

GROSS NATIONAL PRODUCT, INCOME AND EXPENDITURE

The real Gross Domestic Product (GDP) of the Sri Lanka economy increased by 5.8 per cent in 1981. Measured at 1970 constant prices, the GDP increased from Rs. 19,575 million in 1980 to Rs. 20,706 million in 1981. The increase in the Gross National Product (GNP) at constant prices in 1981 was however 4.2 per cent. This compares with 5.6 per cent for 1980. The reason for this reduced growth rate of the GNP both when compared with the GDP for 1981 and the GNP for 1980 is the substantial increase in the outflow abroad of net factor income. From a net out flow of Rs. 119 million in 1980 (at 1970 constant prices), factor income from abroad increased to a net out flow of Rs. 438 million in 1981—well over a three-fold increase. This is the combined outcome of a lower level of interest earned on external assets and a more than doubling of interest payments abroad arising from external borrowings and payment of interest and dividends on foreign investments. This net outflow has depressed the growth rate of the GNP by 1.6 per centage points in 1981.

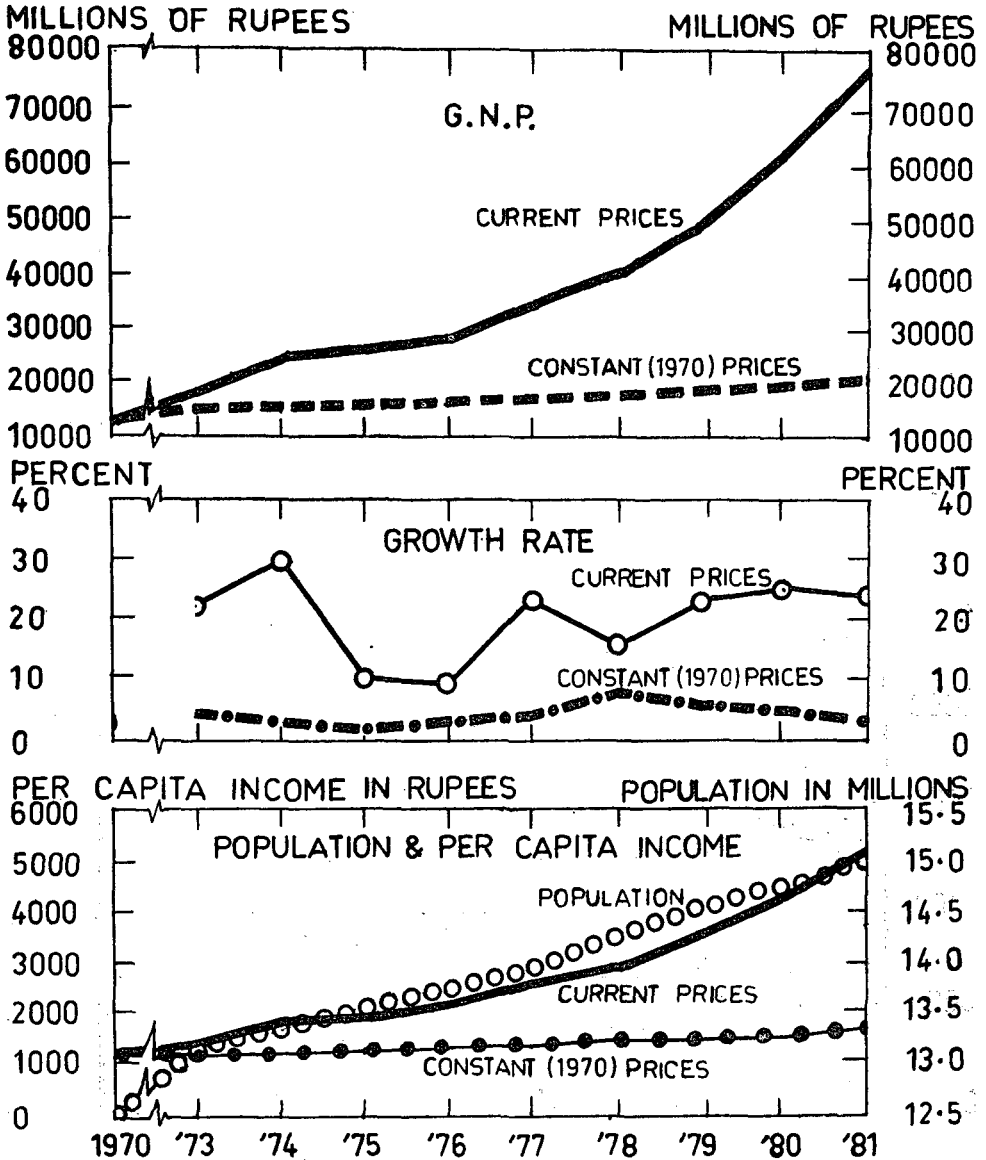
The GDP at current factor cost prices recorded a growth rate of 26.1 per cent in 1981. The value of GDP which was Rs. 62,246 million in 1980 increased to Rs. 78,506 million in 1981. When adjustments are made to take account of the net factor income from abroad which has been a negative figure of Rs. 1,675 million in 1981 as against a negative figure of Rs. 432 million in 1980, the GNP at current factor cost prices increased by 24.3 per cent in 1981. The implicit GNP deflator indicated a 19 per cent overall increase in prices in 1981.

