

## Consumption Expenditure

Some important changes have taken place in the level and composition of household consumption expenditure in recent years. Historically, the private consumption expenditure in this country has been heavily import-oriented. Even as late as the mid-sixties nearly one-third of the consumption expenditure was on imported goods and services. Today, the import component has fallen to around 13-14%. This marked shift in the consumption pattern took place in the background of a reduction in the import volume of consumer goods in the face of a deteriorating foreign exchange situation and the expansion of import substitution in industry and agriculture. During the last five years alone the import volume of consumer goods has fallen by about 40%. On the other hand during the same period the private consumption expenditure on locally produced goods and services has more than doubled. The decline in the import content in local consumption would have fallen much more if not for the substantial foreign loans and aid that flowed into this country since about the mid-sixties. These resource flows have primarily served the purpose of maintaining the essential food imports at socially accepted levels.

The fact that over 86% of the consumption expenditure has now been directed towards locally produced goods and services has some important implications for the economy. For one thing, a given increase in investment or government expenditure will now lead to a greater increase in money incomes than in the past, since the amount that leaks abroad (through imports) out of a given amount of consumption expenditures is now considerably lower. This also means that imports can no longer be used as an important buffer to absorb inflationary pressures generated by such internal factors as budgetary deficits.

While the total consumption has shown a marked shift away from imported goods, the total import bill has been somewhat sluggish in

moving towards a similar pattern. Consumer goods have accounted for nearly 50% of the total import bill in 1974 compared with 55-60% in the mid-sixties. Food and drink have continued to absorb over 60% of the total consumption expenditure and this conforms to the pattern in a typical developing economy.

Apart from the above changes, there has also been a sharp increase in the overall level of private consumption expenditure in recent years. It has nearly doubled during the last five years. There has been a particularly sharp increase since 1972 rising from Rs. 9,773 million in that year to Rs. 16,700 million in 1974—an increase of 71%. On a per capita basis, the consumption expenditure has risen from Rs. 750 to Rs. 1247 during 1972-74, an increase of 66%. In 1974 alone the increase was of the order of 35%. However, the bulk of this increase reflects merely an increase in monetary terms (the rise in the price level of consumer goods) rather than an increase in physical consumption (in real terms). The Colombo Consumers Price Index (which grossly underestimates the actual price increases) has recorded an increase of only 23% during this period. The consumption expenditure on locally produced food items has recorded sharp increases primarily due to the rise in prices. The total consumer expenditure on locally produced rice, for example, has moved from Rs. 700 million in 1972 to Rs. 2,187 million in 1974—an increase of 200%. The expenditure on coconuts and other food crops has shown an increase of over 150%.

## INVESTMENT

How has Sri Lanka fared in regard to investment in recent years? Unfortunately there are no reliable and comprehensive data to make a meaningful assessment of the country's performance in this sphere. The only available data are from the national income estimates of the Central Bank. These data are, however, only rough estimates and there is every reason to believe that they underestimate the extent of capital formation in the country.

Where capital formation takes the form of imported plant, machinery and equipment, reliable estimates are usually possible. However, in an economy where the rural sector predominates, a sizeable amount of capital formation takes place in the form of improvements to agricultural land, minor construction works and all sorts of other ways which are difficult to estimate and hence are not fully reflected in the capital formation figures. Hence, the available data are heavily biased in favour of activities which use imported capital equipment and locally produced steel, cement, etc. What do the available figures reveal? The gross domestic fixed capital formation (at current prices) has risen by about 35% during the period 1972-74. This increase was, however, in large part a result of the rise in the prices of investment goods. The import price index of investment goods has risen by over 70% during this three year period. While the Five Year Plan (1972-76) envisaged a gross investment rate of 18-19% of the Gross Domestic Product during the Plan period, the actual performance during 1972-74 (on the basis of the available data) has ranged from 15-17%. Investments in planting, replanting, land development, machinery and plant in particular have recorded a decline and the investment in transport equipment has shown only a marginal increase. The reasons are found in the decline in the rate of replanting of tea, rubber and coconut lands and the decline in imported investment goods owing to the foreign exchange crisis. The volume of imports of investment goods has declined by 43% during 1972-74. This clearly shows that substantial foreign capital and aid flows that Sri Lanka has received in recent years have not enabled the country to raise the level of investment through greater imports of investment goods.

Of the total gross capital formation in 1974, over 40% was on account of building and other construction works. The share of agriculture, fisheries, forestry and land development was only 13%. The public sector (the government and corporations) accounted for nearly 40% of the total capital formation in 1974.