

NATIONAL INCOME AND EXPENDITURE

OVERALL TRENDS

The Gross Domestic Product (GDP) of Sri Lanka at constant 1982 prices was estimated to have grown by 5.6 per cent in 1994, reflecting continued growth momentum stimulated by economic liberalisation and structural reforms. This growth performance compares well with the growth rate of 6.9 per cent realised in the previous year. All sectors continued to contribute positively to overall economic growth. Significant production increases were recorded in the agriculture, manufacturing, construction, trade and finance sectors.

The Gross National Product (GNP), which is derived by adjusting GDP for net factor income from abroad, registered a growth of 5.3 per cent compared with 7.7 per cent, in 1993. The slightly lower growth of GNP as compared with the growth of GDP, reflected the increased outflow of net factor income in 1994. The increase in the outflow could be partly attributed to increased interest rates in Western countries, a reduction in domestic interest rates and uncertainty in the domestic market.

Sectoral analysis of production indicated that while all sectors contributed to the aggregate GNP growth, the Manufacturing sector outperformed the rest. Led by the expansion in exports of industrial goods, the Manufacturing sector recorded a growth rate of 9.1 per cent in real terms in 1994 compared with 10.5 per cent in 1993. The contribution of the Manufacturing sector to the overall growth in GNP was 33 per cent in 1994. The share of Agriculture and Trade sectors in GNP growth were also significant at 13 per cent and 26 per cent respectively. Favourable weather conditions in 1994 resulted in relatively higher production volumes in tea, rubber, coconut, paddy and subsidiary food crops. The Agriculture sector, inclusive of forestry and fishing, recorded a growth of 3.3 per cent during the year under review. In comparison, the growth achieved in the previous year was 4.9 per cent. This growth however, was over a low production base in several crops in 1992, which resulted from the drought in that year. The Construction sector was able to sustain the high rates of growth recorded in recent years. This also reflected a continuity in the underlying favourable long term investment climate in the country. The expansion in construction activities also gave an impetus to growth in the Mining & Quarrying sector. This sector registered a growth of 6.0 per cent in 1994. Growth in the export demand for gems bolstered the performance of the export oriented mining sub-sector, whereas the Quarrying sub-sector expanded as the outcome of the enhanced domestic demand for products of this sub-sector from the Manufacturing and Construction sectors. The Services sector grew further by 5.2 per cent in 1994 compared with an expansion of 6.3 per cent in 1993, in line with the strong growth in the primary and the secondary sectors of the economy.

In the case of services, wholesale and retail trade and banking and financial services registered strong growth. In real terms, a growth of 12.8 per cent in exports and a growth of 9.4 per cent in imports provided the basis for the strong growth in trade. Increased financial activity associated with the expansion in the major sectors of the economy saw the Banking, Insurance and Real Estate sub-sector grow by 9.5 per cent in 1994. The Electricity, Gas, Water & Sanitary Services sector grew by 9.9 per cent. This was largely the outcome of increased generation of hydro-electricity, by 7.7 per cent, over the previous year. The performance in tourism and related services showed a modest improvement in 1994 due to a 3.9 per cent increase in tourist arrivals. The Services (n.e.s.) sector, in which tourism and related services are included, has grown by 2.5 per cent.

The Gross Domestic Product (GDP) at constant (1982) factor cost prices was estimated at Rs.159 billion, an increase of 5.6 per cent over the previous year. The Gross National Product (GNP) at constant (1982) factor cost prices was estimated to have increased by 5.3 per cent over

1993 to Rs.157 billion in 1994. In contrast to the scenario that prevailed in 1993 in which the repatriation of profits was held back due to high domestic interest rates and low interest rates in the Western markets, a narrowing of these interest rates differentials in 1994 led to higher outflows. In addition, uncertainty in the domestic market also contributed to the capital outflows. Although a growth in foreign assets held by the Central Bank resulted in a corresponding increase in investment income in 1994, it was not sufficient to compensate for the increased outflow. As a result, the outflow of net factor income increased.

GNP at current factor cost prices was estimated at Rs.515 billion in 1994, an increase of 15.2 per cent over the level of Rs.447 billion reported in 1993. Consequently, the implicit GNP price deflator, a measure of overall price changes in the economy, was estimated to have risen by 9.4 per cent in 1994. When compared to the corresponding increase of 9.5 per cent in 1993, this reflected a slight moderation in the increase of the general price level in the economy in 1994.