The rate of growth of population is estimated at 1.7 per cent in 1981. After making allowance for the estimated population increase, the real per capita income has risen by 2.4 per cent. The per capita GNP at current prices was Rs. 5,126 or U.S.\$ 265.

The leading growth sectors in 1981 have been agriculture and manufacturing. This is an appreciable improvement in the pattern of development in the economy compared with the previous few years. Agriculture, forestry and fishing recorded 6.9 per cent growth in 1981. Manufacturing, mining and utility services recorded 5.4 per cent growth compared with the relatively low growth rate of 2.1 per cent, recorded in the previous year by this combined sector. Trade, transport and other services experienced a slower growth rate of 6.3 per cent in 1981, compared with higher growth rates it recorded in the previous few years. The construction sector, which has been very dynamic in 1978 and 1979, after registering a relatively modest growth rate of 11 per cent in 1980 recorded a marginal decline in 1981.

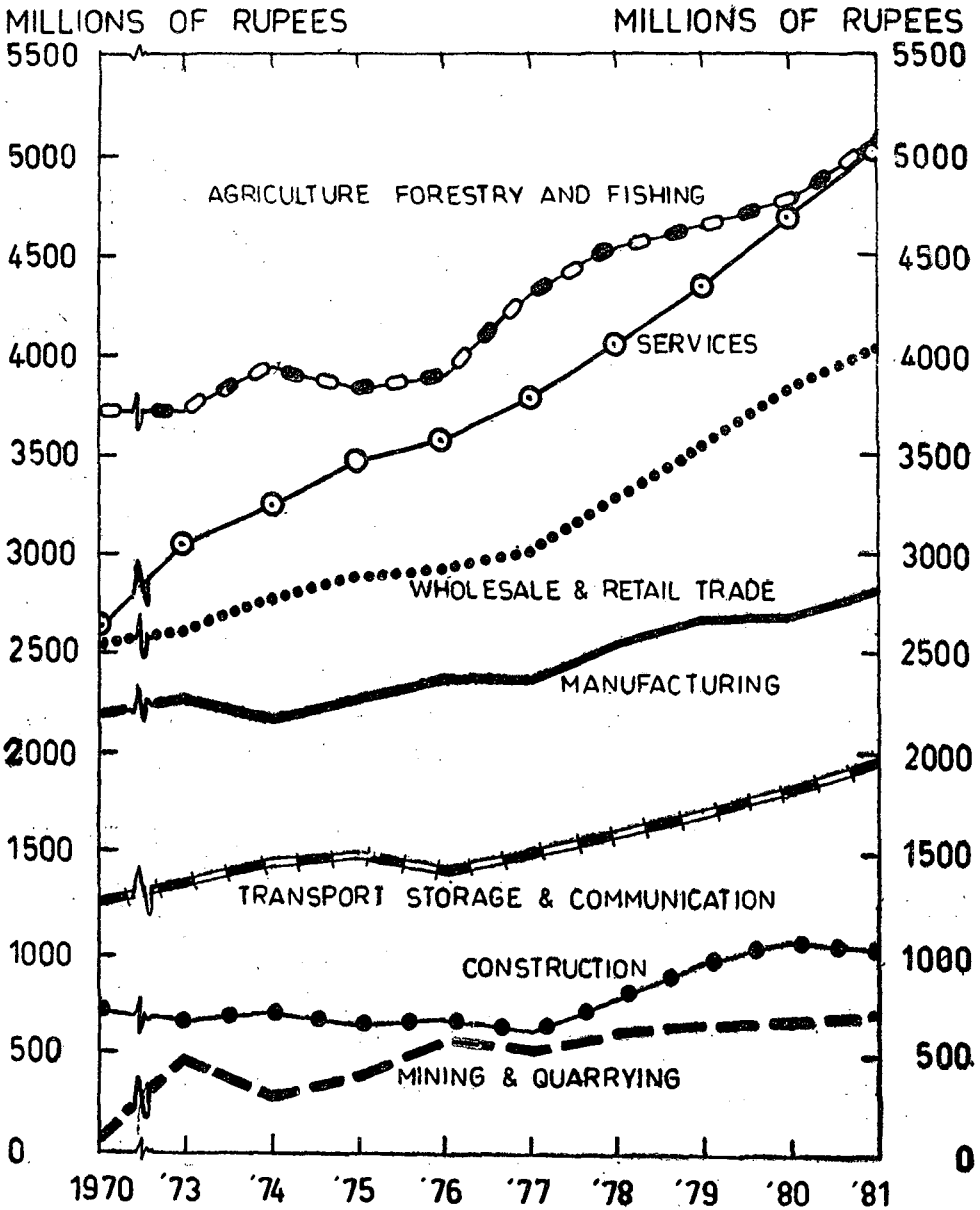
In the agriculture sector, the contribution to GDP of the tea sub-sector increased by about 10 per cent in 1981, compared with a 7.5 per cent decline recorded in the previous year. The coconut sub-sector too increased its output by about 11.5 per cent and thereby its value added contribution to GDP. The rubber sub-sector continued to perform disappointingly in 1981. The contribution to GDP of the rubber sub-sector declined by more than 6 per cent.

GROSS NATIONAL PRODUCT



GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN

AT CONSTANT (1970) FACTOR COST PRICES



The paddy sub-sector which has been the most dynamic in recent years increased its value added contribution by 3.6 per cent in 1981 in spite of the production problems it faced during the year. The subsidiary food crop production too continued to record appreciable expansion in 1981. The contribution of the forestry sub-sector recorded a marginal decline in 1981 which is largely reflected in the lower production volumes of the State Timber Corporation. In the fishing and livestock product sub-sector, fish production increased by 11 per cent, egg production by about 3 per cent and milk production by 9 per cent.

