

# NATIONAL INCOME AND EXPENDITURE

## OVERALL TRENDS

The Gross Domestic Product (GDP) in real terms increased by 2.3 per cent in 1989, compared with a growth of 2.7 per cent in 1988. This growth performance though modest, can be considered commendable as it was achieved amidst impediments to the smooth functioning of the economy such as the continuing civil disturbances.

Increased activities in the Manufacturing and Services sector contributed largely to growth in 1989. The growth performance could have been better if not for the set-back in the Agriculture sector which was affected by a severe drought in 1989. Even though there were indications of a slight improvement in economic activities in the Northern and Eastern regions, the civil conflict in those regions continued to exert an adverse impact on several sectors of the economy. Moreover, the escalation of civil disturbances in other parts of the country, particularly during the second and third quarters of the year constrained production and distribution activities to a considerable extent. The net impact of these extraneous factors was a slower growth in the economy. However, economic activity throughout the country picked up during the last quarter of the year, following the rapid improvement in the security situation. Another adverse economic impact of the civil disturbances in 1989 was the damages caused to the country's capital stock, mainly to state owned buildings, transport equipment, telecommunication and electricity facilities, which reduced the available infrastructure facilities.

An analysis of the sectoral contribution to the overall GDP, shows that economic growth in 1989 had been concentrated in the Manufacturing and Services sectors. The Services sector continued to expand in 1989 due to the growth in financial services, trade and public administration and defence sub-sectors. This sector, which grew by 3.2 per cent, accounted for 69 per cent of the overall GDP growth. The contribution of the Manufacturing sector, which expanded by 4.4 per cent, to the overall growth was 32 per cent. The share of value-added in the Manufacturing sector in total GDP was 15 per cent. The growth in the Manufacturing sector was led by the increase in production in the industrial category of food, beverages and tobacco. Apart from the food, beverages and tobacco sub-sector, the other sub-sector that provided the impetus to growth in the Manufacturing sector were textile and garments and fabricated metal products. Meanwhile, the Agriculture sector showed a decline of 1.1 per cent in 1989, in contrast to a growth of 2.1 per cent in the previous year.

The Gross National Product (GNP) at current factor cost prices is estimated at Rs.222 billion in 1989, an increase of 12.2 per cent over 1988. During the year, the implicit GNP deflator, an indicator of the overall price changes in the economy, rose by 9.8 per cent, compared to an increase of 11.5 per cent in 1988, thereby reflecting a slight deceleration in the rate of increase in prices. Accordingly, the GNP in real terms was estimated to have risen by 2.2 per cent in 1989. In 1989, the terms of trade deteriorated by 6.4 per cent. Consequently, the real national income which is derived after adjusting the GNP for the terms of trade effect, increased marginally by 1.8 per cent, as against a marginal decline in 1988.

Provisional estimates of the Registrar General disclosed that Sri Lanka's population increased by 1.3 per cent to 16.8 million in 1989. Accordingly, per capita GNP in 1989 at current factor cost prices was estimated at Rs. 13,237 (US \$ 367). Per capita income in real terms increased by 0.9 per cent in 1989.

Expenditure on Gross Domestic Product at current market prices, is estimated at Rs. 253 billion in 1989, an increase of 13.9 per cent over the previous year. In nominal terms,

