amounted to Rs. 1.1 million, indicating that many farmers have put down more than the specified 10 per cent down payment. The People's Bank, however, has yet to implement the scheme.

INDUSTRY [1]

While the agricultural sector was unable to maintain the impressive growth record achieved in 1981, manufacturing industry, on the other hand, showed an appreciable improvement during the year under review. Following the temporary set back suffered in 1981, industrial production, overall, increased by 9 per cent in real terms in 1982. The comparable record in 1981 was an increase of only 2 per cent.

The major components of the impressive increase in overall industrial production of 9 per cent[2] include an 18 per cent real growth in the private sector industries and a 5 per cent growth in the public sector. When the sectorwise increases in industrial production are considered, significant increases were recorded in textile, wearing apparel and leather products (25 per cent), food, beverages and tobacco products (14 per cent), wood and wood products (11 per cent), fabricated metal products (10 per cent), chemical and petroleum products (11 per cent) and paper and paper products (9 per cent). There was, however, a decline in the production of basic metal products by 38 per cent, and non-metallic mineral products by 17 per cent. Although the growth in the total public sector industrial production was

TABLE 1.18

Value of Industrial Production 1978—1982

Rs. Million

Category	1978	1979	1980	1981	1982(*b*)
1. Food, beverages and tobacco ..	2,609	2,856	3,899	4,496	5,246
2. Textile, wearing apparel and leather products ..	1,008	1,128	1,923	3,040	3,863
3. Wood and wood products (including furniture)	124	166	289	315	361
4. Paper and paper products ..	376	445	476	626	725
5. Chemicals, petroleum, coal, rubber and plastic products ..	3,279	4,508	9,416	12,015	13,099
6. Non-metallic mineral products (except petroleum and coal) ..	592	710	1,156(*a*)	1,250(*a*)	1,370
7. Basic metal products ..	219	349	478	428	262
8. Fabricated metal products, machinery and transport equipment ..	590	569	620	782	904
9. Manufactured products not elsewhere specified (n.e.s.) ..	55	50	54	58	74
Total	8,852	10,781	18,311	23,010	25,904

(*a*) Revised
(*b*) Provisional

Source: Central Bank of Ceylon

1. As in the past, data relating to the performance of the industrial sector for 1982 are based on the returns to a questionnaire addressed by the Central Bank to all known and recorded manufacturing industries-large, medium and small in the public and private sectors. (However, this does not include the export processing activities of the plantation sector, which are classified as manufacturing activity in the National Accounts.) Generally, replies are received from about a third of addressees and these represent almost all of the major industries. In areas where data were not available, estimates based on the information available with various government agencies and institutions have been incorporated.
2. On the basis of gross value of production. These figures are consistent with the estimates of industrial production based on turnover tax collected by the Department of Inland Revenue for the relevent year.

less than that of the private sector industries, it was the former's growth rate which was a major influence in the achievement of a high overall growth rate in the industrial sector. This is because of the greater weightage the public sector industrial production has in overall production.

The other indicators of industrial production also appear to point towards a significant increase in industrial activity.

In 1982 the use of electricity and fuel by industry increased by 9 per cent and 25 per cent respectively. The significant increase recorded in the use of fuel is, however, due to its use in the enhanced generation of thermal power by the Ceylon Electricity Board. On the other hand, as a result of this additional generating capacity and the favourable weather conditions which did not inhibit hydro power generation, the continuous supply of power, without any cuts, contributed to the increase in overall production of the industrial sector.

In the year under review, the use of electricity by small industries increased by 22 per cent while medium and large scale industries recorded increases of 9 and 8 per cent respectively when compared with the previous year. However, there appeared to be a gradual deceleration in the rate of increase in respect of consumption of electricity by these sectors in the latter part of 1982. This could probably be the result of efficient use of energy consequent on the upward revision of electricity tariffs in June, 1982.

