

## NATIONAL PRODUCT AND INCOME

The Gross National Product at current factor cost prices in 1978 has been provisionally estimated to be Rs. 36,139 million. This indicated an increase of 23.5 per cent over the previous year. Discounting price increases, the Gross National Product at constant (1959) prices has been estimated at Rs. 13,002 million in 1978. This reflects a growth rate of 8.2 per cent, compared with a 4.4 per cent growth in 1977. Sri Lanka's economic growth in 1978 was more than twice the average rate of growth during the last decade; and almost equal the highest growth achieved in recent times of 8.4 per cent in 1968. Also, unlike in previous years, when economic growth came mainly from a few sectors, while the rest of the economy either remained stagnant or declined, the year 1978 was characterized by a high level of activity in all sectors. The most notable growth sectors were mining and quarrying, construction, electricity, finance, manufacturing and trade.

The 1978 mid-year population of Sri Lanka has been provisionally estimated to be 14.2 million, reflecting an annual increase of 1.7 per cent. Thus the Gross National Product per capita in real terms was Rs. 917/- indicating an increase of 6.4 per cent, compared to an increase of 2.6 per cent in the previous year.

Sri Lanka's terms of trade which improved by 35 per cent and 31 per cent in 1976 and 1977, respectively, primarily as a result of a sharp improvement in export prices, declined marginally in 1978. As a result, the real national income, which is obtained by adjusting real gross national product by the changes in terms of trade, grew by 7.8 per cent in 1978, marginally lower than the rate of growth of the real national product.

The Gross National Expenditure at current market prices in 1978 has been estimated at Rs. 38,826 million, an increase of 25 per cent over 1977. Consumption expenditure rose by 29 per cent and gross domestic capital formation increased substantially by 65 per cent. While private and public consumption rose by a uniform 29 per cent each, the major increase in capital formation was accounted for by the public sector. However, these figures should be interpreted with reservation, as they contain the price changes that took place in 1978, especially, the higher import costs arising from the depreciation of the Sri Lanka Rupee.

### Sectoral Developments

A sector-wise disaggregation of the real national product (Gross National Product at constant 1959 prices) during the last 5 years, related to the base year 1959, is shown in Table 1.2.

There have been only marginal changes in the shares of the various sectors in the Gross National Product between 1977 and 1978, reflecting the fact that almost all sectors recorded gains in output in 1978. The drop in the share of agriculture sector from 32 to 31 per cent and the growth of the construction sector from 4 to 5 per cent were noteworthy. The marginal decline in agriculture's share was primarily on account of a decline in tea production and the

