

# NATIONAL INCOME AND EXPENDITURE

## OVERALL TRENDS

In 1992, Sri Lanka's Gross Domestic Product (GDP) at constant 1982 prices was estimated to have increased by 4.3 per cent. This growth, though lower than the rate of 4.6 per cent recorded in 1991, is commendable, as it has been achieved in the face of a worldwide recession and very unfavourable weather conditions that had serious adverse effects on the primary sector of the economy. It was also evident that the change in economic policies adopted has led to a more diversified economy in which the relative importance of the primary sector, consisting of agriculture and mining and quarrying, has been reduced to some degree. Consequently, the economy was able to maintain an encouraging rate of growth in spite of a decline in the primary sector. The Gross National Product (GNP) grew by 4.4 per cent in 1992, in comparison to a growth of 4.6 per cent recorded in 1991.

A sectoral analysis of the economy reveals that the growth in the economy has been fuelled primarily by the expansion in the Manufacturing and Services sectors. The overall Manufacturing sector continued its growth momentum, recording an expansion of 9 per cent in 1992, up from 6.8 per cent in 1991. This growth was the result of an impressive increase in the value added in factory industry by 13.0 per cent. Factory industry, which accounted for over three fourths of the total value added in Manufacturing, is dominated by the garments and other export-oriented industries and its expansion was reflected in an increase in Sri Lanka's industrial exports by 37 per cent in SDR terms in 1992.

Increased economic activity and stability have led to a boom in construction. In 1992, the Construction sector experienced a real growth of 7 per cent, more than double the rate of 3.1 per cent achieved in 1991. The Services sector excluding Construction, expanded by 5.3 per cent in 1992, in comparison to a growth of 6.2 per cent in 1991. Within this sector, banking and other financial services, trade, transport and communications had comparatively high rates of growth.

The slight moderation in the growth of the Sri Lankan economy in 1992 was due mainly to the effects of adverse weather conditions and worldwide recession. The severe drought that prevailed from about December 1991 to April 1992 caused the agriculture sub-sector to contract by 2.3 per cent in 1992, in contrast to a growth of 0.8 per cent in 1991. However, a growth of 4.1 per cent in 1992 in the fishing sub-sector, softened the impact of this contraction to contain the decline in the overall Agriculture, Forestry and Fishing sector to 1.5 per cent. This sector had grown by 1.9 per cent in 1991. The decrease in the output of agricultural products had not only a direct impact on this sector, but also reduced the growth in associated areas such as export processing, transport and domestic trade. The continuing worldwide recession led to a further slowing down in the exports of gems and other minerals, resulting in a significant decline in the mining sub-sector. The impact of increased activity in construction, however, led to greater value addition in quarrying activity which helped alleviate, to some extent, the adverse repercussions of the decline in mining. As a result, the overall Mining and Quarrying sector recorded a decline only of 6 per cent.

The Gross National Product (GNP) at current factor cost prices was estimated at Rs. 377 billion in 1992, an increase of 14.8 per cent over the estimated value of Rs. 328 billion in 1991.

At constant (1982) values, GNP has shown a growth of 4.4 per cent, increasing from Rs. 132 billion in 1991 to Rs. 138 billion in 1992. The growth in the implicit GNP deflator, which is a measure of overall price changes in the economy, was therefore, estimated at 10.0 per cent in 1992, a slight decrease over the value of 10.5 per cent estimated for 1991.

Sri Lanka's mid year population in 1992 has been estimated at 17.41 million. Thus, per capita GNP at current prices in 1992 was estimated at Rs.21,641 (U.S.\$ 494), which is an increase of 13.8 per cent over the previous year's estimate of Rs. 19,017 (US\$ 460). The increase in per capita GNP in real terms in 1992 was 3.5 per cent.

In view of the increasing importance of international trade to Sri Lanka's economy, any change in the terms of trade has a significant impact. Thus, the Real National Income, which is an estimate of the purchasing power of the country's real GNP, gains added importance. In 1992, the terms of trade improved by 3.7 per cent. Consequently, Real National Income, which is the real GNP adjusted for the effect of the changes in the terms of trade, increased by 5.3 per cent, an improvement on the growth of 3.7 per cent seen in 1991.

