

GROSS NATIONAL PRODUCT, INCOME AND EXPENDITURE

Overall Trends

In 1987, Sri Lanka's Gross Domestic Product (GDP) is estimated to have increased by 1.5 per cent in real terms, compared with a growth of 4.3 per cent in 1986. The agricultural sector, which was most dominant in the Sri Lankan economy, performed poorly in 1987 owing largely to adverse weather conditions. The output of paddy and coconuts were the worse affected from the prolonged drought. The manufacturing sector, maintained its growth momentum in 1987 although at a lower rate than in the previous year. The construction sector along with the mining and quarrying sector, recorded higher rates of growth in 1987. The services sector expanded at a relatively slower rate.

The Gross National Product (GNP) at current factor cost prices was Rs. 173.4 billion in 1987, an increase of 8.5 per cent over 1986. The implicit GNP deflator, an indicator of the overall price changes in the economy, rose by 6.8 per cent in 1987, compared with an increase of 5.5 per cent in the previous year.

The mid-year population of Sri Lanka in 1987 has been provisionally estimated at 16.361 million, which reflects a 1.5 per cent growth over 1986. Accordingly, per-capita GNP at current prices is estimated at Rs. 10,598 (US \$ 360). In real terms, the per-capita income is estimated to have increased marginally by 0.1 per cent, when compared with a 2.7 per cent growth in the previous year. The real national income, which is derived after adjusting for the terms of trade effect, increased by 2.1 per cent in the current year compared with the 3.1 per cent growth in the previous year.

Sectoral Performance

The sectoral composition of the GNP and the changes in value-added at constant prices are given in Table 1.6. The agriculture, forestry and fishing sector recorded a decline of 5.8 per cent in 1987. This was due to lower production levels in the two important crops, paddy and coconut. Although value-added in forestry and fisheries increased by 13 and 4 per cent, respectively, the value-added in agriculture declined by 8 per cent. In plantation agriculture, output of tea increased by 1 per cent, while output of rubber declined by 11 per cent and coconut by 25 per cent. In the food crop sub-sector, paddy production declined by 18 per cent.

The output in the mining and quarrying sector increased by 19 per cent in 1987, largely as an outcome of the expansion in the gem industry, as evident by increased exports. In 1987, the SDR value of gem exports increased by 65 per cent over the previous year.

The manufacturing sector recorded an over-all growth of 7 per cent in 1987. This was largely due to a growth of 8.3 per cent in factory industries, despite a 3 per cent decline in the output of state-owned industries. Following the pattern observed in previous years, the output in the textile, wearing apparel and leather products group recorded a high growth of 37 per cent in 1987. Export-oriented agricultural processing expanded by 4 per cent. This growth was mainly the result

TABLE 1.6
Sectoral Composition and Increase in Gross National Product at Constant (1982) Prices — 1985-1987

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.	
	1985	1986*	1987*	1985	1986	1987	1986	1987	1986	1987
1. Agriculture, Forestry and Fishing	28,366	29,196	27,400	26.6	26.1	24.2	740	- 1,697	15.3	- 97.4
1.1 Agriculture	24,504	25,037	23,003	23.0	22.4	20.3	533	- 2,034	11.0	- 115.8
1.1.1 Tea	2,759	2,723	2,750	2.6	2.4	2.4	36	27	0.7	1.5
1.1.2 Rubber	851	856	765	0.8	0.8	0.7	5	- 91	0.1	- 5.2
1.1.3 Coconut	3,828	3,935	2,957	3.6	3.5	2.6	107	- 968	2.2	- 55.6
1.1.4 Paddy	6,783	6,613	5,423	6.4	5.9	4.8	170	- 1,190	3.5	- 68.3
1.1.5 Other	10,283	10,910	11,098	9.6	9.8	9.8	627	188	13.0	19.8
1.2 Forestry	1,923	1,958	2,215	1.8	1.8	2.0	35	257	0.7	11.8
1.3 Fishing	1,939	2,111	2,191	1.8	1.9	1.9	172	80	3.6	4.6
2. Mining and Quarrying	2,486	2,615	3,112	2.3	2.3	2.8	129	497	2.7	23.5
3. Manufacturing	16,193	17,558	18,748	15.1	15.7	16.5	1,365	1,190	28.3	63.3
3.1 Tree Crop Processing	3,222	3,225	3,340	3.0	2.9	2.9	3	115	0.1	6.6
3.2 Factory Industry	10,811	12,108	13,113	10.1	10.8	11.6	1,297	1,005	26.9	57.7
3.3 Small and Other Industry	2,160	2,225	2,295	2.0	2.0	2.0	65	70	1.3	4.0
4. Construction	8,070	8,191	8,358	7.6	7.3	7.4	121	147	2.5	8.4
5. Electricity Gas Water and Sanitary Services	1,313	1,406	1,448	1.2	1.3	1.3	93	42	1.9	2.4
6. Transport Storage and Communication	12,959	13,377	13,538	12.1	12.0	11.9	418	161	8.7	9.2
7. Wholesale and Retail Trade	22,925	23,821	24,496	21.5	21.4	21.6	896	675	18.6	38.8
8. Banking, Insurance and Real Estate	4,975	5,174	5,490	4.7	4.6	4.8	199	316	4.1	18.2
9. Ownership of Dwellings	3,432	3,497	3,550	3.2	3.1	3.1	65	53	1.3	3.1
10. Public Administration and Defence	4,432	5,274	5,435	4.2	4.7	4.8	812	161	17.5	9.2
11. Services (n.e.s.)	4,419	4,242	4,358	4.2	3.8	3.9	177	116	3.7	6.7
12. Gross Domestic Product	109,570	114,261	115,922	102.7	102.4	102.3	4,691	1,661	97.2	95.4
13. Net Factor Income from Abroad	- 2,829	- 2,696	- 2,615	- 2.7	- 2.4	- 2.3	133	81	2.8	4.6
14. Gross National Product	106,741	111,565	113,307	100.0	100.0	100.0	4,824	1,742	100.0	100.0