**TABLE 1.6**

**Sectoral Composition and Increase in Gross National Product at Constant (1982) Prices 1987 - 1989**

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	
	1987*	1988*	1989*	1987	1988	1989	1988	1989	1988	1989
1. Agriculture Forestry and Fishing	27,409	27,984	27,666	24.2	24.1	23.3	575	-318	19.8	-12.3
1.1 Agriculture	23,003	23,762	23,311	20.3	20.4	19.6	759	-451	26.1	-17.5
1.1.1 Tea	2,750	2,926	2,668	2.4	2.5	2.2	176	-258	6.1	-10.0
1.1.2 Rubber	765	770	697	0.7	0.7	0.6	5	-73	0.2	-2.8
1.1.3 Coconut	2,967	2,501	3,210	2.6	2.1	2.7	-466	709	-16.0	27.5
1.1.4 Paddy	5,423	6,312	5,258	4.8	5.4	4.4	889	-1,054	30.6	-40.9
1.1.5 Other	11,098	11,253	11,478	9.8	9.7	9.7	155	225	5.3	8.7
1.2 Forestry	2,215	1,943	1,985	2.0	1.7	1.7	-272	42	-9.4	1.6
1.3 Fishing	2,191	2,279	2,370	1.9	2.0	2.0	88	91	3.0	3.5
2. Mining and Quarrying	3,112	3,392	3,576	2.8	2.9	3.0	280	184	9.6	7.1
3. Manufacturing	18,748	19,622	20,488	16.5	16.9	17.2	874	866	30.1	33.6
3.1 Tree crop Processing	3,340	3,273	3,257	2.9	2.8	2.7	-67	-16	-2.3	-0.6
3.2 Factory Industry	13,113	14,030	14,872	11.6	12.1	12.5	917	842	31.5	32.7
3.3 Small and Other Industry	2,295	2,319	2,359	2.0	2.0	2.0	24	40	0.8	1.5
4. Construction	8,338	8,463	8,514	7.4	7.3	7.2	125	51	4.3	2.0
5. Electricity Gas Water and Sanitary Services	1,448	1,499	1,526	1.3	1.3	1.3	51	27	1.7	1.0
6. Transport Storage and Communication	13,538	13,619	13,883	11.9	11.7	11.7	81	264	2.8	10.2
7. Wholesale and Retail Trade	24,496	25,164	25,588	21.6	21.7	21.5	668	424	23.0	16.4
8. Banking-Insurance and Real Estate	5,490	5,819	6,168	4.8	5.0	5.2	329	349	11.3	13.5
9. Ownership of Dwellings	3,550	3,603	3,650	3.1	3.1	3.1	53	47	1.8	1.8
10. Public Administration and Defence	5,435	5,462	6,140	4.8	4.7	5.2	27	678	1.0	26.3
11. Services (n.e.s.)	4,358	4,423	4,530	3.9	3.8	3.8	65	107	2.2	4.1
12. Gross Domestic Product	115,922	119,050	121,729	102.3	102.4	102.5	3,128	2,679	107.6	104.0
13. Net Factor Income from Abroad	-2,615	-2,836	-2,938	-2.3	-2.4	-2.5	-221	-102	-7.8	-4.0
14. Gross National Product	113,307	116,214	118,791	100.0	100.0	100.0	2,907	2,577	100.0	100.0

\*Provisional

Source: Central Bank of Sri Lanka.

private consumption expenditure increased by 14.0 per cent, while public consumption expenditure rose by 12.3 per cent, during the year. Private consumption expenditure in real terms increased by 2.1 per cent. The upturn in private consumption expenditure that started in 1988 continued into 1989 and this largely influenced the growth in GDP at market prices.

In 1989, the Gross Domestic Capital Formation (GDCF) at current prices was estimated at Rs. 54,722 million, an increase of 8.2 per cent over the previous year. However, the ratio of GDCF to GDP at market prices, showed a decline from 22.8 per cent in 1988 to 21.7 per cent in 1989, showing a decline in real investment during the year under review.

The country's economy still does not generate sufficient savings to meet investment requirements. Domestic Savings are estimated at Rs. 30.6 billion or 12.1 per cent of GDP. Meanwhile, the National Savings ratio declined further from 14.2 per cent in 1988 to 14.0 per cent in 1989, owing to the higher net outflow of investment income over net inflow of private remittances.

## SECTORAL PERFORMANCE

The sectoral performance of the GNP and the changes in value-added at 1982 constant prices, are given in Table 2. The Agriculture sector, including forestry and fishing, suffered a set back in 1989, due to the decline in the production of three major crops - tea, rubber and paddy. Value-added in the Agriculture sector declined by 1.1 per cent in 1989 in contrast to an increase of 2.1 per cent in 1988. As the Agriculture sector contributes about 24 per cent to the country's GDP, the decline in value-added of this sector was a major drag on the overall economic performance in 1989.

Within the tree crop sub-sector, the value-added of coconuts increased by 28 per cent in real terms, while the value-added in tea and rubber declined by 8.8 and 9.5 per cent, respectively. Even though the production of tea picked up during the second half, the production during the first half of 1989 was 20 per cent lower than that of the corresponding period of the previous year. The unfavourable weather, compounded by the civil disturbances which disrupted both tapping and processing operations are attributed to the decline in the output of rubber which dropped by 10 per cent to 110.7 million kgs. in 1989. Within the Agriculture sector, an impressive growth was recorded in the coconut sub-sector. Coconut production which showed a declining trend during the past two years increased by 28.3 per cent in 1989 due to the lagged effects of the favourable weather conditions that prevailed in 1988. The drought that was experienced in the major paddy producing districts affected both the 1988/89 Maha and 1989 Yala crops, thereby lowering the overall output by 16.7 per cent to 2.06 million metric tons.

Value-added in the 'other-agriculture' sub-sector grew by 2.0 per cent in 1989, mainly due to the increase in production of chillies and onions, the two main crops under the subsidiary food crop category, as well as the increase in value-added to tobacco, sugarcane and dairy products. Poultry and Livestock farming which account for about 20 per cent of value-added in the 'other agriculture' sub-sector showed an improved performance when compared to the previous year, with the production of milk and eggs both showing an increase of about 7 per cent. Meanwhile, value-added in the Fisheries sector was estimated to have grown by 4 per cent in 1989.