On the expenditure side, Gross Domestic Expenditure at current market prices was estimated at Rs. 459 billion, an increase of 11.9 per cent over 1991. In nominal terms, consumption expenditure increased by 10.3 per cent, while Gross Domestic Capital Formation rose by 18.0 per cent, from Rs.85 billion in 1991 to Rs. 101 billion in 1992. Consumption expenditure in current terms grew at a slower pace in 1992 in both the private sector and the Government sector, than in 1991.

In real terms, overall consumption expenditure increased by 2.5 per cent in 1992 in comparison to a 6.7 per cent growth in 1991.

The ratio of Investment to GDP in current terms in 1992 was 23.7 per cent, an improvement on the 22.9 per cent recorded in 1991. In real terms, investment increased by 9.0 per cent, compared with a growth of 7.6 per cent registered in 1991. The bulk of investment continued to be generated in the private sector, with significant investment being made in construction, transport equipment and other capital goods. Government investment in infrastructure continued, though at a slower pace than in 1991.

Domestic savings were estimated at Rs. 65 billion in current terms in 1992. The Domestic Savings Ratio, *i.e.*, the ratio of domestic savings to GDP at market prices has increased from 12.7 per cent in 1991, to 15.3 per cent in 1992. Meanwhile, the National Savings Ratio has increased from 15.2 per cent in 1991 to 18.3 per cent in 1992. The increase in savings has been generated by both increased private savings and a decrease in Government dissavings.

## **SECTORAL PERFORMANCE**

The sectoral performance of the GNP is given in Table 1.6. As in 1991, the sectors that contributed to the growth in the economy were the Manufacturing and Services sectors, while the Agriculture and Mining sectors recorded negative growth.

TABLE 1.6

Sectoral Composition and Increase in Gross National Product (1982) Prices 1990 - 1992

Sector	Value Added (Rs. Million)			Per cent Share of G.N.P.			Increase over Previous Year (Rs. Million)		Per cent Share of increase in G.N.P.	
	1990 *	1991*	1992*	1990*	1991*	1992*	1991*	1992*	1991*	1992*
1. Agriculture, Forestry and Fishing	30,011	30,570	30,112	23.7	23.1	21.8	559	-458	9.7	-7.8
1.1 Agriculture	25,729	25,941	25,338	20.4	19.6	18.3	212	-603	3.7	-10.2
1.1.1. Tea	3,004	3,100	2,303	2.4	2.3	1.7	96	-797	1.7	-13.5
1.1.2. Rubber	718	655	662	0.6	0.5	0.5	-63	7	-1.1	0.1
1.1.3. Coconut	3,261	2,827	3,081	2.6	2.1	2.2	-434	254	-7.5	4.3
1.1.4. Paddy	6,378	6,002	5,882	5.0	4.5	4.3	-376	-120	-6.5	-2.0
1.1.5. Other	12,368	13,357	13,410	9.8	10.1	9.7	989	53	17.1	0.9
1.2. Forestry	2,030	2,107	2,149	1.6	1.6	1.6	77	42	1.3	0.7
1.3. Fishing	2,252	2,522	2,625	1.8	1.9	1.9	270	103	4.7	1.8
2. Mining and Quarrying	3,901	3,511	3,300	3.1	2.7	2.4	-390	-211	-6.7	-3.6
3. Manufacturing	22,427	23,949	26,106	17.7	18.1	18.9	1,522	2,157	26.3	36.7
3.1. Export Processing	3,530	3,332	2,959	2.8	2.5	2.1	-198	-373	-3.4	-6.3
3.2. Factory Industry	17,085	18,708	21,140	13.5	14.1	15.3	1,623	2,432	28.0	41.3
3.3. Small Industry	968	1,065	1,150	0.8	0.8	0.8	97	85	1.7	1.4
3.4. Other	844	844	857	0.7	0.6	0.6	0	13	0.0	0.2
4. Construction	8,761	9,033	9,665	6.9	6.8	7.0	272	632	4.7	10.7
5. Electricity, Gas, Water and Sanitary Services	1,681	1,800	1,897	1.3	1.4	1.4	119	97	2.1	1.6
6. Transport, Storage and Communication	14,410	15,534	16,466	11.4	11.7	11.9	1,124	932	19.4	15.8
7. Wholesale and Retail Trade	26,497	28,556	30,215	21.0	21.6	21.9	2,059	1,659	35.6	28.2
7.1 Import	9,422	10,826	11,974	7.5	8.2	8.7	1,404	1,148	24.3	19.5
7.2 Export	3,060	3,210	3,576	2.4	2.4	2.6	150	366	2.6	6.2
7.3 Domestic	14,015	14,520	14,665	11.1	11.0	10.6	505	145	8.7	2.5
8. Banking, Insurance and Real Estate	6,556	6,831	7,241	5.2	5.2	5.2	275	410	4.8	7.0
9. Ownership of Dwellings	3,705	3,761	3,795	2.9	2.8	2.7	56	34	1.0	0.6
10. Public Administration and Defence	6,355	6,304	6,449	5.0	4.8	4.7	-51	145	-0.9	2.5
11. Services (n.e.s.)	4,940	5,355	5,714	3.9	4.1	4.1	415	359	7.2	6.1
12. Gross Domestic Product	129,244	135,204	140,960	102.2	102.3	102.1	5,960	5,756	103.0	97.8
13. Net Factor Income from Abroad	(2,818)	(2,990)	(2,863)	-2.2	-2.3	-2.1	-72	127	-3.0	2.2
14. Gross National Product	126,426	132,214	138,097	100.0	100.0	100.0	5,788	5,883	100.0	100.0