TABLE 1.19

Power and Fuel Use in Industry 1980—1982

Item	1980	1981	1982 (*a*)
1· Electricity (*b*) (Gwh)	**625.6**	**676.7**	**739.1**
1·1 Small industry	20.0	21.3	26.0
1·2 Medium industry	285.7	308.9	338.7
1·3 Large industry	319.9	346.5	374.3
2· Domestic sales of industrial fuel ('000 metric tons) ..	**295.7**	**350.9**	**438.7**
2·1 Heavy diesel	61.0	106.6	169.3
2·2 Furnace oil	234.7	244.3	269.4

Sources: Ceylon Electricity Board, Ceylon Petroleum Corporation

(*a*) Provisional

(*b*) Includes manufacturing and export processing industries. Small industry is defined as those with having rated capacity below 50 Kva, medium industry as 50 - 500 Kva and large industry as above 500 Kva.

The increase in the public sector production was to a large extent due to the uninterrupted operation of the oil refinery of the Ceylon Petroleum Corporation throughout the year, and the higher capacity utilization by most of the other corporations. The significance of the latter factor was, however, only marginal in view of the fact that excluding petroleum products, the output of the public sector increased by only 1.6 per cent.

In the year under review, the Petroleum (which accounts for half the total industrial production), State Fertilizer Manufacturing, National Salt, National Textile, Ceylon Plywoods and Sri Lanka Tyre Corporations and the National Milk Board experienced higher output levels. Among the corporations which recorded a decline in their output levels were the Steel Corporation and the National

Paper Corporation. They were compelled to curtail their production due to marketing problems. A lower production level was also recorded by the Cement Corporation owing to maintenance work carried out on the kilns.

It is observed that sales of most of the public sector manufacturing corporations increased in 1982. Among the corporations that achieved a marked improvement in their sales were the Ceylon Petroleum, State Fertilizer Manufacturing, Ceylon Oils and Fats, Ceylon Plywoods, Sri Lanka Tyre and Ceylon Mineral Sands Corporations and the Government Owned Business Undertaking (GOBU) of the British Ceylon Corporation. In contrast, the sales of the Steel and Hardware Corporations continued to decline in 1982. The Sri Lanka Cement, State Timber and State Mining and Mineral Development Corporations, too, did not fare well in their sales performance in the year under review.

TABLE 1 . 20

Public Sector Major Industry Output Index *(a)*

(1977=100)