**TABLE 1.1**  
**National Product, Income, Expenditure and Population -- 1959-1978**

Year	GNP at Current Factor Cost Prices		GNE at Current Market Prices		GDP at Constant (1959) Factor Cost Prices		GNP at Constant (1959) Factor Cost Prices		Real National Income		Mid Year Population		GNP Per Capita	
	Amount Rs. Mn.	Growth Rate %	Amount Rs. Mn.	Growth Rate %	Amount Rs. Mn.	Growth Rate %	Amount Rs. Mn.	Growth Rate %	Amount Rs. Mn.	Growth Rate %	Amount 1000	Growth Rate %	Amount Rupees	Growth Rate %
1959	5,893	—	6,433	—	5,930	—	5,893	—	5,893	—	9,625	—	612	—
1960	6,287	6.7	6,667	3.6	6,332	6.8	6,289	6.7	6,278	6.5	9,896	2.8	635	3.8
1961	6,313	0.4	6,835	2.5	6,465	2.1	6,425	2.2	6,274	-0.1	10,168	2.7	632	-0.5
1962	6,503	3.0	6,923	1.3	6,760	4.6	6,710	4.4	6,628	5.6	10,443	2.7	643	1.7
1963	6,797	4.5	7,329	5.9	6,951	2.8	6,900	2.8	6,658	0.5	10,646	1.9	648	0.8
1964	7,291	7.3	7,758	5.9	7,397	6.4	7,363	6.7	7,048	5.9	10,903	2.4	675	4.2
1965	7,484	2.6	8,069	4.0	7,565	2.3	7,551	2.6	7,242	2.8	11,164	2.4	676	—
1966	7,705	3.0	8,301	2.9	7,854	3.8	7,818	3.5	7,313	1.0	11,440	2.5	683	1.0
1967	8,265	7.3	8,984	8.2	8,255	5.1	8,210	5.0	7,543	3.1	11,703	2.3	702	3.8
1968	9,876	19.5	10,664	18.7	8,937	8.3	8,901	8.4	8,117	7.6	11,992	2.5	742	5.7
1969	10,725	8.6	11,586	8.6	9,369	4.8	9,301	4.5	8,487	4.6	12,252	2.2	759	2.3
1970	11,636	8.5	12,640	9.1	9,828	4.9	9,743	4.8	8,828	4.0	12,514	2.1	779	2.0
1971	11,860	1.9	12,587	-0.4	9,836	...	9,769	0.3	8,814	0.2	12,699	1.5	769	-1.0
1972	12,710	7.2	13,497	7.2	10,146	3.2	10,085	3.2	9,115	3.4	12,951	2.0	779	1.2
1973	15,274	20.2	16,630	23.2	10,514	3.6	10,470	3.8	9,300	2.0	13,091	1.1	800	2.7
1974	19,858	30.0	21,469	29.1	10,892	3.6	10,867	3.8	9,724	4.6	13,284	1.5	818	2.3
1975	22,067	11.1	23,934	11.5	11,194	2.8	11,167	2.8	9,798	0.8	13,514	1.7	826	1.0
1976*	24,215	9.7	26,204	9.5	12,542	3.1	11,506	3.0	10,199	4.0	13,730	1.6	838	1.4
1977*	29,271	20.9	31,061	18.5	12,042	4.3	12,016	4.4	11,127	9.1	13,971	1.7	860	2.6
1978*	36,139	23.5	38,668	24.5	13,043	8.3	13,002	8.2	11,943	7.3	14,184	1.7	917	6.4

\* Provisional.