The mid year population of Sri Lanka in 1994 has been estimated at 17.87 million. Accordingly, the per capita GNP at current factor cost prices is estimated at Rs.28,843 (U.S.\$ 584), an increase of 13.7 per cent over the Rs.25,377 (U.S.\$ 526) recorded for 1993. In real terms, per capita GNP rose by 3.9 per cent in 1994.

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 an impact on National Income. 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 1994, the overall Terms of Trade has deteriorated by 4.7 per cent in contrast to an improvement of 2.0 per cent in 1993. Consequently, Real National Income, which is real GNP adjusted for the effects of the Terms of Trade, rose by 4.3 per cent in 1994, as against an increase of 8.4 per cent in 1993.

GNP at current market prices, which is equivalent to GNP at current factor cost prices adjusted for the effect of indirect taxes less subsidies, increased by 15.2 per cent to Rs.576 billion in 1994 from Rs.500 billion in 1993. Correspondingly, per capita GNP at current market prices increased by 13.7 per cent to Rs.32,231 (U.S.\$ 652) in 1994 from Rs.28,357 (U.S.\$ 588) in 1993.

On the expenditure side, Gross Domestic Expenditure at current market prices was estimated to be Rs.648 billion in 1994, an increase of 18.3 per cent over the level of Rs.547 billion estimated for 1993. In nominal terms, consumption expenditure was estimated to have increased by 17.0 per cent, while Gross Domestic Fixed Capital Formation was estimated to have risen by 22.4 per cent to Rs.154 billion. Meanwhile, investments as a ratio of GDP at current market prices was 27 per cent in 1994. Almost 88 per cent of overall investment was generated in the Private sector, where investment expenditure on plant and machinery, transport equipment, construction and communications was significant. Meanwhile, as in the previous year, Public sector investment was confined to the development of infrastructure such as communications, port services, pipe-borne water supply and roads.

In real terms, consumption expenditure continued to expand in 1994, though at a slightly slower rate of 6.4 per cent when compared with the increase of 7.1 per cent in 1993. Meanwhile, Fixed Capital Formation, which in real terms grew by 12.8 per cent in 1993, had its growth moderated to 9.1 per cent in 1994. A decline in public investment and a moderation in foreign direct investment are attributed as causes of the slowing down of investment growth in 1994.

Domestic Savings were estimated to be Rs.88 billion, an increase of 9.5 per cent over the level of Rs.80 billion for 1993. However, the savings ratio, which recorded an improvement from 15 to 16 per cent in 1993, slid back to 15.2 per cent in 1994. National Savings, which is Domestic Savings adjusted for net private remittances and net factor income from abroad, was estimated at Rs.111 billion, which as a ratio of GDP at market prices, was 19.1 per cent in 1994. In comparison, the savings ratio in the previous year was 20.3 per cent.

SECTORAL PERFORMANCE

The Agriculture sector recorded a growth rate of 3.3 per cent in 1994, compared with 4.9 per cent in the previous year. High production levels of paddy, tea, coconut and several other food crops were salient features which helped to generate growth in the Agriculture sector in 1994. Favourable weather conditions were conducive to continued growth in agriculture. However, a marginal decline in the 'other agriculture' sub-sector tended to dampen growth in the overall Agriculture sector.

In plantation agriculture, tea, rubber and coconut production recorded growth rates of 4.4 per cent, 1.0 per cent and 20.6 per cent, respectively, in 1994. Meanwhile, the output of the paddy sub-sector increased by 4.7 per cent over the production level in 1993. The impressive production gains in these major crops were somewhat offset by the weaker performance in the 'other agriculture' sub-sector, whose output has registered a marginal decline of 0.1 per cent. Within the 'other agriculture' sub-sector, an increased output was recorded in subsidiary food crops, sugar cane, animal husbandry and dairy products, while the output of minor export crops, vegetables and fruits suffered a setback. The growth rate in the fisheries sub-sector declined to 1.4 per cent in 1994 from 7.1 per cent in 1993, while the forestry sub-sector registered a marginal decline reflecting the diminishing timber resources which have resulted from over-exploitation in recent years.