\* Provisional

Note : Values for 1992 are based on available Customs data.

Source : Central Bank of Sri Lanka

The overall Agriculture, Forestry and Fishing sector, recorded a contraction of 1.5 per cent in 1992. In view of the relatively high weight of agriculture in total GNP, and the interlinks between agriculture and other sectors such as agro-based industry, transport and trade, this decline bore the primary responsibility for the lower growth in GNP in 1992 than in 1991. The impact of the extended drought was clearly seen in plantation agriculture, paddy, sugar cane and subsidiary food crops. The effects of the long drought and excessive rain thereafter were most severe in the tea plantations, resulting in the lowest level of tea production in over a quarter of a century. Value added in the tea sub-sector declined by 25.7 per cent, leading to a decline of 8.1 per cent in value added in the plantation sector, despite coconuts recording an increase of 9 per cent. Delayed rains led to a poor Yala season, with the Yala paddy production falling by 15 per cent in 1992. Consequently, the overall paddy output decreased by 2 per cent in 1992, though the Maha harvest had been favourable, with a 5 per cent increase in production. The 'Other' Agriculture sub-sector, which comprises mainly subsidiary food crops, minor export crops, fruits, vegetables, livestock and crops such as tobacco and sugar cane, had a marginal growth. Although the value added in both subsidiary food crops and minor export crops decreased, increases in fruits, vegetables and other commodities were able to offset this and yield a marginal growth in the sub-sector.

The Fisheries sub-sector grew by 4.1 per cent in 1992, in comparison to a growth of 12 per cent in 1991. The growth in 1992 was significant as it indicates the continuing improvement in this sub-sector brought about by greater stability in the coastal areas.

Mining and Quarrying continued to suffer negative growth, the contraction being 6 per cent in 1992, following a 10 per cent contraction in 1991. A booming construction industry has increased value addition in the quarrying sub-sector, thus mitigating the effect of declining exports of minerals in the mining sub-sector.

The Manufacturing sector continued to provide strong impetus to economic growth. Over a third of the increase in GNP in constant terms was contributed by this sector. The sector as a whole recorded an increase of 9 per cent in real value added. This followed a growth of 6.8 per cent in 1991. The growth of this sector would have been still higher were it not for the negative growth in value added in the tea processing industry. The growth in Manufacturing came mainly through the factory industry sub-sector, which recorded a 13 per cent increase in real terms. The small industries sub-sector is estimated to have grown by 8 per cent.

