

NATIONAL INCOME AND EXPENDITURE

OVERALL TRENDS

The Gross Domestic Product (GDP) of Sri Lanka, at constant 1982 prices, was estimated to have increased by 6.9 per cent in 1993. Favourable weather conditions, an upsurge in investment brought about by a significant growth in National Savings and Foreign Capital Inflows, an improvement in world economy and the domestic capital market gaining increased international recognition contributed towards achieving this growth, the second highest since liberalisation of the economy in 1977. The growth achieved in 1993 has been surpassed only by the growth in 1978. Consequent on a decline in the outflow of net factor income, the Gross National Product (GNP) grew by 7.6 per cent in 1993, in comparison to a growth of 4.4 per cent in 1992.

A sectoral analysis indicates that, in 1993, all sectors contributed positively to overall growth. As in the previous year, the biggest contributors to growth were the Manufacturing and Services sectors. However, unlike in 1992, the Agriculture sector also contributed significantly to the faster economic growth.

The overall Manufacturing sector, boosted not only by the continued growth in factory industries but also by a recovery in export processing industries (processing of tea, rubber and coconut kernel products), expanded by 10.5 per cent in 1993, compared with a growth of 8.8 per cent in 1992. The expansion in this sector which contributed to a little over a fourth of the total growth in GNP in 1993, was reflected in Agricultural exports increasing by 9.3 per cent in SDR terms, and Industrial exports increasing by 20 per cent in SDR terms in 1993.

The Agriculture sector, which experienced a negative growth of 1.6 per cent in 1992, grew by 4.9 per cent in 1993. Favourable weather led to a recovery in the Tea sub-sector and a high growth in the Paddy sub-sector. Only the Coconut sub-sector, which suffered from the lagged effects of the severe drought experienced in 1992, showed a decline in output. The Fishing sub-sector, supported by increased investment in fishing crafts, grew by over 7 per cent in 1993.

The Mining and Quarrying sector, which for two years had shown a significant decline in growth, recovered in 1993, expanding by nearly 12 per cent. A growth of approximately 22 per cent (in SDR terms) in mineral exports, primarily gems, and continued expansion in the Construction sector were the causal factors for the improved performance of this sector.

The Construction sector continued to expand in 1993, though at a slightly slower rate than in 1992. Increased construction work on factory buildings and residential buildings were the sources of growth in this sector. The overall Services sector, excluding Construction, grew by 6.3 per cent in 1993 compared with a growth of 5.3 per cent in the previous year.

Within the overall Services sector, the Wholesale and Retail Trade sector recorded a growth of 8.3 per cent, thus becoming the second most important sectoral contributor to the increase in GDP in 1993. A growth of 15.5 per cent in Imports and a growth of 17.4 per cent in Exports, both in SDR terms, provided the basis for the increased growth in trade.

The heavy rainfall experienced in 1993 permitted an increased generation of hydro electricity. This, together with an expanding supply network of pipe borne water, caused the Electricity, Gas, Water and Sanitary Services sector to more than double its growth rate in 1993.

A booming stock market, high domestic interest rates and increasing financial activity associated with the expansion in the other sectors of the economy saw the Banking, Insurance and Real Estate sector grow by 10.8 per cent in 1993.

The Gross Domestic Product (GDP) at constant (1982) factor cost prices was estimated at Rs.150.8 billion, an increase of 6.9 per cent over the previous year. The Gross National Product (GNP) at constant (1982) factor cost prices was estimated to have increased by 7.6 per cent over 1992 to Rs.148.5 billion in 1993. A significant decline in the outflow of net factor income from abroad in 1993 led to the higher growth in GNP. The outflow of investment income in 1993 remained at the same level as in 1992, although increased foreign investment had taken place. This is clearly indicative of a perception of Sri Lanka as having a favourable investment climate. Interest payments on account of foreign borrowings too declined in 1993. The large increase in the foreign assets held by the Central Bank resulted in a corresponding increase in interest income in 1993. These factors contributed to a significant reduction in the net outflow of factor income.

