

NATIONAL INCOME AND EXPENDITURE

Overall Trends

In 1988, the Sri Lanka economy staged a modest recovery from its poor performance in 1987. According to provisional estimates, the Gross Domestic Product (GDP) in real terms increased by 2.7 per cent in 1988, compared with a growth of 1.5 per cent in 1987.

The economic growth performance in 1988, although modest, was commendable, as this was achieved in the midst of continuing civil disturbances, which adversely affected production and distribution activities in the economy. The recovery of the agriculture sector and the continuing growth in the manufacturing sector were the major factors that contributed to the improved economic performance during the year. The services sector, which accounts for one half of the GDP also made a substantial contribution, although it grew at a slower rate than in the previous year. The mining and quarrying sector maintained the favourable growth trend of the past two years.

The Gross National Product (GNP) at current factor cost prices is estimated at Rs. 198 billion in 1988, an increase of 14.2 per cent over 1987. During the year, the implicit GNP deflator, an indicator of the overall price changes in the economy, showed a rise of 11.5 per cent, compared to an increase of 6.8 per cent in 1987. Meanwhile GDP at market prices, which is estimated at Rs. 223 billion in 1988 increased by 13.4 per cent over the 1987 estimate of Rs. 197 billion.

The mid year population of Sri Lanka in 1988 has been provisionally estimated at 16.58 million, which reflects a growth of 1.4 per cent over 1987. Accordingly, per capita GNP at current market prices is estimated at Rs. 11,939 (US \$ 375). This is an increase of 12.6 per cent, over the 1987 per capita GNP estimate of Rs. 10,598 (US \$ 360). In real terms, per capita income increased by 1.1 per cent, compared with the marginal growth of 0.1 per cent in the previous year. The real national income, which is estimated after adjusting for the changes in external terms of trade, decreased by a marginal 0.1 per cent in 1988.

Sectoral Performance

The sectoral performance of the GNP and the changes in value-added at 1982 constant prices, are given in Table 1.2. These estimates, based on provisional data for 1988, indicate that the agriculture sector inclusive of forestry and fishing has grown by 2.1 per cent. In the previous year, value-added in the agriculture sector had declined by 6 per cent owing largely to adverse weather. The improved performance of the agriculture sector in 1988 was due to the increased in the output of tea, paddy and 'other agriculture' category consisting of sugar cane, minor export crops and minor food crops.

Paddy production in 1987/88 Maha increased by 9.5 per cent over the drought affected Maha crop of 1986/87. The Yala crop for 1988 is provisionally estimated at 952,000 metric tons a notable increase of 29.5 per cent over the Yala crop of 1987. Accordingly, the overall growth in the paddy sub-sector for 1988 is

TABLE 1.6

Sectoral Composition and Increase in Gross National Product at Constant (1982) Prices - 1986 - 1988

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.	
	1986	1987*	1988*	1986	1987	1988	1987	1988	1987	1988
1. Agriculture, Forestry and Fishing ..	29,106	27,409	27,984	26.1	24.2	24.1	-1,697	575	- 97.4	20.6
1.1 Agriculture ..	25,037	23,003	23,762	22.4	20.3	20.4	-2,034	759	-116.8	27.2
1.1.1 Tea ..	2,723	2,750	2,926	2.4	2.4	2.5	27	176	1.5	6.3
1.1.2 Rubber ..	856	765	770	0.8	0.7	0.7	- 91	5	- 5.2	0.2
1.1.3 Coconut ..	3,935	2,967	2,501	3.5	2.6	2.1	- 968	- 466	- 55.6	- 16.7
1.1.4 Paddy ..	6,613	5,423	6,312	5.9	4.8	5.4	-1,190	889	68.3	31.9
1.1.5 Other ..	10,910	11,098	11,253	9.8	9.8	9.7	188	155	10.8	5.6
1.2 Forestry ..	1,958	2,215	1,943	1.8	2.0	1.7	257	- 272	14.8	- 9.8
1.3 Fishing ..	2,111	2,191	2,279	1.9	1.9	2.0	80	88	4.6	3.2
2. Mining and Quarring ..	2,615	3,112	3,392	2.3	2.8	2.9	497	280	28.5	10.0
3. Manufacturing ..	17,558	18,748	19,622	15.7	16.5	16.9	1,190	874	68.3	31.4
3.1 Tree crop Processing ..	3,225	3,340	3,273	2.9	2.9	2.8	115	- 67	6.6	- 2.4
3.2 Factory Industry ..	12,108	13,113	14,030	10.8	11.6	12.1	1,005	917	57.7	33.0
3.3 Small and Other Industry ..	2,225	2,295	2,319	2.0	2.0	2.0	70	24	4.0	0.9
4. Construction ..	8,191	8,338	8,463	7.3	7.4	7.3	147	125	8.4	4.5
5. Electricity, Gas, Water and Sanitary Services ..	1,406	1,448	1,499	1.3	1.3	1.3	42	51	2.4	1.8
6. Transport, Storage and Communication ..	13,377	13,538	13,619	12.0	11.9	11.7	161	81	9.2	2.9
7. Wholesale and Retail Trade ..	23,821	24,496	25,164	21.4	21.6	21.7	675	668	38.8	24.0
8. Banking, Insurance and Real Estate ..	5,174	5,490	5,819	4.6	4.8	5.0	316	329	18.2	11.8
9. Ownership of Dwellings ..	3,497	3,550	3,603	3.1	3.1	3.1	53	53	3.1	1.9
10. Public Administration and Defence ..	5,274	5,435	5,462	4.7	4.8	4.7	161	27	9.2	1.0
11. Services (n. e. s.) ..	4,242	4,358	4,423	3.8	3.9	3.8	116	65	6.7	2.3
12. Gross Domestic Product ..	114,261	115,922	119,050	102.4	102.3	102.5	-1,661	3,128	95.4	112.2
13. Net Factor Income from Abroad ..	-2,696	-2,615	-2,955	-2.4	-2.3	-2.5	81	- 340	4.6	- 12.2
14. Gross National Product ..	111,565	113,307	116,095	100.0	100.0	100.0	1,742	2,788	100.0	100.0

