

NATIONAL PRODUCT AND INCOME

According to provisional data, the Gross National Product at current factor cost prices in 1977 is estimated at Rs. 29,122 million. This represents an increase of 20.9 per cent over the previous year. Adjusting for price increases, the Gross National Product at constant (1959) prices in 1977 is estimated to have risen by 4.4 per cent, compared with a 3.0 per cent increase recorded in 1976. The higher growth rate of the economy in 1977 came mainly from increases in output from domestic agriculture and the services sector.

The 1977 mid-year population of Sri Lanka is provisionally estimated to have grown to 13.97 million or by 1.76 per cent. Thus, the Gross National Product per capita in real terms was Rs. 855, indicating an increase of 2.6 per cent, compared to an increase of 1.3 per cent in the previous year.

Primarily as a result of a continued improvement in export prices, the terms of trade¹ which improved by 35 per cent in 1976 improved further by 31 per cent in 1977. As a result, the real national income² increased by 9.1 per cent or by a higher percentage than the growth in real national product as in the previous year. The per capita real income rose by 7.3 per cent. Relevant data in respect of the past ten years are summarised in Table I.

Sectoral Development

A sector-wise disaggregation of the Gross National Product at constant (1959) prices during the last 5 years, related to the base year 1959 is given in Table 2. It will be seen therefrom that the 4.4 per cent growth in 1977 has been largely accounted for by a 7.2 per cent increase in the agricultural sector and a 6.9 per cent increase in the services sector. Mining and construction sectors indicated a decline, while the other sectors showed marginal expansion.

The output of the Agriculture, forestry and fisheries sector which declined by 1 per cent in 1976 showed a resurgence in 1977 largely owing to a 10 per cent growth in domestic agriculture, as against a 4 per cent advance in the previous year. Output of paddy in 1977 was higher by 34 per cent; subsidiary food crops and fruits and vegetables were higher by 5 per cent. On the other hand, the output of plantation agriculture grew only marginally by 0.4 per cent, reflecting an increase of 6 per cent in tea and a decline of 0.7 per cent in rubber and 9.2 per cent in coconut. Favourable weather was the main factor responsible for the improvement in domestic agriculture and tea. The previous year's drought had its lagged adverse effects on the coconut industry.

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1. Terms of trade is calculated as - $\frac{\text{Export Price Index}}{\text{Import Price Index}} \times 100$. In view of the considerable significance of foreign trade in the economy, changes in the terms of trade have an important effect on real national income. An improvement in the terms of trade increases the quantum of imports which could be obtained with a given quantum of exports, and thereby increases the exchange value of the goods and services produced.
2. The real national income is obtained by adjusting real Gross National Product by the change in terms of trade.

TABLE 1
National Product, Income and Population — 1968-1977

Year	GNP at current Prices		GNP at constant Prices		Real National Income		Mid Year Population		GNP Per Capita (Constant Prices)	
	Rs. Mn.	Growth Rate	Rs. Mn.	Growth Rate	Rs. Mn.	Growth Rate	Thousands	Growth Rate	Rs.	Growth Rate
1968	9,876	19.5	8,901	8.4	8,117	7.6	11,992	2.5	742	5.7
1969	10,725	8.6	9,301	4.5	8,487	4.6	12,252	2.2	759	2.3
1970	11,562	7.8	9,686	4.1	8,771	3.3	12,514	2.1	774	2.0
1971	11,786	1.9	9,725	0.4	8,770	0.0	12,699	1.5	766	- 1.0
1972	12,616	7.0	10,038	3.2	9,068	3.4	12,951	2.0	775	1.2
1973	15,168	20.2	10,419	3.8	9,248	2.0	13,091	1.1	796	2.7
1974	19,738	30.1	10,815	3.8	9,671	4.6	13,284	1.5	814	2.3
1975*	21,946	11.2	11,115	2.8	9,746	0.8	13,514	1.7	822	1.0
1976*	24,688	9.8	11,443	3.0	10,137	4.0	13,730	1.6	833	1.3
1977*	29,122	20.9	11,952	4.4	11,062	9.1	13,971	1.7	855	2.6

* Provisional

Source: Central Bank of Ceylon.

TABLE 2

Sectoral Composition of Gross National Product at Constant (1959) Factor Cost Prices

(Rupees Million)

Sectors	1959		1973		1974		1975*		1976*		1977*	
	Amount	Percentage										
1. Agriculture, Forestry, Hunting and Fishing ...	2,302	39.1	3,420	32.8	3,582	33.1	3,602	32.4	3,568	31.2	3,828	32.0
2. Mining and Quarrying ...	31	0.5	266	2.5	191	1.8	248	2.2	354	3.1	311	2.6
3. Manufacturing ...	682	11.6	1,421	13.6	1,420	13.1	1,462	13.2	1,489	13.0	1,505	12.6
4. Construction ...	283	4.8	516	5.0	553	5.1	503	4.5	531	4.6	480	4.0
5. Electricity, Gas, Water and Sanitary Services ...	9	0.1	31	0.3	31	0.3	33	0.3	36	0.3	37	0.3
6. Transport, Storage and Communication ...	541	9.2	1,019	9.8	1,054	9.8	1,100	9.9	1,144	10.0	1,198	10.0
7. Wholesale and Retail Trade	801	13.6	1,383	13.3	1,450	13.4	1,501	13.5	1,545	13.5	1,623	13.6
8. Banking, Insurance and Real Estate ...	51	0.9	142	1.4	165	1.5	184	1.7	191	1.7	229	1.9
9. Ownership of Dwellings ...	201	3.4	318	3.1	344	3.2	350	3.1	353	3.1	360	3.0
10. Public Administration and Defence ...	301	5.1	567	5.4	609	5.6	646	5.8	676	5.9	703	5.9
11. Services ...	728	12.3	1,379	13.2	1,441	13.3	1,513	13.6	1,593	13.9	1,703	14.3
12. Gross Domestic Product	5,930	—	10,462	—	10,840	—	11,142	—	11,480	—	11,977	—
13. Net Factor Income from Abroad ...	- 37	- 0.6	- 44	- 0.4	- 25	- 0.2	- 27	- 0.2	- 37	- 0.3	- 25	- 0.2
14. Gross National Product	5,893	100.0	10,419	100.0	10,815	100.0	11,115	100.0	11,443	100.0	11,952	100.0