GNP at current factor cost prices was estimated at Rs.447 billion in 1993, an increase of 18.0 per cent over the level of Rs.379 billion for 1992. Consequently, the implicit GNP price deflator, a measure of overall price changes in the economy, was estimated to have risen by 9.7 per cent in 1993, in comparison with the 10.0 per cent increase in 1992. In contrast, the consumer price level, as measured by the Colombo Consumer's Price Index (CCPI), rose faster at 11.7 per cent in 1993, as against 11.4 per cent in 1992. The relatively low increase in the GNP deflator in 1993 was largely due to the lower price increases for exports.

The mid year population of Sri Lanka in 1993 has been estimated at 17.62 million. Accordingly, the per capita GNP at current factor cost prices in 1993 is estimated at Rs.25,389 (U.S.\$ 526), an increase of 16.5 per cent over the Rs.21,786 (U.S.\$ 497) recorded for 1992. In real terms, per capita GNP rose by 6.2 per cent in 1993.

In view of the continuing importance of international trade in the economy, any change in the relative prices of exports and imports, *i.e.*, the terms of trade, has a significant impact. Thus, it is important to evaluate the effect of the changes in these relative prices. This effect can be captured in the measurement of the Real National Income, which is an estimate of the purchasing power of the country's real GNP. In 1993, the overall terms of trade improved by 2.1 per cent. Consequently, Real National Income, which is real GNP adjusted for the effects of the terms of trade, rose by 8.3 per cent in 1993, as against an increase of 5.2 per cent in 1992.

GNP at current market prices, which is GNP at current factor cost prices adjusted for the effect of indirect taxes less subsidies, increased by 18 per cent to Rs.500 billion in 1993 from Rs.424 billion in 1992. Correspondingly, per capita GNP at current market prices increased by 16.5 per cent to Rs.28,395 (U.S.\$ 588) in 1993 from Rs.24,379 (U.S.\$ 556) in 1992.

On the expenditure side, Gross Domestic Expenditure at current market prices was estimated to be Rs.544 billion in 1993, an increase of 17.1 per cent over the level of Rs.465 billion estimated for 1992. In nominal terms, consumption expenditure was estimated to have risen by 15.2 per cent, while Gross Domestic Fixed Capital Formation was estimated to have increased by 26.0 per cent. In the Private sector as well as in the Government sector, both Consumption and Capital Formation rose at a faster pace than in 1992.

In real terms, overall consumption expenditure grew by 7.0 per cent in 1993, as against an increase of 4.6 per cent in 1992. Meanwhile, fixed capital formation grew significantly by 13.7 per cent in 1993, compared to a growth of 4.4 per cent in 1992.

The ratio of Investments to GDP at current market prices was 26 per cent in 1993, an improvement on the 24 per cent recorded for 1992. In real terms, Investments increased by 12.6 per cent in 1993 in comparison to a growth of 5.6 per cent in 1992. In 1993 too, the major portion of investment was from the Private sector, which invested heavily in construction, transport equipment, plant and machinery and in communication. Public sector investment was concentrated in the development of infrastructure, the provision of electricity and increased transport facilities.

Domestic Savings were estimated to be Rs.80 billion in current terms, an increase of 25.6 per cent over the estimate of Rs.64 billion for 1992. Following the increasing trend in Domestic Savings seen in the past few years, the Domestic Savings Ratio, *i.e.*, the ratio of Domestic Savings to GDP at current market prices, increased from 15 per cent in 1992 to 16 per cent in 1993. National Savings, which is Domestic Savings adjusted for net private transfers and net factor income from abroad, was estimated at Rs.102 billion, an increase of 33.1 per cent over the estimate of Rs.76 billion for 1992. The National Savings Ratio increased from 18 per cent in 1992 to 20 per cent in 1993.

SECTORAL PERFORMANCE

The sectoral performance of GNP is given in Table 1.6. All sectors made a positive contribution to the economy, thus facilitating the achievement of a very high economic growth in 1993. Manufacturing, Wholesale and Retail Trade and Agriculture were the most important contributory sectors to the growth.