* Provisional.

Source: Central Bank of Sri Lanka.

of an increase in the export of packeted tea by 15 per cent in 1987, whereby such exports have now come to account for 40 per cent of Sri Lanka's tea exports. In the factory industries sub-sector, value-added in the private sector industries increased by 13 per cent in 1987 compared with 15 per cent in 1986.

The construction sector expanded by 1.8 per cent in 1987 compared with 1.5 per cent in 1986. The services sector expanded by 2.7 per cent compared with a growth of 4.3 in 1986. Within the services sector, banking, insurance, real estate and other services recorded higher growth rates. A 6 per cent growth was recorded in financial services in 1987 compared with 4 per cent in 1986, on account of an increase in the profits of the banking sector. The disruption of transport activities in the Northern and Eastern parts of Sri Lanka and the reduced haulage of agricultural commodities due to lower output levels contributed to the sluggish growth in the transport, storage and communications sector. Value-added in wholesale and retail trade rose by 2.8 per cent in 1987 compared with 3.9 per cent in 1986. Export trade increased marginally, while import trade expanded by 1.7 per cent. The reduced water supply in hydro-reservoirs in 1987 resulted in a 18 per cent drop in electricity generation through hydro-power, and this reduced the total electricity generation to a modest 2 per cent increase, contributing largely to a reduced growth in the electricity, gas, water and sanitary services sector.

Value-added in public administration and defence increased by 3 per cent in 1987 compared with an increase of 19 per cent in 1986.

Expenditure Pattern

Gross Domestic Expenditure (GDE) at current market prices in 1987 was Rs. 217.4 billion, an increase of 8.5 per cent over the previous year. Total consumption expenditure increased by 8.6 per cent in 1987 to reach Rs. 171.5 billion. Private consumption expenditure rose by 9 per cent while government consumption expenditure expanded by 6 per cent.

TABLE 1.7
Import Content of Capital Expenditure 1985-1987 (Rs. Million)

Item	1985	1986*	1987*
1. Gross Domestic Fixed Capital Formation ...	38,457	42,326	45,752
2. Imports of Investment Goods (c.i.f. Value) ...	9,488	9,649	10,623
3. Imports of Investment Goods excluding ships and aircrafts (c.i.f. Value) ...	7,877	9,649	10,623
4. Import content (2 as a percentage of 1) ...	24.7	22.8	23.2