There has been some slowing down in the growth of the mining and quarrying sector in 1981. In case of gem mining and graphite, there has been some decreases in production, while there has been some production increase in the case of ilmenite and other mineral products.

The manufacturing sector recorded an appreciable increase in 1981. Due to the expansion of tea and coconut production, export processing sub-sector recorded a 7.6 per cent growth in 1981, compared with a decline of 9.8 per cent in 1980. Factory industry sub-sector too recorded considerable growth in 1981 over the previous year. A considerable expansion of exports in the garment manufacturing industry occurred in 1981. However, the power cuts and the shut-down of the petroleum refinery for repairs during the year seem to have had their effects on production levels in this sub-sector.

In the construction sector, the building construction activities experienced a mild set back. The demand for building materials, particularly by the private sector declined substantially in 1981. The availability of locally produced cement increased during the year although the total availability of cement declined by about 12 per cent. However, various other construction activities such as the construction work in the Mahaweli Development Programme continued to be at a high level in 1981. There was significant expansion in the value added contribution of electricity, gas, water and sanitary services largely due to investment activities in some of the sub-sectors.

Transport, storage and communication sector which has been expanding rapidly in the past few years, largely due to the expansion of private sector transport activities showed some slowing down in 1981. The two state owned transport agencies the Central Transport Board and the Department of Railways experienced a contraction in the supply of their transport services. In the wholesale and retail trading sector too, there was only a moderate growth. The import trade which expanded very rapidly during the initial stages of trade liberalisation, experienced a negligible increase in 1981.

