

GROSS NATIONAL PRODUCT, INCOME AND EXPENDITURE

Overall Trends

In 1986, Sri Lanka's Gross Domestic Product (GDP) is estimated to have increased by 4.3 per cent, in real terms. The reduction in the growth rate compared with the 5 per cent growth in 1985 was largely due to lower production in tea and paddy sub-sectors. However, coconut, minor export crops and minor food crops sub-sectors showed appreciable growth. In the manufacturing sector, factory industries and small and other industries recorded considerable expansion.

The Gross National Product (GNP) at current factor cost prices increased by 10.3 per cent to reach Rs. 159.9 billion in 1986. In real terms, GNP increased by 4.5 per cent compared with 5.3 per cent growth in 1985. The implicit GNP deflator which measures the overall price change rose by 5.5 per cent in 1986 compared with the 1 per cent increase in 1985.

Sri Lanka's mid-year population in 1986 has been provisionally estimated at 16.1 million, which is a 1.8 per cent growth over 1985. Accordingly, per capita GNP at current prices is estimated at Rs. 9,918 (U.S. \$ 354). In real terms, per capita income is estimated to have increased by 2.7 per cent compared with 3.7 per cent growth in the previous year. The real national income, which is estimated after adjusting for the terms of trade effect, increased by 3.4 per cent in 1986.

The main sources of economic growth in 1986 were manufacturing, agriculture, trade and public administration. Factory industries have been the leading growth sub-sector in 1986.

Sectoral Performance

The growth rates in various sectors for the period 1984-1986 are given in Table 1.2. The agriculture, forestry and fishing sector grew by 2.6 per cent in 1986 over the previous year. The increase in value added in the agricultural sector in 1986 was 2.2 per cent, while in forestry and fisheries sub-sectors the increases were 1.8 and 8.9 per cent, respectively. The relatively poor performances in the agricultural sector in 1986 compared with the 9.9 per cent growth in 1985 was partly compensated by the improved performance in the fisheries sub-sector.

In plantation agriculture, rubber production increased by 0.6 per cent while tea production declined by 1.3 per cent. The coconut sub-sector which recorded a 52 per cent growth in 1985 expanded marginally by 2.8 per cent in 1986. In the fisheries sub-sector, sea fish production increased by 8.3 per cent while fresh-water fish production rose by 9.8 per cent.

The manufacturing sector expanded by 8.4 per cent in 1986. The export oriented agro-processing industries virtually stagnated consequent to the reduced output growth in the plantation sector. In the factory industries sub-sector, state-owned industries expanded by 7.6 per cent while the output of private industries

TABLE 1.6
Sectoral Composition and Increase in Gross National Product at Constant (1982) Prices — 1984 - 1986

Sector	Value Added (Rs. Million)			Percent Share of G.N.P.			Increase over Previous Year (Rs. Million)		Percent share of Increase in G.N.P.	
	1984(a)	1985(a)	1986(a)	1984	1985	1986	1985	1986	1985	1986
1. Agriculture, Forestry and Fishing	26,113	28,366	29,106	25.8	26.6	26.1	2,253	740	42.2	15.3
1.1 Agriculture	22,300	24,504	25,037	22.0	23.0	22.4	2,204	533	41.3	11.0
1.1.1 Tea	2,681	2,759	2,723	2.6	2.6	2.4	78	- 36	1.5	- 0.7
1.1.2 Rubber	878	851	856	0.9	0.8	0.8	- 27	5	- 0.5	0.1
1.1.3 Coconut	2,513	3,828	3,935	2.5	3.6	3.5	1,315	107	24.6	2.2
1.1.4 Paddy	6,166	6,783	6,613	6.1	6.4	5.9	617	- 170	11.6	- 3.5
1.1.5 Other	10,062	10,283	10,910	9.9	9.6	9.8	221	627	4.1	13.0
1.2 Forestry	1,889	1,923	1,958	1.9	1.8	1.8	34	35	0.6	0.7
1.3 Fishing	1,924	1,939	2,111	1.9	1.8	1.9	15	172	0.3	3.6
2. Mining and Quarrying	2,449	2,486	2,615	2.4	2.3	2.3	37	129	0.7	2.7
3. Manufacturing	15,390	16,193	17,558	15.2	15.1	15.7	803	1,365	15.1	28.3
3.1 Tree Crop Processing	2,983	3,222	3,225	2.9	3.0	2.9	239	3	4.5	0.1
3.2 Factory Industry	10,296	10,811	12,108	10.2	10.1	10.8	515	1,297	9.7	26.9
3.3 Small and Other Industry	2,111	2,160	2,225	2.1	2.0	2.0	49	65	0.9	1.3
4. Construction	8,030	8,070	8,191	7.9	7.6	7.3	40	121	0.7	2.5
5. Electricity Gas Water and Sanitary Services	1,239	1,313	1,406	1.2	1.2	1.3	74	93	1.4	1.9
6. Transport Storage and Communication	12,437	12,959	13,377	12.3	12.1	12.0	522	418	9.8	8.7
7. Wholesale and Retail Trade	22,029	22,925	23,821	21.7	21.5	21.4	896	896	16.8	18.6
8. Banking Insurance and Real Estate	4,526	4,975	5,174	4.5	4.7	4.6	449	199	8.4	4.1
9. Ownership of Dwellings	3,381	3,432	3,497	3.3	3.2	3.1	51	65	1.0	1.3
10. Public Administration and Defence	4,165	4,432	5,274	4.1	4.2	4.7	267	842	5.0	17.5
11. Services (n.e.s.)	4,636	4,419	4,242	4.6	4.2	3.8	- 217	- 177	- 4.1	- 3.7
12. Gross Domestic Product	104,395	109,570	114,261	103.0	102.7	102.4	5,175	4,691	97.0	97.2
13. Net Factor Income from Abroad	- 2,996	- 2,829	- 2,696	- 3.0	- 2.7	- 2.4	159	133	3.0	2.8
14. Gross National Product	101,399	106,741	111,565	100.0	100.0	100.0	5,334	4,824	100.0	100.0