The main thrust to the economic growth process in 1994 continued to come from the Manufacturing sector although at a slower pace. The sector as a whole recorded a 9.1 per cent growth in value-added at constant (1982) prices in 1994, as against growth of 10.5 per cent in the previous year. Within Manufacturing, factory industry, the most important sub-sector in terms of contribution to value-addition and export earnings, grew by 8.8 per cent in 1994. In comparison, the growth of this sub-sector in the previous year was 11.3 per cent. The growth in factory industry was supported by an expansion in industrial exports by 10.7 per cent in SDR terms. The industrial categories under factory industry that recorded strong performance in 1994 were food & beverages, textiles, apparel & leather products and non-metallic mineral products. The growth in output of plantation agriculture enabled the value-added in the processing industries of tea, rubber and coconut products to increase by 13 per cent in real terms, as against 8.4 per cent in 1993. With increasing economic activity and spin-offs from the factory industries, the small industries sub-sector is estimated to have expanded by 5.7 per cent in 1994. The 'other-industries' sub-sector grew by 6.8 per cent, compared to 6.4 per cent in 1993. The expansion in the rice milling industry was the most conspicuous factor for the growth in this industrial category.

The Construction sector continued to register an impressive growth for the third consecutive year with value added in the sector rising by 6.0 per cent in 1994. The sustained growth in this sector reflected mainly the expansion in construction activities by the private sector in housing construction and construction of commercial and industrial buildings. Public sector construction in 1994 was at a comparatively lower scale when compared with the previous year. The buoyant performance in the Construction sector was also reflected in the value of credit extended by the Banking sector for the construction, housing and real estate development purposes which grew by 38 per cent in the twelve month period ending September 1994 when compared to 11 per cent in 1993.

The Mining and Quarrying sector recorded a growth of 6.0 per cent during the year compared to 11.9 per cent in 1993. Increased exports of gems as well as the enhanced demand for quarrying products used in the manufacturing and construction industries were the factors responsible for the growth in this sector. In 1994, the export volume of precious and semi-precious stones increased by 1.3 per cent while the export value increased by 9.8 per cent, to SDR 55.1 mn. However, the output of important minerals like graphite and mineral sands suffered a setback. Consequently, the mining sub-sector, in which gem mining is the predominant economic activity, is estimated to have grown

TABLE 1.6

Sectoral Composition and Increase in Gross National Product (1982) Prices 1992 - 1994

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.	
	1992*	1993*	1994*	1992*	1993*	1994*	1993*	1994*	1993*	1994*
1. Agriculture, Forestry and Fishing	30,090	31,554	32,593	21.8	21.2	20.8	1,464	1,039	13.7	13.1
1.1 Agriculture	25,316	26,592	27,596	18.3	17.9	17.6	1,276	1,004	12.0	12.7
1.1.1 Tea	2,303	2,985	3,116	1.7	2.0	2.0	682	131	6.4	1.7
1.1.2 Rubber	669	681	688	0.5	0.5	0.4	12	7	0.1	0.1
1.1.3 Coconut	2,971	2,799	3,376	2.2	1.9	2.2	-172	577	-1.6	7.3
1.1.4. Paddy	5,882	6,447	6,750	4.3	4.3	4.3	565	303	5.3	3.8
1.1.5. Other	13,491	13,680	13,666	9.8	9.2	8.7	189	-14	1.8	-0.2
1.2. Forestry	2,149	2,151	2,147	1.6	1.4	1.4	2	-4	0.0	-0.1
1.3. Fishing	2,625	2,811	2,850	1.9	1.9	1.8	186	39	1.7	0.5
2. Mining and Quarrying	3,300	3,693	3,915	2.4	2.5	2.5	393	222	3.7	2.8
3. Manufacturing	26,059	28,806	31,418	18.9	19.4	20.1	2,747	2,612	25.8	33.0
3.1. Processing of Tea, Rubber & Coconut Kernel Products	2,912	3,157	3,567	2.1	2.1	2.3	245	410	2.3	5.2
3.2. Factory Industry	21,140	23,529	25,600	15.3	15.8	16.3	2,389	2,071	22.4	26.1
3.3. Small Industry	1,150	1,208	1,277	0.8	0.8	0.8	58	69	0.6	0.9
3.4 Other	857	912	974	0.6	0.6	0.6	55	62	0.5	0.8
4. Construction	9,765	10,400	11,024	7.1	7.0	7.0	635	624	6.0	7.9
5. Electricity, Gas, Water and Sanitary Services	1,897	2,125	2,335	1.4	1.4	1.5	228	210	2.1	2.7
6. Transport, Storage and Communication	16,606	17,287	17,823	12.0	11.6	11.4	681	536	6.4	6.8
7. Wholesale and Retail Trade	30,074	32,584	34,667	21.8	21.9	22.1	2,510	2,083	23.5	26.3
7.1 Import	11,714	13,436	14,699	8.5	9.0	9.4	1,722	1,263	16.1	15.9
7.2 Export	3,695	4,190	4,726	2.7	2.8	3.0	495	536	4.6	6.8
7.3 Domestic	14,665	14,958	15,242	10.6	10.1	9.7	293	284	2.8	3.6
8. Banking, Insurance and Real Estate	7,241	8,023	8,785	5.2	5.4	5.6	782	762	7.3	9.6
9. Ownership of Dwellings	3,795	3,841	3,887	2.7	2.6	2.5	46	46	0.4	0.6
10. Public Administration and Defence	6,449	6,642	6,848	4.7	4.5	4.4	193	206	1.8	2.6
11. Services (n.e.s.)	5,714	5,828	5,974	4.1	3.9	3.8	114	146	1.1	1.8
12. Gross Domestic Product	140,990	150,783	159,269	102.1	101.4	101.7	9,793	8,486	91.8	107.2
13. Net Factor Income from Abroad	(2,916)	(2,039)	(2,607)	-2.1	-1.4	-1.7	877	-568	8.2	-7.2
14. Gross National Product	138,074	148,744	156,662	100.0	100.0	100.0	10,670	7,918	100.0	100.0