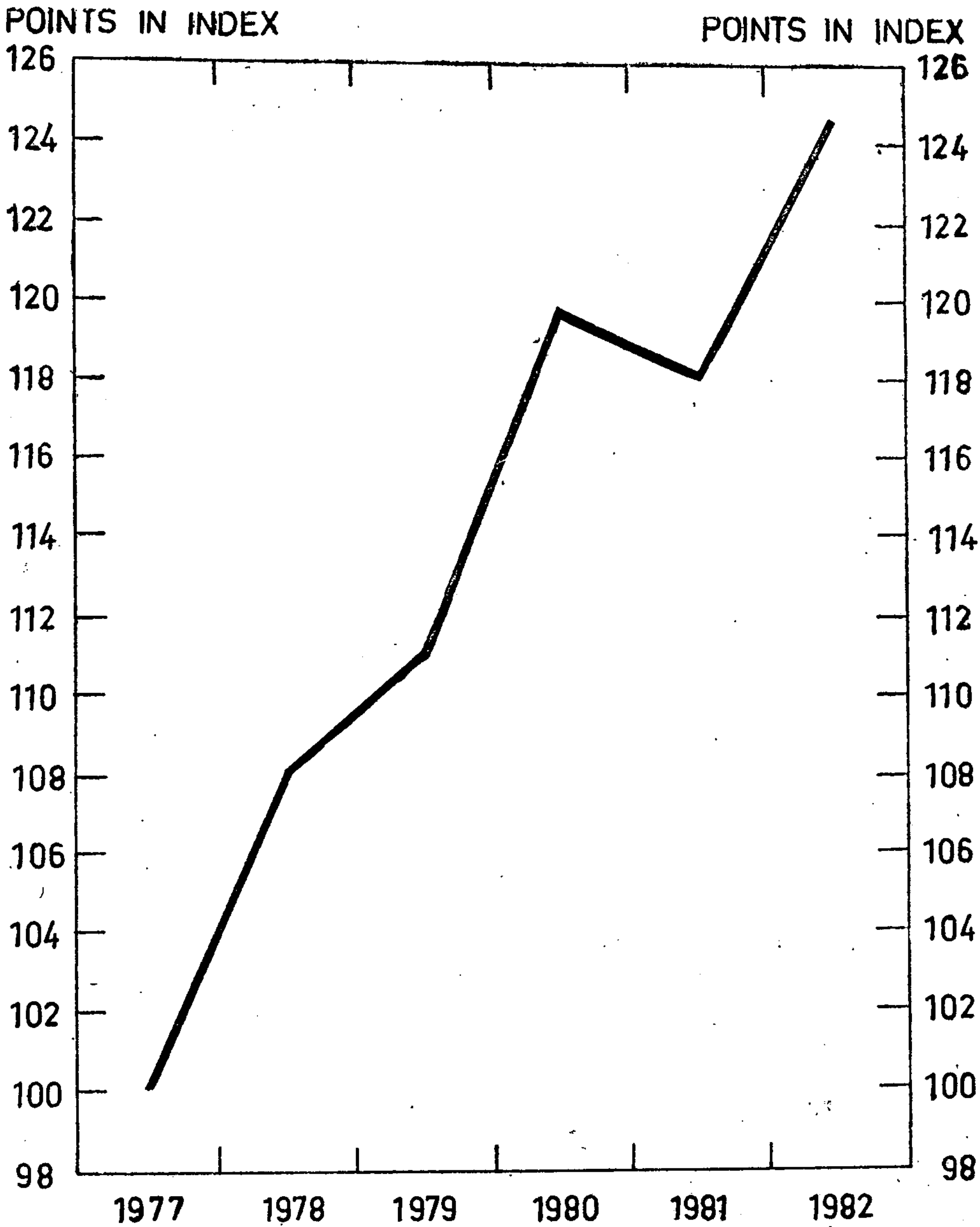
Category	1980	1981	1982*(b)*
1. Food, beverages and tobacco *(c)*	88.7	80.6	82.2
2. Textile. wearing apparel and leather products	83.8	118.3	135.7
3. Wood and wood products	158.1	136.4	151.8
4. Paper and paper products	130.4	141.1	133.3
5. Chemicals, petroleum, coal, rubber and plastic products	125.0	118.9	133.1
6. Non-metallic mineral products	149.8	161.8	131.5
7. Basic metal products	197.7	169.0	106.3
8. Fabricated metal products	115.4	82.2	96.3
All categories	119.7	118.4	124.6

Source: Central Bank of Ceylon

(a) This index has been revised to take account of a large number of public sector industries.
(b) Provisional.
(c) The State Flour Milling Corporation ceased milling activities from end of August 1982.

The total export earnings of public sector manufacturing corporations increased by Rs. 76 million (SDR 3 million) to Rs. 3,686 million (SDR 160 million) in 1982, representing an increase of 2 per cent over the previous year. However, a noteworthy feature was the decline in earnings from the export of petroleum products, from Rs. 3,377 million in 1981 to Rs. 3,253 million in 1982 mainly because of the use of naptha for the domestic manufacture of fertilizer. As a result, the share of petroleum products in total export earnings of manufacturing corporations decreased from 94 per cent in 1981 to 88 per cent in the year under review. However, the export earnings of the Fertilizer Manufacturing Corporation which entered the export field in 1982 and the improved export earnings of the Ceylon Mineral Sands Corporation and the GOBU of the British Ceylon Corporation helped to more than offset the decline in earnings from the exports of petroleum products which have a high imported input content.

INDEX OF INDUSTRIAL PRODUCTION OF THE PUBLIC SECTOR*



Central Bank of Ceylon

* Represents the output of 26 major enterprises

The creation of an efficient public sector has been one of the main objectives of the new industrial policy since 1977, under which major manufacturing industries in the public sector are required to operate on a commercially viable basis. Most of these enterprises operated at a profit in 1982. On the other hand, the State Fertilizer Manufacturing, Ceylon Steel, State Hardware, National Textile and National Paper Corporations incurred losses.