* Provisional

Source: Central Bank of Ceylon.

The Mining and Quarrying industries which grew by 30 per cent in 1975 (after a reverse in 1974) and 43 per cent in 1976 suffered a setback in 1977. This can be attributed to a fall in export of gems and the decline in the activity of the construction industry.

The Manufacturing Sector (which includes the processing of tea, rubber, coconut and paddy) which grew by 8 per cent in 1975 and 2 per cent in 1976, continued the downward trend by growing at about 1 per cent in 1977. The output of factory industry indicated an increase of 2 per cent (compared to a 5 per cent growth in 1976) and cottage industry (mainly textiles) grew at about the same rate (compared to a growth of 8 per cent in 1976). But the real value added in the processing of tea, rubber and coconut dropped by 0.6 per cent, reflecting the fall in production of rubber and coconut. In 1976, there was a more drastic decline in this sub-sector of 6 per cent.

There was a lower level of activity in the Construction sector, which was the result of a lesser availability and price increases of building materials, particularly cement. The value added declined by 10 per cent in 1977, compared with an increase of 6 per cent in the previous year. In fact, construction activity in the public sector such as roads, bridges and irrigation works, increased by 29 per cent. Hence, the decline in the construction sector arose from a setback suffered by the private sector.

The output of the Services sector has been estimated to have risen by 6 per cent in 1977, compared with a growth of 4 per cent in 1976. The Trade and Transport sector has grown by 5 per cent, compared to a growth rate of 3 to 4 per cent in 1976. This was the estimated impact on these sectors of the growth in domestic agriculture. A similar development has been observed in the Banking and Financial sector.

A further examination of the sectoral composition of the national product shows the continuing importance of the agriculture sector, which has accounted for about a third of the national product during the last five years, although there has been a drop in its share from the 37 per cent recorded in 1960. The share of manufacturing has risen marginally from about 12 per cent in 1960 to about 13 per cent during the last five years, reflecting the sluggish growth of an inward-looking, heavily protected and controlled, import substitution industry. The Mining and Quarrying, and the Banking and Finance sectors, especially the former, appeared to be the only sectors which displayed signs of dynamic growth, although their overall contribution to the national product yet remains small.

Resources and their Utilization

Total resources available to the economy and their utilization is shown in Table 3 below.

TABLE 3

Composition and Utilization of Resources

	1976		1977		% change over previous year	
	Amount (Rs. Mn.)	% of Total	Amount (Rs. Mn.)	% of Total	1976	1977
1. Total Resources ...	32,119	100.0	37,712	100.0	8.2	17.4
1.1 G. D. P. (Market prices) ...	26,375	82.1	31,204	82.7	9.6	18.3
1.2 Imports of Goods and Non-factor Services ...	5,744	17.9	6,508	17.3	2.0	13.3
2. Utilization ...	32,119	100.0	37,712	100.0	8.2	17.4
2.1 Consumption ...	22,608	70.4	25,158	66.7	5.9	11.3
2.2 Gross Fixed Capital Formation	4,595	14.3	5,935	13.4	24.2	9.6
(a) Government ...	1,631	5.1	1,542	4.1	48.9	-5.5
(b) Public Corporations	588	1.8	861	2.3	38.0	46.4
(c) Private sector ...	2,376	7.4	2,632	7.0	9.1	10.8
2.3 Inventories	-401	-1.2	+159	+0.4	—	—
3. Export of Goods and Non-factor Services	5,317	16.5	7,360	19.5	20.1	38.4

Source: Central Bank of Ceylon.

Total resources available to the Sri Lanka economy in 1977, consisting of Gross Domestic Product and imports amounted to Rs. 37,712 million compared with Rs. 32,119 million in 1976, an increase of 17 per cent. Resources available from domestic production increased by Rs. 4,829 million and resources available from imports by Rs. 764 million. The weight of imports in total resources declined from 18 per cent in 1976 to 17 per cent in 1977.

In 1977, the share of consumption in total resource allocation declined while the share of investment and exports increased. Thus consumption amounted to 67 per cent of resources compared with 70 per cent in 1976. At the same time capital formation increased from 13 per cent to 14 per cent of total resources and exports increased from 17 per cent to 20 per cent.

Gross Domestic Capital Formation which is estimated as Gross Fixed Capital Formation plus changes in inventories, recorded an increase of 24 per cent in 1977. However, Gross Fixed Capital Formation increased only by 10 per cent. This was due to a marked increase in fixed capital formation by the Private Sector and Public Corporations, which more than offset a decline of 5 per cent in the Government Sector.

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