The overall Agriculture, Forestry and Fisheries sector, which suffered a decline of 1.6 per cent in 1992, grew by 4.9 per cent in 1993. Given the importance of this sector in the overall economy, its recovery was a crucial factor in achieving a high growth in 1993, contributing 14 per cent of the overall growth in GNP. The primary reason for the increased output in Agriculture was the very favourable weather conditions that prevailed in 1993. The severe drought of 1992, had resulted in a drop in paddy production by 2 per cent and a substantial decline of 25.7 per cent in tea production in that year. This situation was reversed in 1993, with tea recording a 29.6 per cent increase in output and paddy recording a 9.6 per cent increase in output. The Other Agriculture sub-sector also recorded a higher level of growth, in 1993 (1.4 per cent compared with 1.0 per cent in 1992). Significant growth in the value added in subsidiary food crops, minor export crops, fruits and livestock products enabled this sector to grow, even though vegetable production recorded a decline in 1993. The value added in the Rubber sub-sector increased by 1.8 per cent in 1993, a marginal decline in growth from the previous year. The Coconut sub-sector alone, recorded a decline in output in 1993, the decrease being 5.8 per cent. The effects of a drought are usually felt with a lag of about a year in the coconut industry.

The Fisheries sub-sector expanded by 7.1 per cent in 1993, compared with a growth of 4.1 per cent, in the previous year. This growth is attributed, in a large measure, to the provision of more 'multi-day' fishing crafts, which enabled fisherman to stay out longer at sea.

The Mining and Quarrying sector recorded a significant positive growth in 1993, after declining for two years in succession. This growth was primarily due to a surge in the exports of gems, but was also sustained by the continued growth in Construction, which tends to increase output in the Quarrying sub-sector. Gem exports recorded a 25.6 per cent growth in SDR terms, with exports being SDR 50.5 million in 1993, as against SDR 40.2 million in 1992.

The Manufacturing sector continued to be the single biggest contributor to overall economic growth, accounting for 26.4 per cent of the real growth in GNP in 1993. The sector recorded a 10.5 per cent increase in value added in 1993 compared to a growth of 8.8 per cent in 1992. The Factory Industry sub-sector, which is the most important sub-sector under Manufacturing, grew by 11.3 per cent in 1993, continuing the expansion seen in the past few years. The heavy investment in factory industries, both in enterprises coming under the purview of the Board of Investments (BOI) and those outside, made this sub-sector a vibrant growth sector of the economy. Factory industries have a heavy bias towards textiles and apparel. Output in this category of industries rose by 30 per cent in 1993, while exports of textiles and garments increased by 17.4 per cent in SDR terms. Overall industrial exports grew by 20 per cent in 1993, in SDR terms. Growth in the Manufacturing sector was also boosted by the expansion in the Export Processing sub-sector, which contains the value added relating to the processing of tea, rubber and coconut kernel products. This sub-sector, which

TABLE 1.6

Sectoral Composition and Increase in Gross National Product (1982) Prices 1991 - 1993

