS

1952 = 100



Dept. of Economic Research

Source: Dept. of Labour and Central Bank of Ceylon bles (2 per cent), dried chillies (22 per cent), red onions (8 per cent), tea (about 15 per cent) and coffee (36 per cent). As a result, food prices appear to have risen by about 10 per cent, on the average.

A sectoral classification indicates that the index for the domestic group increased by 16 per cent in 1978 compared to an increase of 9 per cent in the previous year. The sub index for the import group which showed a decline of 3 per cent in 1977 recorded an increase of 49 per cent this year. On the other hand the sub index for the export group remained constant as against an increase of 59 per cent in 1977. In a similar comparision, it appears that the sub index for the consumer group rose by 12 per cent. Intermediate and Investment goods rose by 30 per cent each.

Price Controls and Rationing

Price controls on most items were abolished as a part of the economic reforms of 1977. In 1978, coriander was removed from price control while no additions were made to the short list of items under price control. The controlled prices of wheat flour, bread, dhal and milk were raised.

The revised scheme for the rationing and distribution of essential food items announced in November, 1977 was implemented from February, 1978. Under the new scheme, the issue of subsidized rice on ration was confined to a target group of low income (below Rs. 3,600 per year) earners, constituting about one half of the population. The sugar ration was limited to children within this group. As a result, a large portion of the rice trade came suddenly on the free market, which proved to be a highly efficient one. Price of rice in this market tended to stabilize around Rs. 2.90 to Rs. 3.20 for average quality.

A Consumer Protection Law was introduced with the avowed purpose of protecting the consumer from exploitation, without hindering the operation of a free market. The National Prices Commission generally limited itself to price fixing in public enterprises.

WAGES

Minimum wages of government employees, as measured by the Central Bank Index, which rose by 1·3 per cent in 1977 rose once again by about 15 per cent in 1978. The nominal wage rate of clerical and technical employees rose by 12 per cent, compared to an increase of 1 per cent, in 1977. Similarly, wages of minor employees rose by 16 per cent and that of school teachers, by 10 per cent, as compared with increases of 2 per cent each in the previous year. The major reason for this increase in money wage rates was the pay rise granted to government employees in December, 1977. Although money wages showed a substantial increase over the previous year, they remained constant throughout 1978. A more substantial wage increase was announced in November, 1978 but this would come into effect only in 1979. Allowing for the rate of inflation in the economy, real wages in this sector appear to have declined, except in the case of minor employees.