* Provisional.

Source : Central Bank of Sri Lanka.

estimated to be 16.4 per cent, highest on record for any single year in recent times. Within plantation agriculture, value-added in tea increased by 6.4 per cent and that of rubber by 1 per cent. In contrast, the estimated coconut production in 1988 was 15.7 per cent lower than that in the previous year, largely due to the lagged effect of drought conditions prevalent in 1986 and early 1987. The substantial increase in the output of minor export crops, sugar cane and chillies contributed to the overall increase in value-added of the 'other agriculture' category. Value-added in the forestry sub-sector declined by 12.3 per cent, as timber felling operations were hampered by the civil disturbances. Meanwhile, the fisheries sub-sector grew by 4 per cent.

The value-added in the mining and quarrying sector is estimated to have increased by 9 per cent in 1988, owing mainly to the continued expansion in gem mining. Reflecting the high growth in value-added in the gemming sub-sector, export earnings from gems recorded an increase of 27.4 per cent in SDR terms.

The overall growth in the manufacturing sector which includes agricultural processing, factory industry and small industries in 1988, is estimated to be 4.7 per cent. Factory industry which contributes two thirds of the total production in the manufacturing sector, is estimated to have expanded output by 7 per cent, maintaining the growth momentum from the previous year. Within the factory industries sub-sector, the output of private sector industries increased by 10 per cent, while the output of the state owned industries declined by 1 per cent. In the agricultural processing sector (tea, rubber & coconut), there was an increase in value-added through processing of tea and rubber, but owing to a decline of 53 per cent in the processing of coconut kernal products, this sector showed an overall decline of 2 per cent.

The construction sector is estimated to have expanded by 1.5 per cent in 1988.

The service sector, grew by 2.2 per cent in spite of transport and tourism sub-sectors being adversely affected by civil disturbances. The transport, storage and communication sector is estimated to have grown at a slower rate in 1988, due to the disruption of transport and communications. The improvement in water levels of hydro-reservoirs, as well as the increase in the hydro power capacity during 1988 enabled an increase in electricity generation by 3.5 per cent. Banking, insurance and real estate which recorded a growth of 6 per cent was the leading growth sector within the broad services sector. Value-added in wholesale & retail trade rose by 2.7 per cent in 1988. The rise in imports in 1988 led to an increase in value-added of import trade. Export trade grew by 3.6 per cent, during the year, compared to a growth of only 1.1 per cent in the previous year, largely due to the increase in export earnings from tea, minor export crops, processed diamonds and minerals.

Expenditure

Gross Domestic Expenditure (GDE) at current market prices in 1988 was Rs. 245.9 billion, an increase of 13.1 per cent over the previous year. Total consumption expenditure increased by 13.4 per cent to Rs. 194.5 billion, of which private consumption expenditure rose by 13.8 per cent, and government consumption rose by 10.2 per cent.

Following an increase in imports of rice, wheat flour, sugar and other consumer goods, private consumption expenditure on imported goods rose by 25 per cent. The combined consumption expenditure on imported consumer goods and non-factor services increased by 21.5 per cent.

TABLE 1.7
Import Content of Capital Expenditure 1986-1988

	Rs. Million		
	1986	1987*	1988*
1. Gross Domestic Fixed Capital Formation ..	42,326	45,752	50,860
2. Imports of Investment Goods (C.I.F. Value) ..	9,649	10,623	11,042
3. Imports of Investment Goods Excluding Ships & Aircrafts (C.I.F. Value) ..	9,649	10,623	11,042
4. Import Content (2 as a percentage of 1) ..	22.8	23.2	21.7

* Provisional

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

Government consumption expenditure rose by 10.2 per cent in 1988. The substantial increase of 26 per cent in the Government wage bill following the revision of salaries in January, 1988 and the enhanced expenditure on defence and security contributed to the rise in Government consumption.