Value-added in the Mining & Quarrying sector was estimated to have increased by 5 per cent in 1989. The major contribution towards its growth came from Mineral Sands which recorded an increase in output of 30 per cent during the year. The output of graphite, declined by 35 per cent as mining activities were hampered by the civil disturbances that prevailed

TABLE 1.7

## Total Resources and their Uses 1978 - 1989

Item	At Current Market Prices (Rs. Million)				At 1978 Prices								Percentage Change	
	1978	1987*	1988*	1989*	1978		1987*		1988*		1989*		1988 over 1987	1989 over 1988
					Amount Rs.Mn.	%	Amount Rs.Mn.	%	Amount Rs.Mn.	%	Amount Rs.Mn.	%		
1. Total Resources	59,537	266,946	303,753	345,396	59,537	100	91,192	100	93,469	100	94,491	100	2.5	1.1
1.1 G.D.P.at Market Prices	42,665	196,723	221,982	252,785	42,665	72	65,480	72	67,243	72	68,790	73	2.7	2.3
1.2 Imports of Goods and Non Factor Services	16,872	70,223	81,771	92,611	16,872	28	25,712	28	26,226	28	25,701	27	2.0	- 2.0
2. Utilization	59,537	266,946	303,753	345,396	59,537	100	91,192	100	93,469	100	94,491	100	2.5	1.1
2.1 Consumption	36,148	171,487	195,306	222,208	36,148	61	54,659	60	56,290	60	57,472	61	3.0	2.1
2.2 Gross Domestic Fixed Capital Formation	8,521	45,752	49,961	54,249	8,521	14	14,976	16	14,746	16	13,653	14	-1.5	- 7.4
2.2.1 Government	(3,077)	(11,216)	(12,805)	(11,223)	(3,077)	(5)	(4,299)	(4)	(4,369)	(5)	(3,670)	(4)	1.6	- 16.0
2.2.2 Public Corporation	(2,056)				(2,056)	(3)								
2.2.3 Private Sector	(3,388)	(34,536)	(37,156)	(43,026)	(3,388)	(6)	(10,677)	(12)	(10,377)	(11)	(9,983)	10	-2.8	- 3.8
2.3 Changes in Stocks	33	148	601	473	33	—	37	—	128	—	102	—	—	—
2.4 Exports of Goods and Non-Factor Services	14,835	49,559	57,885	68,466	14,835	25	21,520	24	22,305	24	23,264	25	3.6	4.3

\* Provisional.

Source: Central Bank of Sri Lanka.

in the country. Meanwhile, gem mining, the leading growth sub-sector within the Mining & Quarrying sector during the past three years, had performed below expectations in 1989.

In 1989, the growth of the Manufacturing sector which included agricultural processing, factory industries and small industries was estimated to be 4.4 per cent. The output of factory industry which contributed around two thirds of the total production in the Manufacturing sector, was estimated to have expanded by 6 per cent. Within the factory industry sub-sector, the value-added of the private sector industries increased by 15 per cent, while the value-added of the state owned industries declined by 21 per cent. Production in the state owned industries was adversely affected by high absenteeism and work stoppages caused by the civil unrest.

The output of food, beverages and tobacco industrial category, the largest sub-sector within factory industry in terms of value-added, was estimated to have increased by 12 per cent. The increase in production of tobacco, sugarcane, toddy and milk, which are inputs to the large industries within the food and beverages industry, contributed towards the growth of the sub-sector.

In 1989, the estimated value-added in the export based agro-processing of tea, rubber and coconut kernel products declined marginally by 0.5 per cent, in real terms. Even though the production of coconut kernel products increased by 112 per cent in 1989, over 1988, it was not sufficient to compensate for the decline in value-added through processing of tea and rubber. Meanwhile, the higher rate of growth of the Small Industries sub-sector, in 1989 could be attributed to the greater availability of credit to this informal sub-sector, as well as the institutional support particularly by state owned organisations, in providing marketing facilities.

The Construction sector which registered a growth rate of 1.5 per cent in 1988, grew marginally by 0.6 per cent in 1989. The curtailment of public investment expenditure had a significant bearing on the slowing down of the Construction sector.