Source: Central Bank of Ceylon

TABLE 1.2

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

Sectors	1959		1974		1975		1976		1977		1978		Percentage Increase 1978 over 1977
	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	
1. Agriculture, Forestry, Hunting & Fishing	2,302	39.1	3,582	32.9	3,596	32.2	3,568	31.0	3,828	31.9	3,990	30.7	4.2
1-1 Agriculture	2,148	36.5	3,328	30.6	3,352	30.0	3,308	28.8	3,568	29.7	3,690	28.4	3.4
1-1-1 Tea	(642)	(10.9)	(699)	(6.4)	(733)	(6.6)	(674)	(5.9)	(715)	(6.0)	(682)	(5.2)	(-4.6)
1-1-2 Rubber	(183)	(3.1)	(259)	(2.4)	(295)	(2.6)	(299)	(2.6)	(296)	(2.5)	(315)	(2.4)	(6.4)
1-1-3 Coconut	(404)	(6.9)	(387)	(3.6)	(419)	(3.7)	(365)	(3.2)	(332)	(2.7)	(385)	(3.0)	(16.0)
1-1-4 Paddy	(312)	(5.3)	(656)	(6.0)	(479)	(4.3)	(513)	(4.4)	(687)	(5.7)	(775)	(6.0)	(12.8)
1-1-5 Other	(453)	(7.7)	(1,327)	(12.2)	(1,426)	(12.8)	(1,457)	(12.7)	(1,538)	(12.8)	(1,533)	(11.8)	(-0.3)
1-2 Forestry	93	1.6	120	1.1	114	1.0	120	1.0	112	0.9	133	1.0	18.8
1-3 Fishing	61	1.0	134	1.2	137	1.2	140	1.2	148	1.2	167	1.3	12.8
2. Mining & Quarrying	31	0.5	191	1.7	248	2.2	354	3.1	311	2.6	411	3.2	32.2
3. Manufacturing	682	11.6	1,420	13.1	1,462	13.1	1,489	12.9	1,505	12.5	1,632	12.6	8.4
3-1 Export processing	373	6.3	546	5.0	460	4.1	432	3.7	435	3.6	446	3.4	2.5
3-2 Factory Industry	263	4.5	770	7.1	832	7.4	871	7.6	881	7.3	987	7.6	12.0
3-3 Small Industry	46	7.8	104	1.0	171	1.5	185	1.6	189	1.6	200	1.5	5.8
4. Construction	283	4.8	553	5.1	503	4.5	531	4.6	480	4.0	629	4.8	31.0
5. Electricity, Gas, Water Sanitary Services	9	0.1	84	0.8	91	0.8	99	0.9	102	0.8	123	0.9	20.6
6. Transport, Storage and Communications	541	9.2	1,054	9.7	1,100	9.8	1,143	9.9	1,198	10.0	1,285	9.9	7.3
7. Wholesale & Retail Trade	801	13.6	1,450	13.3	1,501	13.4	1,545	13.4	1,623	13.5	1,780	13.6	9.7
7-1 Imports	139	2.3	161	1.5	125	1.1	146	1.3	147	1.2	261	2.0	77.5
7-2 Exports	104	1.8	123	1.1	171	1.5	126	1.1	243	2.0	277	2.1	14.0
7-3 Domestic	558	9.5	1,166	10.7	1,205	10.8	1,273	11.0	1,233	10.3	1,242	9.5	0.7
8. Banking, Insurance and Real Estate	51	0.9	166	1.5	184	1.6	191	1.7	229	1.9	263	2.0	14.8
9. Ownership of Dwellings	201	3.4	344	3.2	350	3.1	353	3.1	360	3.0	374	2.9	3.9
10. Public Administration and Defence	301	5.1	609	5.6	646	5.8	676	5.9	703	5.8	760	5.8	8.1
11. Services n.e.s.	728	12.3	1,441	13.3	1,513	13.5	1,593	13.8	1,704	14.2	1,797	13.8	5.5
12. Gross Domestic product	5,930	100.6	10,892	100.2	11,194	100.2	11,543	100.3	12,042	100.2	13,043	100.3	8.3
13. Net factor Income from abroad	- 37	- 0.6	- 25	- 0.2	- 27	- 0.2	- 37	- 0.3	- 25	- 0.2	- 41	- 0.3	-
14. Gross National Product	5,893	100.0	10,867	100.0	11,167	100.0	11,506	100.0	12,016	100.0	13,001.9	100.0	8.2

Source: Central Bank of Ceylon.

faster growth of several other sectors. The improvement in the construction sector was the result of enhanced activity arising from a more liberal availability of construction material.

Contrasting the sectoral composition of the national product in 1978 with that of 1959—over a span of 20 years—it is noteworthy that the share of the agriculture sector has dropped from 39 to 31 per cent, while that of industry has risen from 12 to 13 per cent. Excluding the export processing industry associated with tea, rubber and coconut, the share of other industry has actually diminished from 12 per cent in 1959 to 9 per cent in 1978. In constant value terms, agriculture has grown by 73 per cent while industry, starting from a very low base, has grown by 139 per cent. It is quite evident that although industry has grown somewhat faster than agriculture, it has not grown fast enough to assume an important share of the national product. The relatively slow growth of industry during the last twenty years may have been the result of low value-added resulting from high import substituting nature of industry that was nurtured, as well as, of stringent controls and the heavy over-protection that prevailed during the greater part of this period. It is also noteworthy that apart from the decline in share of the agriculture sector and some improvement in the relatively minor sectors such as mining and quarrying, electricity, finance and other services, the structure of the economy seems to have undergone very little change over this period of time.

The agriculture sector (comprising agriculture, forestry and fishing) grew by 4 per cent in 1978, compared with a growth of 7.3 per cent in the previous year. Plantation agriculture (tea, rubber and coconut) grew by 3 per cent owing to increases in production of rubber and coconut, which mitigated a decline in tea. Of domestic agriculture, paddy production aided by favourable weather and higher prices, grew by 13 per cent but the performance of the rest of the sector appears to be uneven. The production of subsidiary food crops has been estimated to have been at the same level as in 1977. Production of important crops such as chillies, onions and potatoes declined in 1978. On the other hand there was an improvement in the production of fruits and vegetables. While the fishing industry improved by about 13 per cent, livestock appears to have received a setback. Generally, the performance of domestic agriculture was uneven in 1978.