Gross Domestic Capital Formation (GDCF) at current prices, inclusive of changes in stocks, increased by 12 per cent in 1988, whereas in the previous year the increase was 8 per cent. The combined capital formation of the private sector and public corporations rose by 7.8 per cent. The corresponding increase in 1987 was 5.6 per cent. GDCF of the Central and Local Government expanded by 25 per cent in 1988, compared with a 17 per cent increase in 1987. However, the ratio of GDCF to GDP at market prices was 23.1 per cent in 1988, showing a slight decline from 23.3 per cent in 1987.

Gross Domestic Fixed Capital Formation (GDFCF) at current market prices recorded an increase of 11.2 per cent. The C.I.F. Rupee value of imports of capital goods (excluding building materials) rose by 3.9 per cent in 1988, compared with an increase of 10 per cent in 1987. Thus a decrease in the import content of GDFCF was observed in 1988.

In 1988, Capital formation in machinery & equipment and other capital goods at current market prices increased by 2.1 per cent. In contrast, Capital Formation in transport equipment declined by 6.7 per cent. Capital Formation in land development, including replanting increased by 24.5 per cent. An increase in capital expenditure on land development by the state sector plantations during 1988 was the major contributory factor towards the increase in capital formation through land development.

TABLE 1.8

Total Resources and their Uses 1978 - 1988

Item	At Current Market Prices (Rs. Million)				At 1978 Prices								Percentage Change	
	1978	1986	1987*	1988*	1978		1986		1987*		1988*		1987 over 1986	1988 over 1987
					Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%		
1. Total Resources ..	59,537	242,881	266,946	303,057	59,537	100	90,712	100	91,192	100	93,469	100	0.5	2.5
1.1 G.D.P. at Market Prices ..	42,665	179,474	196,723	223,010	42,665	72	64,512	71	65,480	72	67,243	72	1.5	2.7
1.2 Imports of Goods and Non-factor Services ..	16,872	63,407	70,223	80,047	16,872	28	26,200	29	25,712	28	26,226	28	1.9	2.0
2. Utilization ..	59,537	242,881	266,946	303,057	59,537	100	90,712	100	91,192	100	93,469	100	0.5	2.5
2.1 Consumption ..	36,148	157,850	171,487	194,488	36,148	61	54,206	59	54,659	60	55,992	60	0.8	2.4
2.2 Gross Domestic/Fixed Capital Formation ..	8,521	42,326	45,752	50,860	8,521	14	15,040	17	14,976	16	15,044	16	0.4	0.4
2.2.1 Government ..	(3,077)	(9,634)	(11,216)	(13,704)	(3,077)	(5)	(4,479)	(5)	(4,299)	(4)	(4,667)	5	4.0	8.5
2.2.2 Public Corporation ..	(2,056)	(32,692)	(34,536)	(37,156)	(2,056)	(3)	(10,561)	(12)	(10,677)	(12)	(10,377)	11	1.1	2.8
2.2.3 Private Sector ..	(3,388)				(3,388)	(6)								
2.3 Changes in Stocks ..	33	137	148	601	33	—	38	—	37	—	128	—	—	—
2.4 Exports of Goods and Non-Factor Services ..	14,835	42,568	49,559	57,108	14,835	25	21,428	24	21,520	24	22,305	24	0.4	3.6

* Provisional.

Source: Central Bank of Sri Lanka.

Availability and Utilisation of Resources

The total resources available to the Sri Lanka economy in 1988 were Rs. 303 billion. Domestic sources contributed Rs. 223 billion (73.6 per cent) to total resources, while imports provided Rs. 80 billion (26.4 per cent). Of the total resources, 64 per cent was spent on consumption, 17 per cent on capital formation and 19 per cent on exports of goods and non-factor services.

The total resource availability at constant (1978) prices rose by 2.5 per cent in 1988, compared to a marginal increase of 0.5 per cent in 1987, reflecting the higher growth in real GDP as well as the increased volume of imports of goods and non-factor services.

Domestic savings increased from Rs. 25.2 billion in 1987 to Rs. 28.5 billion in 1988. The ratio of domestic savings to GDP at market prices is estimated to have remained at 12.8 per cent. Total national savings, which include net factor income and private remittances from abroad, increased by 9.9 per cent to reach an estimated level of Rs. 33 billion in 1988. However the national savings ratio defined as the ratio of national savings to GDP at market prices, declined from 15.3 per cent in 1987 to 14.8 per cent, in 1988. This decline is attributed to the relatively higher rate of increase in net outflow of investment income during the year, when compared to that of the net inflow of private remittances.

TABLE 1.9
National Savings 1986 — 1988 (At Current Market Prices)

Category	Rs. Million		
	1986	1987*	1988*
1. G.D.P. at Market Prices ..	179,474	196,723	223,010
2. Domestic Savings ..	21,624	25,235	28,522
3. Net Factor Income from Abroad ..	- 3,861	- 4,336	- 5,499
4. Net Private Transfers ..	8,251	9,161	9,998
5. National Savings ..	26,014	30,060	33,021
6. Domestic Savings Ratio (2 as a % of 1) ..	12.0	12.8	12.8
7. National Savings Ratio (5 as a % of 1) ..	14.5	15.3	14.8

* Provisional

Source: Central Bank of Sri Lanka.