In 1982, total government transfer payments to public sector industrial enterprises amounted to Rs. 458 million consisting of Rs. 399 million in the form of capital transfers and Rs. 59 million in current transfer payments. The State Fertilizer Manufacturing Corporation was the recipient of the bulk of capital transfers mostly for working capital requirements (Rs. 300 million), while a major portion of current transfers (Rs. 46 million) was afforded to the National Milk Board to meet its commitments arising from the subsidy to consumers.

TABLE 1.21

Transfers of Government Funds to Industrial Enterprises 1980 - 1982

Rs. Million

Corporation/Enterprise	Capital			Current			Total		
	1980	1981	1982*	1980	1981	1982*	1980	1981	1982*
National Milk Board	15.5	50.5	20.9	53.0	44.3	45.9	68.5	94.8	66.8
Ceylon Oils & Fats	25.1	34.7	5.9	41.9	—	—	67.0	34.7	5.9
Sri Lanka Sugar	8.0	46.8	72.4	—	—	—	8.0	46.8	72.4
State Flour Milling	—	—	—	21.5	—	—	21.5	—	—
National Textile	—	—	—	26.6	—	—	26.6	—	—
State Timber	0.1	—	—	—	—	—	0.1	—	—
National Paper	40.4	4.8	—	28.7	21.2	10.0	69.1	26.0	10.0
State Rubber Manufacturing	—	—	—	—	—	0.7	—	—	0.7
British Ceylon Corporation	10.5	—	—	8.2	—	—	18.7	—	—
Sri Lanka Ayurvedic Drugs	—	7.5	—	—	—	—	—	7.5	—
Ceylon Petroleum	10.7	—	—	—	—	—	10.7	—	—
State Fertilizer Manufacturing	397.5	88.5	300.0	—	269.0	—	397.5	357.5	300.0
State Mining and Mineral Development	—	—	—	1.9	—	—	1.9	—	—
Ceylon Steel	10.7	7.9	—	—	—	—	10.7	7.9	—
State Hardware	2.0	—	—	—	—	—	2.0	—	—
National Packaging Materials	0.3	—	—	—	6.0	2.5	0.3	6.0	2.5
Ceylon Oxygen Limited	24.0	10.0	—	—	—	—	24.0	10.0	—
Total	544.8	250.7	399.2	181.8	340.5	59.1	726.6	591.2	458.3

* Provisional

Source: General Treasury

Although detailed data as in the case of public sector industries are not available for the private sector industry, relatively large firms appeared to have performed remarkably well, while some of the inefficient small-scale enterprises were faced with problems. Problems were encountered by such industries, in general, since the liberalization of imports in 1977. Prior to the economic reforms of 1977 import substitution industries were heavily protected by rigid import controls, foreign exchange restrictions and high tariffs. In many instances, these controls proliferated and sustained many inefficient industrial units. With the removal of barriers to trade and the switch to protective tariffs as the only means of protection, some enterpreneurs, particularly the major ones, took steps to sustain their capacity utilization and to upgrade their products so as to improve their competitive strength against the challenge from imported products. Of late, the problems faced by private sector industries appear to take on a new dimension. Apart from the direct competition from the imported products experienced since the introduction of import liberalization, complaints of financial problems and high energy costs have also been made. Another problem that has developed in the recent past is the dearth of technicians and skilled man -power as a consequence of the outflow of such man-power in search of more remunerative prospects abroad.

With a view to promoting industrial investments and supporting established industries, several fiscal and monetary measures were introduced in 1982. Among these, the import duty revisions and the provision of additional financial facilities are noteworthy. Import duties on paper and paper products were increased during the year. So were duties on selected steel products. Further, coinciding with the withdrawal of the lump sum depreciation facilities, import duties on most raw materials had been reduced back to the nominal levels in the previous year. Additional financial facilities included provision of increased facilities under the Medium and Long-term Credit Fund and assistance to export oriented industries. The details of such measures are presented elsewhere in this report under Trade and Money and Banking developments.