(a) Provisional.

Source: Central Bank of Sri Lanka.

increased by 15 per cent. Small and medium industries too recorded relatively high growth. Large increases in output values were recorded in jewellery manufacture and gem and diamond cutting.

In the mining and quarrying sector, a 5.2 per cent growth was recorded in 1986. This was largely the outcome of an expansion in gem exports which recorded an increase of 15 per cent in SDR terms.

The construction sector expanded by 1.5 per cent in 1986. The lower rate of growth was largely due to the reduced level of construction work under the Accelerated Mahaweli Project as most of the head-works had been already completed. Private construction was undertaken on a large scale with the financial assistance of the banking sector. Value added in electricity, gas, water and sanitary services increased by 7.1 per cent in 1986. Electricity generation in 1986 expanded by 8.3 per cent while production of gas increased by 35 per cent.

TABLE 1.7
Import Content of Capital Expenditure

Item	Rs. Million		
	1984(a)	1985(a)	1986(a)
1. Gross Domestic Fixed Capital Formation ...	39,558	38,457	42,326
2. Imports of Investment Goods (c.i.f. Value) ...	11,443	9,488	9,649
3. Imports of Investment Goods excluding ships and aircrafts (c.i.f. Value) ...	10,512	7,877	9,649
4. Import content (2 as a percentage of 1) ...	28.9	24.7	22.8

(a) Provisional

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

The transport, storage and communication sector expanded by 3.2 per cent in 1986. Value added in wholesale and retail trade increased by 4 per cent. Value added in banking, insurance and real estate sector grew by 4 per cent as against 9.9 per cent growth in the previous year.

Value added in ownership of dwellings increased by 1.9 per cent. In public administration and defence, the value added increased by 19 per cent in 1986. The services sector, which continued to be affected by the slump in the tourist industry, declined by 4.0 per cent.

Expenditure Pattern

Gross Domestic Expenditure (GDE) at current prices increased by 10.2 per cent in 1986 to reach Rs. 200.3 billion. Total consumption expenditure amounted to Rs. 157.9 billion, an increase of about 10.3 per cent over the previous year. Private consumption expenditure expanded by 10.2 per cent while government consumption expenditure increased by 11.3 per cent.