The Construction sector has enjoyed a boom in 1992, with the increase in real value added being 7.0 per cent, in comparison to a 3.1 per cent rise in 1991. Even though public sector construction has slowed down, the slack has been more than taken up by the private sector, with expansion in both residential and non-residential construction.

The aggregate Services sector has maintained its expansion in 1992. It was estimated to have grown by 5.3 per cent, a slight slowing down from the 6.2 per cent realised in 1991. The slowing down can be attributed to the contraction in the primary sectors, *i.e.*, Agriculture and Mining and Quarrying. Within the Services sector, transport, communication, trade and banking and financial services experienced high rates of growth. The Transport, Storage and Services sector grew by 6 per cent in 1992. The Wholesale and Retail Trade sector recorded an overall growth of 5.8 per cent, primarily

due to the increase in import and export trade. The expansion in this sector contributed 28 per cent of the total increase in real GNP in 1992. Buoyed by the expansion in manufacturing and trade, the Banking, Insurance and Real Estate sector continued to expand, growing by 6.0 per cent in real terms in 1992, in comparison to a 4.2 per cent growth in the previous year.

With the increased stability and better security in the country, the tourist industry has continued to expand. Tourist arrivals in 1992 increased by 23.9 per cent, bringing the total number of arrivals close to the record figure achieved in 1982. The foreign exchange earnings from tourism increased from SDR 116 million in 1991 to SDR 140 million in 1992, a 20.6 per cent growth. The expansion in the tourist industry has helped the Other Services sector to achieve a growth rate of 6.7 per cent in 1992.

## **EXPENDITURE**

Gross Domestic Expenditure (GDE) at current market prices was estimated at Rs. 459 billion in 1992, an 11.9 per cent increase over the value of Rs. 410 billion estimated for 1991. Consumption expenditure increased by 10.3 per cent in current terms, from Rs. 325 billion in 1991, to an estimated Rs. 359 billion in 1992. Gross Domestic Capital Formation was estimated at Rs.101 billion, an increase of 18.0 per cent over the previous year.

Consumption expenditure, which comprises private consumption and Government consumption, recorded a smaller growth than in 1991, the reduction being greater in Government consumption. Private consumption expenditure was estimated at Rs. 319 billion in 1992, while the value in 1991 was Rs. 288 billion. The slowing down in the growth of private consumption expenditure was mainly due to a slower growth in expenditure on imported goods, especially consumer durables. Private consumption of imported goods, which increased by 29.7 per cent in 1991, grew only by 9.8 per cent in 1992. In contrast, consumption of locally produced goods, estimated at Rs. 228 billion in 1992, grew at a rate of 10.8 per cent compared with a 13.9 per cent increase in 1991. Meanwhile, Government consumption expenditure increased only by 8.8 per cent in 1992, whereas the increase in 1991 had been 17.4 per cent.

Gross Domestic Capital Formation (GDCF), which includes changes in stocks, is estimated at Rs. 101 billion in 1992, an increase of 18.0 per cent over the value estimated for 1991. The ratio of GDCF to GDP at current market prices increased from 22.9 per cent in 1991 to 23.7 per cent in 1992, indicating increased investor confidence and improved growth potential.

The private sector continued to be the major contributor to investment. Private sector investments grew by about 21.7 per cent in 1992, somewhat above the rate of growth of 17.8 per cent in 1991. Private investments were mainly in the areas of construction, both residential and non-residential, and in transport equipment and other capital goods. Government sector investment expanded by 1.9 per cent in 1992, in comparison to a 25.4 per cent increase in 1991. Public investment contributed to concentrate on key areas of infrastructure such as road development and telecommunications that are essential for the expansion of the economy.