* Provisional

Source: Central Bank of Sri Lanka

by 1.5 per cent. The quarrying sub-sector recorded a real growth rate of 8 per cent in 1994, accounting for 75 per cent of the increase in the value-added of the Mining and Quarrying sector.

The overall Services sector expanded further in 1994 with value-added increasing by 5.2 per cent compared with a growth of 6.3 per cent in the previous year. Within the Services sector, the Transport, Storage and Communication sector has grown by 3.1 per cent. This was largely the outcome of the growth of goods haulage which resulted from the expansion in economic activities in the primary and secondary sectors of the economy, as well as the growth in communication services, a sub-sector in which substantial capital investments were made in recent years for capacity expansion.

The Wholesale & Retail Trade sector recorded an overall growth of 6.4 per cent, primarily due to the expansion in import and export trade. The expansion in this sector contributed to 26.3 per cent of the total increase in real GNP in 1994. In 1994, export trade registered a growth of 12.8 per cent while import trade grew by 9.4 per cent.

The high rainfall during the year contributed to an increase in the generation of hydro electricity by 7.7 per cent in 1994. Total electricity generated during 1994 was 4,364 Gwh. a growth of 9.7 per cent over 1993. This, and an expansion in the supply of pipe-borne water made possible through recent capital investments, were major contributory factors for maintaining a high rate of growth in the Electricity, Water, Gas and Sanitary Services sector.

The Banking, Finance and Real Estate Sector grew by 9.5 per cent in 1994 compared with a growth of 10.8 per cent in 1993. With greater diversification in financial services, the banking sub-sector remained robust during the year under review.

The tourism sub-sector, which suffered a setback in 1993, recovered in 1994 with tourist arrivals and foreign exchange earnings from tourism recording increases of 3.9 per cent and 10.2 per cent (in SDR value), respectively. The expansion in the tourist industry, enabled the 'Other' Services (n.e.s.) sector to achieve a higher growth rate of 2.5 per cent in 1994 when compared to 1993.

EXPENDITURE

Gross Domestic Expenditure (GDE) at current market prices was estimated at Rs.648 billion, a 18.3 per cent increase over the Rs.547 billion estimated for 1993. While consumption expenditure registered a higher rate of increase in 1994 when compared to the previous year, a slight moderation in investment expenditure was observed. Consumption expenditure was estimated at Rs.491 billion, a 17.0 per cent increase over the previous year, while Gross Domestic Capital Formation rose by 22.4 per cent to Rs.157 billion in 1994. Private consumption grew by 16.4 per cent to reach a level of Rs.435 billion, while government consumption grew by 22.5 per cent. Continuing the expenditure pattern observed in 1993, private consumption expenditure on imported goods and non-factor services rose at a higher rate (24 per cent) than the expenditure on domestically produced goods (13.6 per cent). Within imported consumer goods, food & beverages and consumer durables such as motor vehicles and electrical goods recorded a significant growth. The rate of growth in government consumption expenditure was higher in 1994 (22.5 per cent compared to 11.8 per cent in 1993) mainly due to a sharp increase in government purchases of goods and services by 22 per cent during the year.