Mining and quarrying was a significant growth sector in 1978, its value added in 1978 being one third higher than in 1977. In recent times, the growth of this sector was accounted for by the expansion of the gem industry. This industry, which was once confined to a small area of the island, has laterally expanded to many new areas, providing much gainful employment to a large number. Nevertheless, the records of the Customs indicate that there was a decline in gem exports in 1978. Output of this industry which is measured by the recorded gem exports thus showed a decline in 1978. Hence, the increase in the output of this sector in 1978 came largely from a rapid expansion of the brick and tile industry and in quarrying, an expansion which took place to meet the requirements of the construction boom.

Output of the industrial sector has been estimated to have increased by 9 per cent in 1978. The processing of plantation crops advanced by 2 per cent, reflecting the trends in that sector. Factory industry, on the other hand, is estimated to have grown by 11 per cent in 1978, compared with an insignificant growth of 1 per cent in the previous year. A greater and more liberal availability of raw materials and spares after the import liberalisation of November, 1977 enabled industry to operate at a higher level of capacity utilisation in 1978. The output of state industries which dropped by 3 per cent in 1977, rose by 10 per cent in 1978; while private sector industry grew by nearly 14 per cent. The output of small industries grew by about 6 per cent in 1978. While there is much evidence that a large number of small industries, especially the small handloom textile industry, were faced with serious difficulties owing to their inability to compete with cheaper and superior imports, other cottage industries, especially those which were related to the tourist industry, showed considerable improvement.

After mining and quarrying, the construction sector was the most dynamic sector in 1978. The estimated growth of 31 per cent in this sector could be attributed largely to the freer availability of building materials during the year. Cement sales in 1978 rose phenomenally by 65 per cent; while iron, steel, asbestos and other building materials were available in plenty. According to provisional estimates, public sector construction in roads, bridges, irrigation works and other infrastructure grew by 16 per cent while private sector construction, especially of residential housing and new industries, rose substantially.

The growth in agriculture, industry, mining and construction had its inevitable effects on trade, transport and other services. The transport sector is conservatively estimated to have grown by 7 per cent in 1978. Since the import liberalisation, imports of vans and lorries had grown almost five-fold in 1978, leading to greater competition and a tendency to lower transport fares. However, the full impact of this large increase in transport capacity would be felt in future years. Import liberalisation also gave a considerable fillip to wholesale and retail trade, which has been estimated to have grown by 10 per cent in 1978. Trade in imported goods rose substantially. The value added in the banking and the financial sector increased by the 15 per cent, in keeping with the higher level of activity in the economy. The output of other services, which included hotels, restaurants etc., rose by 6 per cent.

### Resources and Uses

Total resources available to the Sri Lanka economy in 1978 have been estimated at Rs. 53,900 million, an increase of 43 per cent over 1977. It consisted of Gross Domestic Product of Rs. 38,550 million and imports of goods and services of Rs. 15,350 million. As these numbers incorporate price increases during the year, they have been appropriately deflated in the following table.

TABLE 1.3

## Composition and Utilization of Resources 1977-78

Category	1977		1978		1978 at 1977 prices		Percentage increases 1978/77
	Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%	
1. Total Resources ..	37,860	100	53,900	100	42,197	100	11.5
1.1 Gross Domestic Product at Market Prices ..	31,352	83	38,850	72	33,954	80	8.3
1.2 Imports of goods and non-factor services ..	6,508	17	15,350	28	8,243	20	26.7
2. Utilization ..	37,860	100	53,900	100	42,197	100	11.5
2.1 Consumption ..	25,306	67	32,381	60	28,084	66	11.0
2.2 Gross Domestic Capital Formation ..	5,035	14	8,280	15	6,233	15	23.8
(a) Government ..	(1,542)	(4)	(3,077)	(6)	(2,049)	(6)	(32.8)
(b) Public Corporations ..	(861)	(3)	(1,815)	(3)	(1,066)	(3)	(23.8)
(c) Private Sector ..	(2,632)	(7)	(3,388)	(6)	(3,158)	(6)	(20.0)
2.3 Stocks ..	159	...	33	...	27	...	—
2.4 Exports of goods and non-factor Services ..	7,360	19	13,207	25	7,853	18	6.7

Source: Central Bank of Ceylon

In real terms, the total resource availability has risen by 12 per cent in 1978. The share of Gross Domestic Product in total resources had dropped from 83 to 80 per cent while that of imports rose from 17 to 20 per cent. The growth of imports was the result of the trade liberalization.