**TABLE 1.7**

**Total Resources and Their Uses 1982 – 1992**

Item	At Current Market prices (Rs. Million)				At 1982 Prices								Percentage Change	
	1982	1990	1991	1992	1982		1990*		1991*		1992*		1991 over 1990	1992 over 1991
					Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%		
1. Total Resources	145,143	444,264	517,270	596,313	145,143	100	188,904	100	202,439	100	214,534	100	7.2	6.0
1.1. GDP at Market Prices	99,238	321,783	372,596	423,289	99,238	68	135,655	72	141,895	70	147,996	69	4.6	4.3
1.2. Imports of Goods and Non Factor Services	45,905	122,481	144,674	173,024	45,905	32	53,249	28	60,544	30	66,538	31	13.7	9.9
2. Utilization	145,143	444,264	517,270	596,313	145,143	100	188,904	100	202,439	100	214,534	100	7.2	6.0
2.1. Consumption	87,468	275,692	325,098	358,639	87,468	60	116,428	62	124,205	61	127,260	59	6.7	2.5
2.2. Gross Domestic Fixed Capital Formation	30,279	70,417	84,206	99,507	30,279	21	31,879	17	34,367	17	37,474	17	7.8	9.0
2.2.1. Government	4,866	12,507	15,838	16,134	4,866	3	4,932	3	5,667	3	5,248	2	14.9	-7.4
2.2.2. Public Corporation														
2.2.3. Private Sector	25,413	57,910	68,368	83,373	25,413	18	26,947	14	28,700	14	32,226	15	6.5	12.3
2.3. Changes in Stocks	248	1,038	950	1,000	248	-	240	-	201	-	195	-	-16.3	-3.0
2.4. Exports of Goods and Non-Factor Services	27,148	97,117	107,016	137,167	27,148	19	40,357	21	43,666	22	49,605	23	8.2	13.6

\* Provisional.

Note : Values for 1992 are based on available Customs data.

Source : Central Bank of Sri Lanka

Foreign direct investment continued to increase in 1992. Net foreign direct investment in ventures under the Board of Investment and in privatised enterprises increased from SDR 46 million in 1991 to SDR 85 million in 1992, an increase of 84 per cent.

## AVAILABILITY AND UTILISATION OF RESOURCES

Total value of resources available for utilisation in the economy increased by 15.3 per cent to Rs. 596 billion in 1992. The overall increase of Rs. 79 billion was the result of an increase of Rs. 51 billion in GDP and a rise of Rs. 28 billion in imports of goods and non-factor services. Overall imports of goods and non-factor services increased by 19.6 per cent in 1992, in comparison to a rise of 18.1 per cent in 1991.

Of the total resources available to the economy, 60 per cent was utilised for consumption, 17 per cent for investment and the balance 23 per cent exported. Exports have risen by 28.2 per cent in 1992, compared to a 10.2 per cent increase in 1991. In 1992, the rate of growth of exports was significantly higher than the rate of growth of imports. In 1991, the reverse was true. The availability of resources increased by 6.0 per cent in real terms as against an increase of 7.2 per cent in 1991.

Gross Domestic Capital Formation increased by 9.0 per cent in real terms in 1992. The growth in capital formation was due to expanded construction activity and increased real investment in transport. In 1992, overall consumption increased at a lower real rate than in 1991. The contraction in agriculture has evidently reduced agricultural income, which is reflected in this slowing down of the increase in consumption expenditure.

**TABLE 1.8**

### National Savings at Current Market Prices

CATEGORY	(Rs. Million)			
	1982	1990*	1991*	1992*
1. G.D.P. at Market Prices	99,238	321,783	372,594	423,290
2. Domestic Savings	11,770	46,091	47,498	64,650
3. Net Factor Income from Abroad	-1,959	-6,685	-7,367	-7,694
4. Net Private Transfers from Abroad	5,494	14,518	16,623	20,369
5. National Savings	15,305	53,924	57,754	77,325
6. Domestic Savings Ratio (2 as a % of 1)	11.9	14.3	12.7	15.3
7. National Savings Ratio (5 as a % of 1)	15.4	16.8	15.2	18.3

\* Provisional

Source : Central Bank of Sri Lanka

Note : Values for 1992 are based on available Customs data.