The Services sector grew by 3.2 per cent in 1989. The expansion in the Services sector accounted for nearly 69 per cent of the total increase in GDP during the year. Banking, insurance and real estate, trade, and public administration and defence sub-sectors recorded relatively high growth rates. Within the Services sector, the value-added in electricity, gas, water and sanitary services increased by 1.8 per cent whereas during the previous year, this sub-sector grew by 3.5 per cent. The Transport, Storage and Communications sub-sector registered a higher rate of growth, following the significantly improved performance of the air-line services in 1989 when compared to 1988, as well as the growth in port and allied services. Despite a heavy debt burden in the past and the consequent debt servicing costs and a 20 per cent increase in fuel cost, Air Lanka recorded a net profit in 1989.

## **EXPENDITURE**

Gross Domestic Expenditure (GDE) at current market prices in 1989 was Rs. 276.9 billion, an increase of 12.6 per cent over the previous year. Total consumption expenditure increased by 13.8 per cent to Rs. 222 billion in 1989. Private consumption expenditure rose by 14.0 per cent while government consumption expenditure grew by 12.3 per cent. The substantial increase of 16.8 per cent in the government wage bill as well as increased spending on goods and services related to defence and security, contributed to the rise in government expenditure.

Following an increase in imports of food items, mainly rice, sugar, fish products, milk foods and pharmaceutical products, private consumption expenditure on imported goods

rose by 33 per cent. Moreover, an increase in imports of motor vehicles led to a growth in consumption of imported durable goods. The combined consumption expenditure on imported consumer goods and non-factor services increased by 29 per cent.

Gross Domestic Capital Formation (GDCF) at current prices, inclusive of changes in stocks, is estimated at Rs. 54,722 million in 1989, showing an increase of 8.2 per cent, as compared with 10.2 per cent rise recorded in the previous year. The combined capital formation of the private sector and public corporations was estimated at Rs. 43,499 million in 1989. This accounted for about 80 per cent, of the overall investment. GDCF of the Central Government declined from Rs. 13,125 million to Rs. 11,223 million following the curtailment of government expenditure. The ratio of GDCF to GDP at market prices declined from 22.8 per cent in 1988 to 21.7 per cent in 1989, reflecting a decline in real investments.

Gross Domestic Fixed Capital Formation (GDFCF) at current market prices recorded an increase of 8.6 per cent. The c.i.f. value of imports of capital goods (excluding building materials) rose by 3.3 per cent in 1989 compared to an increase of 3.9 per cent in 1988.

The in-flow of capital goods to the economy was mostly through imports, even though domestic production of machinery and equipment has shown an increase during the recent past. In 1989, capital formation in land development, including replanting, increased by 13.7 per cent mainly due to the increase in replanted acreage of private sector and state sector rubber holdings.

**TABLE 1.8**  
**National Savings 1987 - 1989**  
**(At Current Market Prices)**

(Rs. Million)

Category	1987*	1988*	1989*
1. G.D.P. at Market Prices	196,723	221,982	252,785
2. Domestic Savings	25,236	26,676	30,577
3. Net Factor Income from Abroad	-4,336	-5,266	-5,906
4. Net Private Transfers from Abroad	9,161	10,187	10,844
5. National Savings	30,060	31,597	35,515
6. Domestic Savings Ratio (2 as a % of 1)	12.8	12.0	12.1
7. National Savings Ratio (5 as a % of 1)	15.3	14.2	14.0

Source: Central Bank of Sri Lanka.

\* Provisional.

#### AVAILABILITY AND UTILIZATION OF RESOURCES

The total resources available to the Sri Lanka economy in 1989 were Rs. 345 billion. Of this, 64.0 per cent was spent on consumption, 16.0 per cent was directed to investment and 19.8 per cent on exports of goods and non-factor services.

The total resource availability at 1978 constant prices, rose by 1.1 per cent in 1989 compared to an increase of 2.5 per cent in 1988. The decline in resource availability in real terms, is attributed to lower imports, as well as the slight moderation in GDP growth during the year under review. In the utilisation of these resources, consumption and exports were estimated to have registered a real growth, while there was a contraction in investment.

**TABLE 1.9**  
**Gross National Expenditure at Current Market Prices**

Category	Amount (Rs. Mn.)			Percentage Change over previous year	
	1987*	1988*	1989*	1988	1989
1. Private Consumption	151,949	173,457	197,680	14.2	14.0
2. Public Consumption	19,538	21,849	24,528	11.8	12.3
3. Gross Domestic Capital Formation	45,900	50,562	54,722	10.2	8.2
4. Gross Domestic Expenditure	217,387	245,868	276,930	13.1	12.6
5. Net Investment Abroad	-10,538	-12,377	-12,997	-	-
6. Less: Net Receipts of International Gifts & Transfers	14,463	16,774	17,034	-	-
7. Gross National Expenditure	192,386	216,717	246,899	12.6	13.9

\* Provisional..

Source: Central Bank of Sri Lanka