In the banking, insurance and real estate sector, there has been considerable expansion and reallocation of activities between the new and old institutions. The expansion in ownership of dwellings too, slowed down in 1981, compared with the previous year. The same trend has been observed in the case of public administration and defence. A significant growth rate continued in the services sector, due to expansion of activities connected with hotels and restaurants, entertainments and new types of broadcasting activities such as television.

TABLE 1.3

Sectoral Composition and Increase in Gross National Product at Constant (1970) Prices 1979-1981

Sector	Value added (Rs. Mn.)			Percent share in GNP			Increase over previous year (Rs. Mn.)			Percent share in increase GNP		
	1979	1980*	1981*	1979	1980	1981	1979	1980	1981	1979	1980	1981
1. Agriculture, Forestry and Fishing	4,622	4,766	5,097	25.1	24.5	25.1	90	144	331	8.2	14.0	40.8
1.1 Agriculture	4,239	4,348	4,636	23.0	22.4	22.9	63	109	288	5.7	10.6	35.5
1.1.1 Tea	(412)	(381)	(419)	(2.2)	(2.0)	(2.1)	(14)	(-31)	(38)	(1.3)	(-3.0)	(4.7)
1.1.2 Rubber	(223)	(194)	(181)	(1.2)	(1.0)	(0.9)	(-2)	(-29)	(-13)	(-0.2)	(-2.8)	(-1.6)
1.1.3 Coconut	(519)	(462)	(515)	(2.8)	(2.4)	(2.5)	(31)	(-57)	(53)	(2.8)	(-5.6)	(6.5)
1.1.4 Paddy	(1,132)	(1,267)	(1,313)	(6.2)	(6.5)	(6.5)	(16)	(135)	(46)	(1.4)	(13.1)	(5.7)
1.1.5 Other	(1,953)	(2,044)	(2,208)	(10.6)	(10.5)	(10.9)	(4)	(91)	(164)	(0.4)	(8.9)	(20.2)
1.2 Forestry	166	181	188	0.9	0.9	0.9	11	15	7	1.0	1.5	0.9
1.3 Fishing	217	237	273	1.2	1.2	1.3	16	20	36	1.5	1.9	4.4
2. Mining and Quarrying	652	684	713	3.5	3.5	3.5	33	32	29	3.0	3.1	3.6
3. Manufacturing	2,659	2,681	2,820	14.4	13.8	13.9	118	22	139	10.7	2.1	17.1
3.1 Export Processing	877	791	851	4.7	4.1	4.2	37	-86	60	3.3	-8.4	7.4
3.2 Factory Industry	1,417	1,488	1,548	7.7	7.6	7.6	55	71	60	5.0	6.9	7.4
3.3 Small and Other Industry	365	402	421	2.0	2.1	2.1	26	37	19	2.4	3.6	2.3
4. Construction	960	1,066	1,034	5.2	5.5	5.1	166	106	-32	15.1	10.3	-3.9
5. Electricity, Gas, Water & Sanitary Services	190	209	234	1.0	1.1	1.2	32	19	25	2.9	1.9	3.0
6. Transport and Communication	1,716	1,838	1,957	9.4	9.4	9.7	109	122	119	9.9	11.9	14.7
7. Wholesale and Retail Trade	3,551	3,849	4,034	19.3	19.8	19.9	284	298	185	25.8	29.1	22.8
7.1 Imports	864	985	1,005	4.7	5.1	5.0	162	121	20	14.7	11.8	2.5
7.2 Exports	709	709	723	3.9	3.6	3.6	8	-	14	0.7	-	1.7
7.3 Domestic	1,978	2,155	2,306	10.7	11.1	11.3	114	177	151	10.4	17.3	18.6
8. Banking, Insurance and Real Estate	350	402	462	1.9	2.1	2.3	32	52	60	2.9	5.1	7.4
9. Ownership of Dwellings	518	549	579	2.8	2.8	2.9	19	31	30	1.7	3.0	3.7
10. Public Administration and Defence	905	959	997	4.9	4.9	4.9	51	54	38	4.6	5.3	4.6
11. Services not elsewhere stated (n.e.s.)	2,378	2,572	2,779	12.9	13.2	13.7	116	194	207	15.1	18.9	25.5
12. Gross Domestic Product	18,501	19,575	20,706	100.4	100.6	102.2	1,100	1,074	1,131	99.9	104.7	139.3
13. Net Factor Income from Abroad	-71	-119	-438	-0.4	0.6	-2.2	1	-48	-319	0.1	-4.7	-39.3
14. Gross National Product	18,430	19,456	20,268	100.0	100.0	100.0	1,101	1,026	812	100.0	100.0	100.0