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.	
	1991*	1992*	1993*	1991*	1992*	1993*	1992*	1993*	1992*	1993
1. Agriculture, Forestry and Fishing	30,570	30,090	31,554	23.1	21.8	21.2	-480	1,464	-8.2	14.0
1.1 Agriculture	25,941	25,316	26,592	19.6	18.3	17.9	-625	1,276	-10.7	12.2
1.1.1 Tea	3,100	2,303	2,985	2.3	1.7	2.0	-797	682	-13.6	6.5
1.1.2 Rubber	655	669	681	0.5	0.5	0.5	14	12	0.2	0.1
1.1.3 Coconut	2,827	2,971	2,799	2.1	2.2	1.9	144	-172	2.5	-1.6
1.1.4 Paddy	6,002	5,882	6,447	4.5	4.3	4.3	-120	565	-2.0	5.4
1.1.5 Other	13,357	13,491	13,680	10.1	9.8	9.2	134	189	2.3	1.8
1.2. Forestry	2,107	2,149	2,151	1.6	1.6	1.4	42	2	0.7	0.0
1.3. Fishing	2,522	2,625	2,811	1.9	1.9	1.9	103	186	1.8	1.8
2. Mining and Quarrying	3,511	3,300	3,693	2.7	2.4	2.5	-211	393	-3.6	3.8
3. Manufacturing	23,949	26,059	28,806	18.1	18.9	19.4	2,110	2,747	36.0	26.4
3.1. Processing of Tea, Rubber & Coconut Kernel Products	3,332	2,912	3,157	2.5	2.1	2.1	-420	245	-7.2	2.4
3.2. Factory Industry	18,708	21,140	23,529	14.1	15.3	15.8	2,432	2,389	41.5	22.9
3.3. Small Industry	1,065	1,150	1,208	0.8	0.8	0.8	85	58	1.5	0.6
3.4 Other	844	857	912	0.6	0.6	0.6	13	55	0.2	0.5
4. Construction	9,033	9,765	10,400	6.8	7.1	7.0	732	635	12.5	6.1
5. Electricity, Gas, Water and Sanitary Services	1,800	1,897	2,125	1.4	1.4	1.4	97	228	1.7	2.2
6. Transport, Storage and Communication	15,534	16,606	17,287	11.7	12.0	11.6	1,072	681	18.3	6.5
7. Wholesale and Retail Trade	28,556	30,074	32,584	21.6	21.8	21.9	1,518	2,510	25.9	24.1
7.1 Import	10,826	11,714	13,436	8.2	8.5	9.0	888	1,722	15.2	16.5
7.2 Export	3,210	3,695	4,190	2.4	2.7	2.8	485	495	8.3	4.7
7.3 Domestic	14,520	14,665	14,958	11.0	10.6	10.1	145	293	2.5	2.8
8. Banking, Insurance and Real Estate	6,831	7,241	8,023	5.2	5.2	5.4	410	782	7.0	7.5
9. Ownership of Dwellings	3,761	3,795	3,841	2.8	2.7	2.6	34	46	0.6	0.4
10. Public Administration and Defence	6,304	6,449	6,642	4.8	4.7	4.5	145	193	2.5	1.9
11. Services (n.e.s.)	5,355	5,714	5,828	4.1	4.1	3.9	359	114	6.1	1.1
12. Gross Domestic Product	135,204	140,990	150,783	102.3	102.1	101.5	5,786	9,793	98.7	93.9
13. Net Factor Income from Abroad	(2,990)	(2,916)	(2,284)	-2.3	-2.1	-1.5	74	632	1.3	6.1
14. Gross National Product	132,214	138,074	148,499	100.0	100.0	100.0	5,860	10,425	100.0	100.0

* Provisional

Source: Central Bank of Sri Lanka

was badly affected by the drop in tea production in 1992 and hence declined by 12.6 per cent in that year, grew by 8.4 per cent in 1993. With increasing economic activity and spin offs from the factory industries as well as the tourist industry, the small industries sub-sector is estimated to have expanded at 5.0 per cent in 1993. The Other sub-sector, which is heavily influenced by paddy production, grew by 6.4 per cent, consequent to the growth in paddy output.

The Construction sector continued to grow in 1993, though at a slower pace than in 1992. This sector grew by 6.5 per cent in 1993, when compared with a growth of 8.1 per cent in the previous year. This year too, the major portion of construction activity was in the Private sector.

The aggregate Services sector expanded at 6.3 per cent in 1993, up from the growth of 5.3 per cent in 1992. Significant growth in trade, finance and utilities helped to boost output in this aggregate sector. The high rainfall during the year contributed to a substantial increase in generation of hydro electricity by 31 per cent in 1993. With the development of the pipe borne water supply network, the volume of water supplied increased by 26 per cent. These, and the increased supply of gas for industrial and domestic use, led to a 12 per cent increase in output in the Electricity, Gas, Water and Sanitary Services sector, more than double the growth of 5.4 per cent seen in 1992.

The Transport, Storage and Communications sector grew by 4.1 per cent in 1993. This was largely an outcome of the expansion in goods haulage brought about by the improved performance in import and export trade and domestic agriculture. Moreover, communication facilities too showed an expansion.

