

The foreign investment outside the (GCEC) is being supervised by the Foreign Investment Advisory Committee (FIAC), which approved 113 new projects, of which about 61 were in the field of manufacturing, as against 21 approvals in the previous year. The total investment of the industrial projects was estimated at Rs. 971 million. The majority of the projects approved in 1979 were in the fields of textiles, garments, coir, rubber and metal products. In several projects, the export potential was reported to be as high as 100 per cent. But, only about one fourth of these projects have made definite investment commitments by entering into collaboration agreements.

Local investment approvals have been decentralized among relevant Ministries. Accordingly, separate Local Investment Advisory Committees (LIAC) have been set up in the Ministries of Industries and Scientific Affairs, Textile Industries, Fisheries and Rural Industry Development. A total of 1803 new investments have been approved by them during 1979, as compared with 2385 approvals in the previous year. The total investment has been estimated to be around Rs. 875 million, while additional employment potential amounted to about 33,000. Again, a majority of these approvals were in the field of textiles and garments.

PRICES

The average of the Colombo Consumer's Price Index¹ registered an increase of 11 per cent in 1979, as against an increase of 12 per cent in 1978 and 1 per cent in both 1977 and 1976. On a point-to-point basis, the index showed an increase of 15 per cent in December, 1979 over the same month of previous year, compared to an increase of 17 per cent during the same period in 1978.

The commodity wise classification of the index indicated that 30 per cent of the increase in 1979 was due to higher prices of domestic commodities, while 55 per cent and 7 per cent were due to the increase in prices of imports and exports, respectively. A further analysis of the index disclosed that the withdrawal of price subsidies for rice, sugar, milk powder and kerosene in September, along with the introduction of the Food Stamp Scheme and the upward revision of the price of wheat flour and bread in August and October, accounted for 64 per cent of the increase in the index. The rest of the increase reflected the impact of price rises in non-subsidized items.

The 12 months' average of the Central Bank's Wholesale Price Index rose by 9 per cent in 1979, compared with an increase of 16 per cent in the previous year. It showed an increase of 16 per cent in December, 1979 over the same month of last year, compared with an increase of 9 per cent during the corresponding period in 1978. A large part of the decline of the Wholesale Price Index in 1979 was due to a drop in the price of tea, which has a 11 per cent weight in the index.

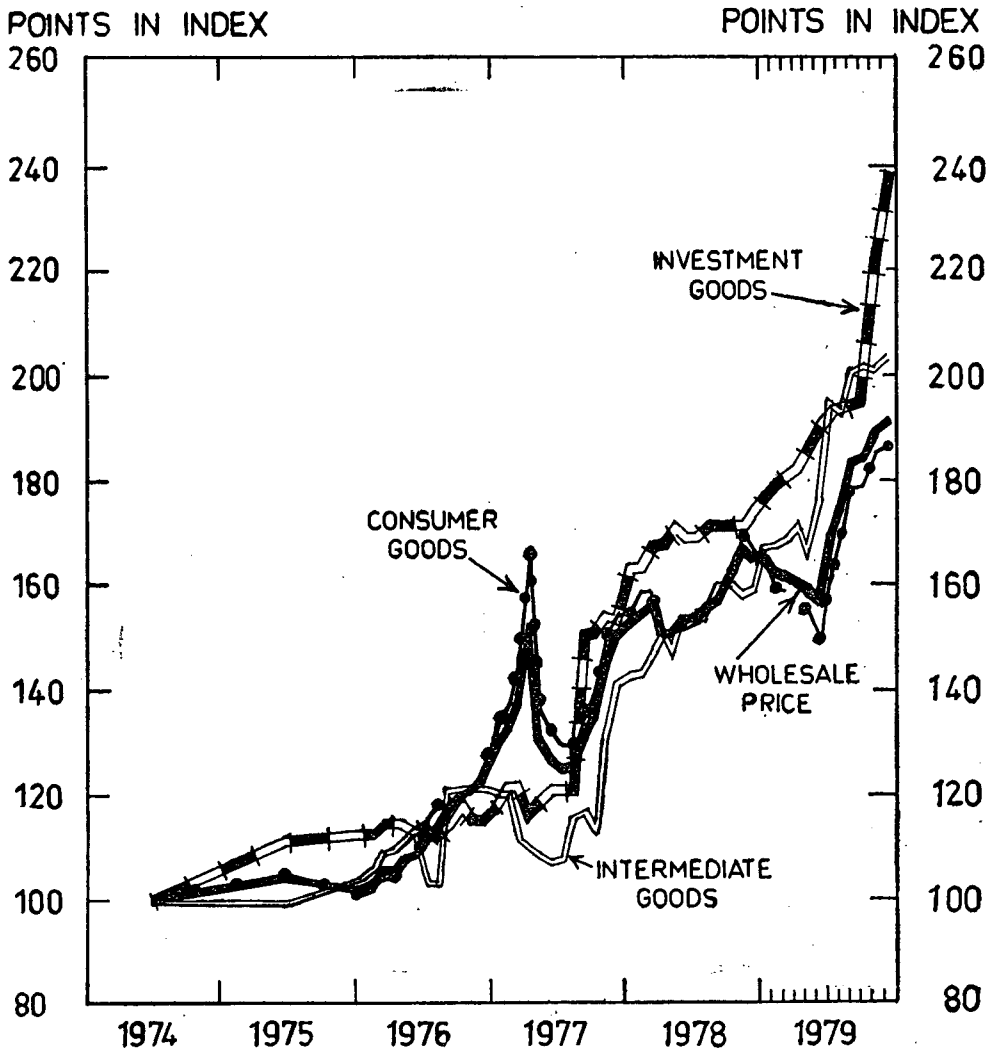
The Implicit Price Index (GNP deflator), which is the ratio of the GNP at current prices to GNP at constant (1970) prices, increased by 15 per cent, which was the same rate as in the previous year.