* Provisional

Source: Central Bank of Ceylon.

An analysis of the sectoral performance of the economy in 1981 reveals that the improvement of the agricultural sector has been the main factor contributing to economic growth of 1981. It contributed 35.5 per cent to the growth of 1981, compared with 10.6 per cent in 1980 and 5.7 per cent in 1979. The importance of this sector for the continuation of the liberalised economic policies need not be over stressed. A dynamic agricultural sector would also contribute substantially to the improved performance of the manufacturing sector, since processing of plantation produce is an important component of the industrial sector in Sri Lanka. In 1981, about 17 per cent of the overall growth came from the manufacturing sector compared with 2 per cent in 1980.

The effect of the international terms of trade on the Sri Lanka economy continued to be adverse in 1981. In other words, Sri Lanka in 1981 lost about 7 per cent of its Gross National Product (GNP) due to adverse terms of trade, as against a 6 per cent loss in 1980. The terms of trade index (1978 = 100) declined to 46 in 1981 from 58 in 1980. Real National Income which is estimated after adjusting GNP for the terms of trade effect, increased by 3.4 per cent in 1981 as against 3.7 per cent in 1980 and 2.6 per cent in 1979. The estimates of the Real National Income is given in the statistical appendix.

TABLE 1.4
Some Selected Items of Imported Investment Goods

(c.i.f. value Rs. '000)

Item	1978	1979	1980	1981
1. Buses and Coaches ..	29,231	412,054	421,207	338,430
2. Lorries and Vans ..	237,068	317,824	765,460	771,071
3. Chassis fitted with Engines ..	407,482	282,538	235,296	59,317
4. Tractors ..	350,992	366,214	370,246	116,148
5. Bulldozers ..	37,772	196,168	512,351	350,451
6. Railway Locomotives and Accessories ..	100,343	471,686	300,043	123,124
7. Air Crafts and Helicopters ..	47,721	33,221	3,725	760
8. Marine Propulsion Engines and Outboard Engines ..	63,486	78,208	107,334	73,952
9. Ships, Tankers, Trawlers ..	8,094	5,218	6,721	421
10. Generators ..	45,979	15,030	117,457	264,984
11. Lathes, Milling Machines, Boring Machines etc.	20,949	39,079	91,659	38,591

Source : Customs, Sri Lanka.

Gross Domestic Expenditure (GDE) in 1981 is estimated at Rs. 99.8 billion which is about 22.4 per cent higher than in 1980. Of the total GDE, Rs. 74.9 billion has been utilized for consumption while Rs. 24.9 billion has been utilized for capital formation. The Gross Domestic Capital Formation recorded 10.7 per cent growth in 1981, while Gross Domestic Fixed Capital Formation increased by 18.0 per cent. This higher rate of growth in the latter was realised through the utilization of resources tied-up in stock maintenance in 1980.

Although government sector capital formation indicated a decline of 7.6 per cent in 1981, fixed capital formation in that sector increased by 14.0 per cent. The capital formation of public corporations and the private sector increased by 16.9 per cent in 1981, while fixed capital formation in that combined sector rose by 19.0 per cent.

There was some reduction in the import of capital goods in 1981. However the import of major capital goods recorded a 27 per cent decline. The details of major capital goods imports are given in table 1.4. The large scale reduction in the import of capital goods which was observed in 1981 is something to be expected as the facility of Lump Sum Depreciation (LSD) given for tax purposes was withdrawn in 1981. Except in the two cases of electricity generators which recorded a 126 per cent increase, and lorries and vans which recorded a marginal increase, all other major items recorded substantial decreases. Import of buses and coaches declined by about 20 per cent while chassis fitted with engines declined by 75 per cent. Tractor and Bulldozer imports declined by 69 per cent and 32 per cent, respectively.