TABLE 1.8

Total Resources and their Uses 1978-1986

Item	At Current Market Prices (Rs. Million)				At 1978 Prices								Percentage Change	
	1978	1984(a)	1985(a)	1986(a)	1978		1984(a)		1985(a)		1986(a)		1985 over 1984	1986 over 1985
					Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%		
1. Total Resources ...	59,537	207,163	224,021	242,917	59,537	100	84,508	100	85,809	100	90,712	100	1.5	5.7
1.1 G.D.P. at Market Prices ...	42,665	153,746	162,375	179,510	42,665	72	58,907	70	61,852	72	64,512	71	5.0	4.3
1.2 Imports of Goods and Non-Factor Services ...	16,872	53,417	61,646	63,407	16,872	28	25,601	30	23,957	28	26,200	29	- 6.4	9.4
2. Utilization ...	59,537	207,163	224,021	242,917(b)	59,537	100	84,508	100	85,809	100	90,712	100	1.5	5.7
2.1 Consumption ...	36,148	123,170	143,102	157,886	36,148	61	51,959	62	53,091	62	54,259	59	2.2	2.2
2.2 Gross Domestic Fixed Capital Formation ...	8,521	39,558	38,457	42,326	8,521	14	14,449	17	13,688	16	14,987	17	- 5.3	9.5
2.2.1 Government ...	(3,077)	(7,075)	(7,767)	(9,634)	(3,077)	(5)	(3,890)	(5)	(3,963)	(5)	(4,426)	(5)	1.9	11.7
2.2.2 Public Corporations ...	(2,056)	(32,483)	(30,690)	(32,692)	(2,056)	(3)	(10,559)	(12)	(9,725)	(11)	(10,561)	(12)	- 7.9	8.6
2.2.3 Private Sector ...	(3,388)				(3,388)	(6)								
2.3 Changes in Stocks ...	33	150	225	137	33	—	36	—	63	—	38	—	—	—
2.4 Exports of Goods and Non-Factor Services ...	14,835	44,285	42,237	42,568	14,835	25	18,064	21	18,967	22	21,428	24	5.0	13.0

(a) Provisional.

(b) Subject to revision when the final fiscal outturn is available.

Source: Central Bank of Sri Lanka.

Gross Domestic Capital Formation (GDCF), inclusive of changes in stocks, increased by 9.8 per cent in 1986 in contrast to a 2.6 per cent decline in the preceding year. Capital formation, in the private sector and public corporations together, rose by 6.4 per cent during 1986, whereas it decreased by 5.5 per cent in the previous year. Gross capital formation in the government sector expanded by 23.0 per cent in 1986 as compared with an increase of 11 per cent in 1985.

TABLE 1.9

National Savings 1984-1986 (At Current Market Prices)

Category	1984(a)	1985(a)	1986(a)
1. G.D.P. at Market Prices	153,746	162,375	179,510
2. Domestic Savings	30,576	19,273	21,624
3. Net Factor Income from Abroad	-3,401	-3,400	-3,861
4. Net Private Transfers	7,031	7,273	8,251
5. National Savings	34,206	23,146	26,014
6. Domestic Savings Ratio (2 as a percentage of 1)	19.9	11.9	12.0
7. National Savings Ratio (5 as a percentage of 1)	22.2	14.3	14.5

(a) Provisional

Source: Central Bank of Sri Lanka.

Gross Domestic Fixed Capital Formation (GDFCF), which recorded a decline of 2.8 per cent in 1985, rose by 10.1 per cent in 1986. The total value of investment goods imports increased by 1.7 per cent in 1986, compared with a decrease of 17.1 per cent in 1985. The import content of Gross Domestic Fixed Capital Formation was 22.8 per cent in 1986.

Of the Gross Domestic Capital Formation, 77.4 per cent was within the private sector and public corporations. The largest component in capital formation was in building and other construction.

Capital formation in plant and machinery and other capital goods increased in 1986, while in transport equipment it declined. Land development and replanting also expanded by 73.2 per cent.

Availability and Utilization of Resources

Of the total resources available to the Sri Lankan economy in 1986, Rs. 179.5 billion (74 per cent) came from domestic sources while Rs. 63.4 billion (26 per cent) came from imports.

Of the total resources, the share spent on consumption was 65 per cent. While 17.5 per cent was utilized in capital formation, 17.5 per cent was expended in exports of goods and non-factor services. The comparable figures for 1985 were 64 per cent on consumption, 17.2 per cent on capital formation and 18.9 per cent on export of goods and non-factor services.

Total resources valued at 1978 prices were estimated to have increased by 5.7 per cent in 1986, in comparison to an expansion of 1.5 per cent in 1985. Imports of goods and non-factor services, which decreased by 6.4 per cent in the previous year, rose by 9.4 per cent in 1986. Total consumption increased by 2.2 per cent in 1986 compared with a rise of 2.2 per cent in 1985. Gross Domestic Fixed Capital Formation which decreased by 5.3 per cent in 1985, increased by 9.5 per cent. Capital formation in the private sector and public corporations rose by 8.6 per cent in 1986 in contrast to a 7.9 per cent decline in 1985.

Domestic savings in 1986 were Rs. 21.6 billion which was an increase of Rs. 2.3 billion over 1985. The domestic savings ratio to GDP at market prices was 12.0 per cent in 1986, whereas in 1985 it was 11.9 per cent. Total national savings which include net foreign factor income and private transfers increased by 12.4 per cent to reach an estimated value of Rs. 26.0 billion in 1986. The national savings ratio to GDP rose from 14.3 per cent in 1985 to 14.5 per cent in 1986.