¹ The Colombo Consumers' Price Index compiled by the Department of Census and Statistics and the Central Bank's Wholesale Price Index are the only published indicators available to measure changes in the price level. The Colombo Consumers' Price Index is designed to measure movements in retail prices while the Wholesale Price Index measures prices to the primary market level. The shortcomings of the Colombo Consumers' Price Index, which were spotlighted in the previous Annual Reports, are yet to be corrected, and hence, it still does not explain the movement of retail prices in the economy satisfactorily.

WHOLESALE PRICE INDEX

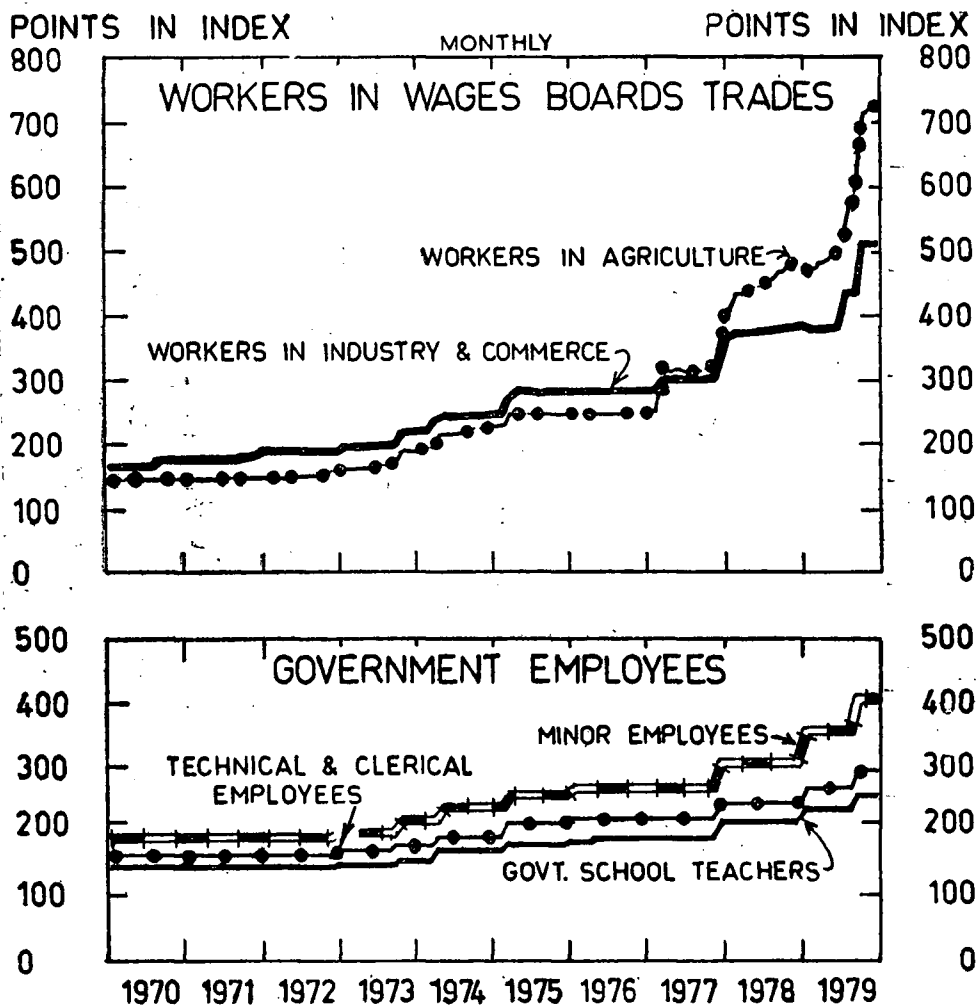
1974 = 100

1975 ANNUAL : 1976 ONWARDS MONTHLY.



WAGE RATE INDEX NUMBERS

1952 = 100



A notable feature in 1979 was the relative price stability during the first half of the year, which was followed by a period of rapid price increases. The Colombo Consumers' Price Index increased by 1 per cent each in the first two quarters. In the third and fourth quarters, it increased by 4 and 8 per cent, respectively, depicting an accelerated rate of increase in the price level towards the latter half of the year. The Wholesale Price Index, on the other hand, declined by 5 per cent in the first half of 1979 and rose sharply by 23 per cent from the midyear level.

The impact on prices of the withdrawal of price subsidies in September, the raising of the price of flour in two stages, the increase in the price of petroleum products, the relatively poor paddy harvest of Yala Season, wage increases in January and September and higher growth in money supply of 29 per cent in 1979 as against 11 per cent in 1978, were partly off-set by other factors, which tended to bring down prices. These included the increased supply of imported goods under the liberalized trade policy, greater competition in the import and distribution trade, and improvement in transport facilities due to a substantial increase in the stock of commercial vehicles.