As in the previous year the share of consumption in the use of these resources in 1978 declined marginally from 67 to 66 per cent, although representing an 11 per cent increase in consumption in real terms. On the other hand, the share of exports which rose last year, declined from 19 to 18 per cent. Gross Domestic Capital Formation rose appreciably by 24 per cent; and its share in total resource utilization rose from 14 to 15 per cent. Investment by Government rose by 33 per cent, while that of public corporations and the private sector rose by 24 and 20 per cent, respectively.

Domestic savings in the economy could be estimated as the sum of investment (i.e. Gross Fixed Capital Formation and changes in inventories) less external resources (i.e. net imports of goods and non-factor services).

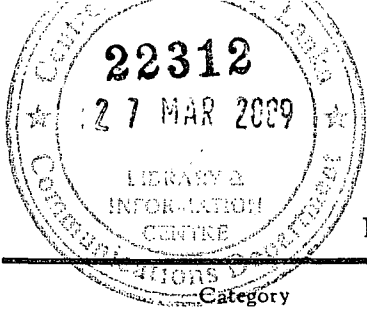


TABLE 1.4  
Domestic Savings

Category	1974*	1975*	1976*	1977*	1978
1. Gross Domestic Product at Market Prices ..	21,701	24,183	26,443	31,352	38,392
2. External Resources (Net imports of goods and non-factor services) ..	1,040	1,203	427	-852	1,867
3. Investment ..	3,139	3,909	4,193	5,194	8,313
4. Domestic Savings (3 - 2) ..	2,099	2,706	3,766	6,046	6,446
5. Savings Ratio (4 as % of 1) ..	9.7	11.2	14.2	19.3	16.8

\*Provisional

Source: Central Bank of Ceylon

The Gross Domestic Product (at Market Prices) rose by 22 per cent in 1978 and domestic savings, as measured above, rose by 7 per cent. Investment increased by Rs. 2,961 million or by 57 per cent, but the turnaround in the Current Account of the Balance of Payments resulted in a net change in imports of goods and services of Rs. 2,719 million. As a result, domestic savings grew by Rs. 400 million. The savings ratio in 1978 amounted to a high 17 per cent of the Gross Domestic Product.

#### AGRICULTURE

The revival of Rubber and Coconut, the decline of Tea, the continued growth of Paddy and the general stagnation of other crops were the notable features on the agricultural front in 1978. Fish production rose, but this was hardly adequate to meet the deficiency in animal protein requirements caused by a slump in the livestock industry. A cyclone devastated the Eastern region in November, damaging much coconut, paddy, cashew and forestry in the area. Altogether, 1978 was an uneven year for the agricultural sector.

At the beginning of the year, there were three Ministries responsible for the development of this sector—the Ministries of Agriculture and Lands, Plantation Industries and Fisheries. By the end of the year, there were six. The Ministry of Agricultural Development and Research was made responsible for paddy, subsidiary food crops, minor export crops and related research and extension. The former Agriculture Ministry functions of land development and alienation were assigned to a new Ministry of Lands and Land Development; and livestock development was handed over to another new Ministry of Rural Industrial Development. The Mahaveli River basin development, encompassing nearly 40 per cent of the country, was considered important enough to be assigned to a new Ministry of Mahaveli Development. In the plantation sector, a new Ministry of Coconut Industries was created, as an adjunct of the main Ministry of Plantation Industries.

An Agricultural Development Authority (ADA) was created to co-ordinate and supervise agricultural development activities on privately owned lands. It organised its activities on an electoral basis, with a view to getting political leaders