The Wholesale and Retail Trade sector grew by 8.3 per cent in 1993, compared with a growth of 5.3 per cent in 1992. Growth in this sector was supported by a 14.7 per cent growth in the Import Trade sub sector and a 13.4 per cent growth in the Export Trade sub sector. Increased domestic economic activity, especially in agriculture and industry, also caused an increase in output in the Domestic Trade sub sector.

The year 1993 saw Sri Lanka's financial markets enjoying a boom. With increasing international acceptance as an emerging financial centre, both portfolio investments and direct investments increased. Net portfolio investments rose from SDR 18.4 million in 1992 to SDR 48.0 million in 1993, a 160 per cent increase.

The All Share Price Index of the Colombo Stock Exchange rose by 62 per cent in 1993. The aggressive Open Market Operations conducted by the Central Bank and the high interest rates prevailing in the economy also helped increase the profitability in the Financial sector. Consequently, the Banking, Insurance and Real Estate sector saw its value added increasing by 10.8 per cent in real terms in 1993, in comparison with a real growth of 6.0 per cent in 1992.

The tourist industry however, did not fare as well as expected. Although a significant growth was experienced in the first few months of the year, a tailing off of this inflow was observed after June. Overall, a marginal decline in the total number of tourists occurred from 1992 to 1993, although the number of tourist nights increased. The Services (n.e.s.) sector, thus grew only by a modest 2.0 per cent in 1993, in comparison to a growth of 6.7 per cent in the previous year.

EXPENDITURE

Gross Domestic Expenditure (GDE) at current market prices was estimated at Rs.544 billion, a 17.1 per cent increase over the Rs.465 billion estimated for 1992. Higher growth was seen in both consumption and investment in 1993 than in 1992. Consumption expenditure was estimated at Rs.416 billion, a 15.2 per cent increase over the previous year, while Gross Domestic Capital Formation rose by 23.9 per cent to Rs.128 billion in 1993.

TABLE 1.7

Total Resources and Their Uses 1982 – 1993

Item	At Current Market prices (Rs. Million)				At 1982 Prices								Percentage Change	
	1982	1991*	1992*	1993*	1982		1991*		1992*		1993*			
					Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%	1992 over 1991	1993 over 1992
1. Total Resources	145,143	517,019	599,791	713,029	145,143	100	202,492	100	215,077	100	235,016	100	6.2	9.3
1.1. GDP at Market Prices	99,238	372,345	425,283	496,485	99,238	68	141,895	70	147,996	69	158,208	67	4.3	6.9
1.2. Imports of Goods and Non Factor Services	45,905	144,674	174,508	216,544	45,905	32	60,597	30	67,081	31	76,808	33	10.7	14.5
2. Utilization	145,143	517,019	599,791	713,029	145,143	100	202,492	100	215,077	100	235,016	100	6.2	9.3
2.1. Consumption	87,468	324,847	361,438	416,301	87,468	60	124,719	62	130,412	61	139,541	59	4.6	7.0
2.2. Gross Domestic Fixed Capital Formation	30,279	84,206	100,039	126,070	30,279	21	33,906	17	35,399	16	40,231	17	4.4	13.7
2.2.1. Government	4,866	15,838	13,632	22,419	4,866	3	5,667	3	4,165	2	5,973	3	-26.5	43.4
2.2.2. Public Corporation														
2.2.3. Private Sector	25,413	68,368	86,407	103,651	25,413	18	28,239	14	31,234	15	34,258	15	10.6	9.7
2.3. Changes in Stocks	248	950	3,200	1,800	248	-	201	-	622	-	325	-	209.5	-47.7
2.4. Exports of Goods and Non-Factor Services	27,148	107,016	135,114	168,858	27,148	19	43,666	22	48,644	23	54,919	23	11.4	12.9

* Provisional.