On the whole, it would appear that the inflation in the economy accelerated during 1979, belying the expectations of the previous year, when there were signs of moderation. Best available data suggest a general price rise in the region of 20 per cent in 1979, which compares with about 15 per cent last year. Sharp acceleration in money growth and the unexpectedly large budget deficit were having its full effects towards the latter part of the year. However, the redeeming feature on the price front was the fact that at least a half of the increase in price indices was on account of changes induced in government-administered prices, the cost of living impact of which has been moderated by wage increases and increased welfare payments under the Food Stamp Scheme.

Price Controls and Rationing

The liberalized economy in 1979 showed signs of greater competition in import and distribution, making rationing and price controls almost irrelevant as a device to regulate, market prices and the availability of consumer goods. The rationing of essential food items, which had existed for nearly four decades, was almost done away with during 1979, while no new additions were made to the list of items under price controls. As a compensatory measure to offset the burden of higher prices of food items, consequent on the abolition of the rationing system, the government introduced an income support programme - the Food Stamp Scheme - details of which were given earlier. In 1979, the controlled prices of wheat flour, bread, dhal (lentils) and some milk and infant foods were revised upwards.

The other major policy change in 1979 was the enactment of the Consumer Protection Act in January. The objectives of this legislation was the regularization of distribution of essential commodities. The law provided for price marking, labelling, packaging, quality controls, prevention of hoarding of specified items, display of maximum sale prices, and other measures to protect consumers. Meanwhile, the National Prices Commission continued to review prices of goods that were referred to it, and made recommendations. Incidentally, these recommendations were not legally binding on the producers or sellers; probably they had a deterrent effect on unconscionable price increases in the market.