The rapid expansion in the construction sector which was noted in the previous few years appears to have been abated in 1981. In value terms, however the construction sector activities expanded by 26.0 per cent. Various construction activities of the Mahaweli Development Programme remained at about the same level as in 1980, around Rs. 3.3 billion. The construction activities of the National Housing Development Authority too remained more or less at the previous year's level, around Rs. 1 billion.

The largest expansion in capital formation was observed in re-planting and land development activities. There was a significant expansion in re-planting activities in rubber and coconut sub-sectors.

TABLE 1.5
Import Content of Capital Expenditure

Item	Rs. Million			
	1978	1979	1980*	1981*
1. Gross Domestic Fixed Capital Formation ..	8,521	13,246	20,845	24,528
2. Imports of Investment Goods (c.i.f. value) ..	3,217	5,091	7,531	7,431
3. Import Content ..	37.8	38.4	36.1	30.3

* Provisional

Sources: Central Bank of Ceylon,
Customs, Sri Lanka.

In recent years, the import content in Gross Domestic Capital Formation (GDCF) has been relatively high, averaging about 37 per cent for the period of 1978-80. However, in 1981 the import content in GDCF has substantially declined to 30 per cent.

Availability and Utilization of Resources

Total resources available to the Sri Lanka economy in 1981, valued at market prices was Rs. 125.5 billion. This is an increase of about 22 per cent over what was available in 1980. In 1981, the percentage significance of imports in the total availability of resources was 32 per cent compared with 35 per cent in 1980. Value of total imports increased by about 10 per cent in 1981, as against a 52 per cent increase in the previous year. In other words, the availability of resources from domestic production increased from 65 per cent in 1980 to 68 per cent in 1981.

In the utilization of resources, consumption absorbed the largest proportion. The consumption expenditure at market prices, increased by 27 per cent in 1981, as against a 31 per cent increase in the previous year. The increase in capital formation expenditure in 1981 was 18 per cent as against a 57 per cent increase in 1980. However, as has been noted in a previous section, Gross Domestic Fixed Capital Formation increased faster in 1981. Details of resource availability and utilization are given in Table 1.6.

Total resources available to the country in real terms, has increased by 5.3 per cent in 1981. In 1979 and 1980 the availability of resources increased faster, by 11 per cent and 8.3 per cent respectively. The lower resource availability in 1981 was a result of the reduced rate of growth of imports, since the availability of resources from domestic sources remained at the level of 1980. The volume of imports increased by 4.1 per cent in 1981, as against 13.8 per cent in 1980 and 23 per cent in 1979. Consumption increased by 7.5 per cent in 1981 as compared with 7.9 per cent increase in 1980. Investment increased by 4.1 per cent in 1981 compared with the 20.4 per cent increase in the previous year.

Of the total resources, 62 per cent was utilized for consumption while 18 per cent was utilized for capital formation. About 29 per cent of capital formation has taken place in the government sector, while public and private sector corporations accounted for the remaining 71 per cent. The exports, in real terms increased by 3 per cent, as against the decline of 2 per cent in the previous year.

Domestic savings in 1981 is estimated at Rs. 10.5 billion as compared with Rs. 7.4 billion in 1980, showing a growth of nearly Rs. 3 billion over the previous year. However, when adjustments are made to take account of private transfers which is increasingly becoming an important component, total savings increased by Rs. 4.6 billion in 1981. As a result of this substantial increase in private transfers, the gross savings ratio which was 14.6 in 1980 increased to 16.8 in 1981.