Source : Central Bank of Sri Lanka

Both Private consumption and Government consumption, grew at a faster rate than in 1992. Private consumption grew by 15.4 per cent (11.2 per cent in 1992) to reach a level of Rs.370 billion, while Government consumption grew by 13.6 per cent (11.8 per cent in 1992) to a level of Rs.47 billion. In Private consumption, the expenditure on imported goods and non-factor services rose at a higher rate than expenditure on domestically produced goods. This is in contrast to the pattern in 1992, when expenditure on imported goods and non-factor services increased only by a marginal 0.9 per cent. In 1993, expenditure on imported goods and non-factor services rose by 17.9 per cent, the bulk of the increase being seen in the imports of personal consumption goods. Private consumption expenditure on locally produced goods and services grew by 14.5 per cent as against a growth of 15.3 per cent in 1992.

Gross Domestic Capital Formation (GDCF), which includes changes in stocks, rose by 23.9 per cent to Rs.128 billion in 1993, as against an increase of 21.2 per cent in 1992. Reflecting the additional investments in the economy made both by locals and foreigners, the ratio of GDCF to GDP at current market prices increased from 24 per cent in 1992 to 26 per cent in 1993.

As in the recent past, the Private sector continued to be the dominant investor, though in 1993, significant investment was also made by the Public sector. Private sector investment increased by 17.5 per cent in 1993, with the major areas of investment being residential and non-residential construction, transport equipment and plant and communications and machinery. Public sector investment, which, according to revised estimates, declined by approximately 14 per cent in 1992, experienced a large surge in 1993, with investments increasing by over 65 per cent. Large investments in transport and earthmoving equipment, rolling stock for rail transport and further investment in infrastructure development and the generation and distribution of electricity were the major areas of Public sector investment.

Sri Lanka continued to prove attractive to foreign investors. Net foreign direct investment, which amounted to SDR 86 million in 1992, increased by 55.8 per cent to reach a level of SDR 134 million in 1993. Overall net private investment, which includes both portfolio investment and direct investment, increased by 74.4 per cent in 1993, to reach a level of SDR 182 million.

AVAILABILITY AND UTILISATION OF RESOURCES

The total value of resources available for utilisation in the economy, which comprises Gross Domestic Product and imports of goods and non-factor services, increased by 18.9 per cent to

TABLE 1.8
National Savings at Current Market Prices

CATEGORY	(Rs. Million)			
	1982	1991*	1992*	1993*
1. Gross Domestic Product at Market Prices	99,238	372,345	425,283	496,485
2. Domestic Savings	11,770	47,498	63,845	80,184
3. Net Factor Income from Abroad	-1,959	-7,367	-7,821	-5,757
4. Net Private Transfers from Abroad	5,494	16,623	20,253	27,090
5. National Savings	15,305	56,754	76,277	101,517
6. Domestic Savings Ratio (2 as a % of 1)	11.9	12.8	15.0	16.2
7. National Savings Ratio (5 as a % of 1)	15.4	15.2	17.9	20.4

* Provisional

Source : Central Bank of Sri Lanka

Rs.713 billion in 1993 from Rs.600 billion in 1992. The corresponding increase in 1992 was 16.0 per cent. The total increase of Rs.113 billion in 1993 was the sum of a Rs.71 billion increase in GDP at current market prices and a Rs.42 billion increase in the imports of goods and non-factor services. Imports of goods and non-factor services rose by 24.1 per cent in 1993, as against an increase of 20.6 per cent in 1992. The availability of resources grew by 9.3 per cent in real terms in 1993.

Of the total resources available to the economy, 58.4 per cent was consumed, 17.9 per cent was invested and 23.7 per cent exported. Total exports of goods and non-factor services rose by 25.0 per cent in 1993, compared to an increase of 26.3 per cent in 1992. Consumption increased by 15.2 per cent in 1993, a significantly higher rate than the 11.3 per cent experienced in 1992. Gross Domestic Capital Formation, which consists of both Gross Domestic Fixed Capital Formation and Changes in Stocks, increased by 23.9 per cent in nominal terms in 1993, compared with a 21.2 per cent increase in 1992. In real terms, consumption increased by 7 per cent in 1993. The increase in domestic production, especially in Agriculture, and the rising levels of imports have led to the growth in real consumption. Gross Domestic Capital Formation increased by 12.6 per cent, in real terms, in 1993. The major areas of investment were, construction, transport equipment, communications and machinery.