Several developments took place in the industrial sphere in 1982, which comprehend industrial promotion and expansion of production. An agreement was signed between the State Mining and Mineral Development Corporation and the Agrico-Group of Companies of U.S.A. to set up facilities for the manufacture of phosphate fertilizer utilizing the Eppawala rock phosphate deposits. Also an agreement between the Government of Sri Lanka and K.C.P. Ltd. of India was signed in 1982 for the construction of a factory for the Sevenagala Sugar Development Project. The annual capacity of the factory is expected to be around 27,000 tons of sugar. Stage two of the steel works of the Ceylon Steel Corporation's Steel Melting and Continuous Casting Plant was commissioned in 1982. This plant is designed to produce steel billets using locally available scrap iron with an annual output capacity of 60,000 tons. When in full production the factory is expected to provide employment opportunities for 550 persons.

The Nylon-6 Project and the urea plant of the State Fertilizer Manufacturing Corporation were faced with problems in 1982 due to lower sales and high cost of production. Both these plants which were commissioned recently, were originally designed to cater to the country's needs. However, while the Nylon-6 plant was shut down pending an evaluation of its viability, production in the fertilizer manufacturing plant continued with interruptions. In the case of the latter, a good part of its production was exported at prices below cost of production. These developments show that the commercial viability of some of the large scale public enterprises need urgent review.

The Foreign Investment Advisory Committee (FIAC) has approved 102 projects in 1982 which envisaged a total investment of Rs. 3,036 million with the foreign component amounting to Rs. 1,943 million. The total employment potential of the projects approved is 11,702 persons while many of the industries approved would use local raw material as a major input.

A survey carried out by the FIAC revealed that 73 projects were in operation in the manufacturing sector as at end of June, 1982. These projects have committed an actual foreign investment of Rs. 412 million. This compares favourably with the envisaged foreign investment of Rs. 440 million in these projects. The textile and ready made garments sector accounts for the largest number of projects in operation with 35 projects and a foreign investment of Rs. 264 million. The projects in operation have provided direct employment to 14,964 persons.

The Local Investment Advisory Committees (LIACs) approved 297 industrial projects during the year under review. The potential investment of these projects was Rs. 231 million and they are expected to provide job opportunities for approximately 8,429 persons.

Earnings from industrial exports increased from Rs. 7,296 million (SDR 322 million) in 1981 to Rs. 8,271 million (SDR 360 million) in 1982 which showed an increase of 12 per cent. This was a result of increases both in textile and garments (16 per cent) and other exports (63 per cent).

The Investment Promotion Zone (IPZ) continued to play a major role in the export oriented industrialisation strategy. The Greater Colombo Economic Commission (GCEC) , the co-ordinating body in charge of IPZ continued to attract private foreign investment in 1982 at a slightly higher rate than in the previous year. Sixteen projects were approved by the GCEC during the year under review, bringing the total number of projects approved to 171 by the end of 1982. Eleven industrial enterprises involving a total amount of Rs. 684 million of investment (of which Rs. 467 million was foreign) have signed agreements with the GCEC. During the year, out of 51 firms (46 of them in Katunayake Investment Promotion Zone) that were in commercial production, 24 were engaged in the production of ready made garments reflecting a concentration of export oriented manufacturing activities in products where the domestic value added is relatively low. However, as reflected by the nature of approvals granted in 1982, the GCEC has taken meaningful steps to overcome this structural imbalance. The type of projects entered into agreement with the GCEC in 1982, showed an encouraging trend towards greater diversification of the activities in the IPZ. Agreements signed with GCEC in 1982 included projects to manufacture electromagnetic heads, electrical and electronic products, terry towels, furniture, coir matting and coir yarn, hot water bottles, brass tubes, ice skating shoes and saw blades.

In 1982, 5,005 employment opportunities were created bringing the total number of employment in GCEC firms to 24,926 by the end of 1982. As in the case of production, employment opportunities too were concentrated in the garment manufacturing sector accounting for 69 per cent of the total employment opportunities. This is in addition to the indirect employment opportunities created by the IPZ for which estimates are not available. Gross earnings from GCEC exports increased by 42 per cent amounting to Rs. 1,655 million in 1982. The earnings from rubber products the second largest export item, showed an impressive increase of more than 80 per cent during the year. However, 78 per cent of gross GCEC export earnings were accounted for by garment exports.