* Provisional

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

TABLE 1.8

Total Resources and their Uses 1978 - 1987

Item	At Current Market Prices (Rs. Million)				At 1978 Prices*								Percentage Change	
	1978	1985	1986*	1987*	1978		1985		1986*		1987*		1986 over 1985	1987 over 1986
					Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%		
1. Total Resources	59,537	224,021	242,881	266,946	59,537	100	85,809	100	90,712	100	91,192	100	5.7	0.5
1.1 G.D.P. at Market Prices	42,665	162,375	179,474	196,723	42,665	72	61,852	72	64,512	71	65,480	72	4.3	1.5
1.2 Imports of Goods and Non-Factor Services	16,872	61,646	63,407	70,223	16,872	28	23,957	28	26,200	29	25,712	28	9.4	- 1.9
2. Utilization	59,537	224,021	242,881	266,946	59,537	100	85,809	100	90,712	100	91,192	100	5.7	0.5
2.1 Consumption	36,148	143,102	157,850	171,487	36,148	61	53,091	62	54,206	59	54,659	60	2.1	0.8
2.2 Gross Domestic Fixed Capital Formation	8,521	38,457	42,326	45,752	8,521	14	13,688	16	15,040	17	14,976	16	9.9	- 0.4
2.2.1 Government	(3,077)	(7,767)	(9,634)	(11,216)	(3,077)	(5)	(3,963)	(5)	(4,479)	(5)	(4,299)	(4)	13.0	- 4.0
2.2.2 Public Corporations	(2,056)	(30,690)	(32,692)	(34,536)	(2,056)	(3)	(9,725)	(11)	(10,561)	(12)	(10,677)	(12)	8.6	1.1
2.2.3 Private Sector	(3,388)	—	—	—	(3,388)	(6)	—	—	—	—	—	—	—	—
2.3 Changes in Stocks	33	225	137	148	33	—	63	—	38	—	37	—	—	—
2.4 Exports of Goods and Non-Factor Services	14,835	42,237	42,568	49,559	14,835	25	18,967	22	21,428	24	21,520	24	13.0	0.4

* Provisional.

Source: Central Bank of Sri Lanka.

Gross Domestic Capital Formation (GDCF), inclusive of changes in stocks at current prices, increased by 8 per cent in 1987, whereas in the previous year an increase of 9.8 per cent was recorded. The combined capital formation of private sector and public corporations rose by 5.6 per cent in 1987. The comparable increase in 1986 was 6.4 per cent. Gross Domestic Capital Formation by the central and local government expanded by 17 per cent in 1987 compared with a 23 per cent expansion in 1986.

Gross Domestic Fixed Capital Formation (GDFCF) at current prices recorded an increase of 8 per cent in 1987. The C.I.F. value of import of capital goods (excluding building materials) rose by 10 per cent in 1987, compared with an increase of 2 per cent in 1986. Thus, a marginal increase in the import content of Gross Domestic Fixed Capital Formation was observed. Construction, inclusive of buildings, was the largest component in capital formation.

Capital formation in plant and machinery and other capital goods, at current prices increased by 5 per cent in 1987, and in transport equipment rose by 2 per cent. Land development, including replanting, declined by 14.3 per cent, largely on account of the drought.

Availability and Utilization of Resources

The total resources available to the Sri Lanka economy in 1987 were Rs. 266.9 billion. Domestic sources contributed Rs. 196.7 billion (73.7 per cent) to total resources, while the value of imports amounted to Rs. 70.2 billion (26.3 per cent). Of the total resources, 64.2 per cent was spent on consumption and 17.2 per cent on capital formation, while 18.6 per cent was exported as goods and non-factor services.

TABLE 1.9

National Savings 1985-1987
(At Current Market Prices)

(Rs. Million)

Category	1985	1986*	1987*
1. G.D.P. at Market Prices	162,375	179,474	196,723
2. Domestic Savings	19,273	21,624	25,235
3. Net Factor Income from Abroad	-3,400	-3,861	-4,336
4. Net Private Transfers	7,212	8,251	9,161
5. National Savings	23,085	26,014	30,060
6. Domestic Savings Ratio (2 as a percentage of 1)	11.9	12.0	12.8
7. National Savings Ratio (5 as a percentage of 1)	14.2	14.5	15.3

* Provisional

Source: Central Bank of Sri Lanka.

The total resource availability, valued at 1978 constant prices, increased by 0.5 per cent in 1987. Imports of goods and non-factor services declined by 1.9 per cent in 1987 over the previous year. Consumption expenditure, valued at constant prices, increased by 0.8 per cent, while capital formation declined by 0.4 per cent.

Domestic savings increased from Rs. 21.6 billion in 1986 to Rs. 25.2 billion in 1987. The ratio of domestic savings to GDP at market prices improved marginally from 12 per cent in 1986 to 12.8 per cent in 1987. Total national savings, which include net factor income and private transfers from abroad, was estimated at Rs. 30 billion in 1987. The national savings ratio in 1987 increased to 15.3 per cent from the previous year's ratio of 14.5 per cent.