TABLE 1.6

Total Resources and their Uses 1978—1981

Item	At Current Market Prices (Rs. Mn.)				At 1978 Prices								Percentage Increase		
	1978	1979	1980*	1981*	1978		1979		1980		1981		1979 Over 1978	1980 Over 1979	1981 Over 1980
					Amount Rs.Mn.	%	Amount Rs.Mn.	%	Amount Rs.Mn.	%	Amount Rs.Mn.	%			
1. Total Resources	59,537	76,356	102,983	125,487	59,537	100	66,105	100	71,600	100	75,361	100	11.0	8.3	5.3
1.1 GDP at Market Prices	42,665	52,387	66,527	85,405	42,665	72	45,353	69	47,983	67	50,766	67	6.3	5.8	5.8
1.2 Imports of Goods and non-factor services	16,872	23,969	36,456	40,082	16,872	28	20,752	31	23,617	33	24,595	33	23.0	13.8	4.1
2. Utilization	59,537	76,356	102,983	125,487	59,537	100	66,105	100	71,600	100	75,361	100	11.0	8.3	5.3
2.1 Consumption	36,148	45,169	59,084	74,927	36,148	61	40,430	61	43,616	61	46,887	62	11.8	7.9	7.5
2.2 Gross Domestic Fixed Capital Formation	8,521	13,246	20,845	24,528	8,521	14	10,568	16	12,719	18	13,236	18	24.0	20.4	4.1
2.2.1 Government	(3,077)	(3,809)	(4,709)	(5,375)	(3,077)	(5)	(3,630)	(5)	(3,804)	(5)	(3,842)	(5)	18.0	4.8	1.0
2.2.2 Public Corporations	(2,056)	(9,437)	(16,136)	(19,153)	(2,056)	(3)	(6,938)	(11)	(8,915)	(13)	(9,394)	(13)	27.4	28.5	5.4
2.2.3 Private Sector	(3,388)				(3,388)	(6)									
2.3 Stocks	33	281	1,620	331	33	—	124	—	587	1	120	—	—	—	—
2.4 Exports of Goods and non-factor services	14,835	17,660	21,434	25,701	14,835	25	14,983	23	14,678	21	15,118	20	1.0	-2.0	3.0

* Provisional

Source: Central Bank of Ceylon.

TABLE 1.7
Domestic Savings

Category	Rs. Million		
	1979	1980*	1981*
1. G.D.P. at Market Prices	52,387	66,527	85,405
2. Net Imports of Goods & nonfactor Services	6,309	15,022	14,381
3. Investment	13,527	22,465	24,859
4. Domestic Savings (3-2)	7,218	7,443	10,478
5. Domestic Savings ratio (4 as a % of 1)	13.8	11.2	12.3
6. Net Private Transfers	754	2,260	3,849
7. Savings (4+6)	7,972	9,703	14,327
8. Savings ratio	15.2	14.6	16.8

* Provisional

Source: Central Bank of Ceylon.

AGRICULTURE

After two years of relatively poor performance, the agriculture sector showed encouraging growth during 1981. The sector as a whole recorded a rate of growth of 6.9 per cent largely due to the favourable output trends in tea, coconut and paddy sub-sectors. This compares with a rate of growth of 3.1 per cent in 1980.

Tea production recovered considerably from the all-time low level of 1980 to register a 10 per cent growth. Coconut production rose by 11 per cent from the depressed levels recorded in the previous year. The export performance of minor export crops during the year showed that production had increased, recovering from the sluggish growth recorded by this sub-sector in the recent past. However, the production of rubber registered a decline of nearly 7 per cent mainly due to the decline in the area under tapping and a drop in the average yield. Among field crops, paddy production reached an all time high level recording a growth of 4.6 per cent, despite the drought conditions that prevailed in several districts. The performance of the minor food crops sub-sector which showed only a marginal improvement in 1980 was impressive in 1981 with many crops recording increases in output. The only exception was chillies. Sugar production increased marginally by 1 per cent. These increases in the output of both the tree and field crop sectors were recorded inspite of a sharp drop in the use of fertilizer. The drop in fertilizer was observed in all major sub-sectors, with paddy recording the largest decline. In the non-crop agriculture sector, egg production is estimated to have increased by 3 per cent. The fisheries sector recorded increased output despite various constraints.

No significant institutional changes were effected in the agriculture sector in 1981. The implementation of the Agrarian Services Act enacted in late 1979 was slow. Several amendments were enacted to the Land Reform Law to make it more effective. Activities of various sub-sectors are discussed in the sections below in greater detail.