TABLE 1·22

Investment Promotion Zone - Employment and Export Earnings

Industry	1981(a)		1982(b)	
	Employment (End Dec.) No.	Gross Export Earnings (F.O.B.) Rs. Mn.	Employment (End Dec.) No.	Gross Export Earnings (F.O.B.) Rs. Mn.
1. Garments ..	16,141	963.1	17,219	1,292.0
2. Rubber products ..	920	44.7	2,395	80.4
3. Electrical appliances ..	286	19.5	279	25.2
4. Lapidary and jewellery ..	309	3.8	587	14.9
5. Fishing gear and accessories ..	198	8.8	172	13.4
6. Tea packeting ..	23	9.3	13	10.5
7. Cashew products ..	265	13.7	391	7.2
8. Other ..	1,587	100.5	3,870	211.7
Total ..	19,729	1,163.3	24,926	1,655.3

Source: Greater Colombo Economic Commission.

(a) Revised
(b) Provisional

An encouraging development observed in 1982 was the successful attempt made by the private sector industry to face the challenges posed by sharp competition from imports, although some smaller and inefficient enterprises found it difficult to meet these challenges, as has been their experience in previous years. However, despite the favourable investment climate and the number of projects approved by the Local Investment Advisory Committees (LIACs) actual new investment in such projects appears to have recorded a declining trend over the past several years, inclusive of the year under review. In the year under review, new approvals by the LIACs also declined. This perhaps has something to do with the fact that 1982 was an "election" year. Although a decline was also observed in the number of approvals by the Foreign Investment Advisory Committee (FIAC), the approved projects which have got off ground, however, have been increasing.

Since most FIAC projects contain a higher export potential than the LIAC approved projects, the shift in emphasis from import substitution to export promotion is indeed consistent with the outward looking strategy of the economic policy pursued since late 1977. In a situation where investment in public sector manufacturing capacity has been increasingly subject to more strict evaluation criteria, investment in private sector industry has a crucial role to play in sustaining the increase in overall industrial production.

ECONOMIC AND SOCIAL OVERHEADS

Energy

Problems concerning the energy sector appeared to have further intensified in 1982.

The value of total petroleum products imported during 1982 totalled Rs. 12,152 million accounting for 29 per cent of the total expenditure on imports. Reflecting the increase in volume and changes in exchange rates, the rupee value of petroleum imports in 1982 increased by 22 per cent while in SDR terms it indicated an increase of 20 per cent over the corresponding figure of 1981. A more disconcerting feature is that the petroleum import bill absorbed 67 per cent of the earnings from non-petroleum exports in 1982 as compared with 56 per cent in the previous year. The value of petroleum exports which increased progressively during the past few years declined by 3 per cent and 4 per cent in terms of Rupees and SDRs respectively due to increased domestic consumption of exportable oil products, namely heavy diesel and naphtha. This loss was partly compensated for, by the export of urea by the Fertilizer Manufacturing Corporation which used naphtha as its main input in the manufacture. In addition there were no imports of urea during the year. The net oil import bill rose from 32 per cent of the total export earnings in 1981 to 41 per cent in the current year.

Consumption of petrol rose moderately by 5 per cent in 1982 as compared with 1 per cent in 1981. The increased number of private cars and motor cycles and the stability of petrol prices seem to have contributed to the higher level of consumption in 1982. The declining trend observed in the consumption of kerosene during the past few years appears to have reversed. The consumption of kerosene increased by 3.5 per cent during the current year. The rate of growth of auto diesel consumption which dropped from 14 per cent in 1980 to 6 per cent in 1981 has registered a rate of growth of 5.5 per cent in the current year. Consumption of heavy diesel which rose at an unprecedented rate of 67 per cent in 1981 due to increased thermal power generation by the Ceylon Electricity Board (CEB) continued to increase at the rate of 59 per cent in 1982. Consumption of furnace oil which rose with the expansion of industrial activities during the recent past, has indicated a marginal decrease during the year under review. The drop in furnace oil consumption was caused mainly by the reduced use of this product by the Cement and Steel Corporations in 1982. The former corporation switched to coal as a substitute fuel in the operation of its phase III in 1982.