Gross Domestic Capital Formation (GDCF), which includes changes in stocks, rose by 22.4 per cent to Rs.157 billion in 1994, as against an increase of 23.9 per cent in 1993. A larger contribution to capital formation came from the Private sector, following the trend in recent years. Private investments were mainly on plant and machinery, transport equipment and construction of

TABLE 1.7

Total Resources and Their Uses 1982 - 1994

Item	At Current Market prices (Rs. Million)				At 1982 Prices								Percentage Change	
	1982	1992*	1993*	1994*	1982		1992*		1993*		1994*			
					Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%	1993 over 1992	1994 over 1993
1. Total Resources	145,143	599,791	716,304	843,397	145,143	100	215,077	100	235,016	100	254,783	100	9.3	8.4
1.1. GDP at Market Prices	99,238	425,283	499,760	578,795	99,238	68	147,996	69	158,208	67	167,068	66	6.9	5.6
1.2. Imports of Goods and Non Factor Services	45,905	174,508	216,544	264,602	45,905	32	67,081	31	76,808	33	87,715	34	14.5	14.2
2. Utilization	145,143	599,791	716,304	843,397	145,143	100	215,077	100	235,016	100	254,783	100	9.3	8.4
2.1. Consumption	87,468	361,438	419,576	491,032	87,468	60	130,412	61	139,729	59	148,657	58	7.1	6.4
2.2. Gross Domestic Fixed Capital Formation	30,279	100,039	126,070	154,310	30,279	21	35,399	16	39,946	17	43,571	17	12.8	9.1
2.2.1. Government	4,866	13,632	20,765	18,455	4,866	3	4,165	2	5,531	2	4,530	2	32.8	-18.1
2.2.2. Public Corporation	25,413	86,407	105,305	135,855	25,413	18	31,234	14	34,415	15	39,041	15	10.2	13.4
2.2.3. Private Sector														
2.3. Changes in Stocks	248	3,200	1,800	2,250	248	-	622	-	325	-	387	-	-47.7	19.1
2.4. Exports of Goods and Non-Factor Services	27,148	135,114	168,858	195,805	27,148	19	48,644	23	55,016	24	62,168	25	13.1	13.0

* Provisional.

Source: Central Bank of Sri Lanka

residential as well as non-residential buildings. Meanwhile, public investment continued to be concentrated in development of infrastructure such as port services, communications, roads and the supply of pipe-borne water.

AVAILABILITY AND UTILISATION OF RESOURCES

The total value of resources available for utilisation in the economy, which comprises of Gross Domestic Product and imports of goods and non-factor services, increased by 17.7 per cent to Rs.843 billion in 1994, from Rs.716 billion in 1993. The corresponding increase in 1993 was 19.4 per cent. The total increase in resources of Rs.127 billion in 1994 was the sum of a Rs.79 billion increase in GDP at current market prices and a Rs.48 billion increase in the imports of goods and non-factor services. Imports of goods and non-factor services rose by 22.2 per cent in 1994, compared with an increase of 24.1 per cent in 1993. The availability of resources grew by 8.4 per cent in real terms in 1994 compared to 9.3 per cent in the previous year.

The utilisation of total resources available to the economy, indicated that consumption was 58.2 per cent, Gross Domestic Capital formation (investment) was 18.6 per cent and exports of goods and non-factor services amounted to 23.2 per cent. Total exports of goods and non-factor services rose by 16 per cent in 1994 in nominal terms, compared to an increase of 25.0 per cent in 1993. In 1994, nominal consumption expenditure in absolute term rose by 17.0 per cent, while Gross Domestic Fixed Capital Formation increased by 22.4 per cent, similarly, in real terms, consumption increased by 6.4 per cent in 1994. Gross Domestic Capital Formation increased by 9.2 per cent in real terms in 1994. The growth in investments on construction and transport equipment was most significant in capital formation.

TABLE 1.8
National Savings at Current Market Prices

CATEGORY	(Rs. Million)			
	1982	1992*	1993*	1994*
1. Gross Domestic Product at Market Prices	99,238	425,283	499,760	578,795
2. Domestic Savings	11,770	63,845	80,184	87,763
3. Net Factor Income from Abroad	-1,959	-7,821	-5,979	-8,028
4. Net Private Transfers from Abroad	5,494	20,253	27,090	30,989
5. National Savings	15,305	76,277	101,295	110,724
6. Domestic Savings Ratio (2 as a % of 1)	11.9	15.0	16.0	15.2
7. National Savings Ratio (5 as a % of 1)	15.4	17.9	20.3	19.1

* Provisional

Source : Central Bank of Sri Lanka