

2. NATIONAL INCOME AND EXPENDITURE

2.1 Overall Trends

In 1995, Sri Lanka continued to maintain the rapid momentum of economic growth achieved during the last several years with the progressive liberalisation of the economy. The Gross Domestic Product (GDP) grew by 5.5 per cent in real terms, the same rate of growth as the annual average during the previous five years. At the same time, the Gross National Product (GNP) (which is GDP adjusted for factor income from abroad) grew by 5.9 per cent, reflecting a sharp drop in investment income outflows during 1995.

The GDP at current market prices in 1995 has been estimated as Rs. 661,902 million. The mid year population having been estimated as 18.1 million, the per capita GDP in 1995 is estimated to be Rs. 36,545 or US dollars 713. Although this is the highest per capita income recorded by any South Asian country (Maldives US dollars 623, Pakistan US dollars 404, India US dollars 286, Bangladesh US dollars 208, Nepal US dollars 169), it is yet far behind industrial nations (Japan US dollars 36,739, USA dollars 25,852, Germany US dollars 22,539), Asian city states (Singapore US dollars 23,532, Hong Kong US dollars 18,895) and other emerging economies of Asia (Taiwan US dollars 12,187, South Korea US dollars 8,540, Malaysia US dollars 3,558, Thailand US dollars 2,411), but somewhat close to Indonesia (US dollars 909).¹

It should be noted, however, that extreme caution should be exercised in comparing national economies in terms of GDP and drawing inferences on their relative living standards. Recently, attempts have been made to measure GDPs in terms of the purchasing power of the US dollar. Even these only approximate to reality, but the fact remains that Sri Lanka has a long way to go to catch up even with the emerging economies of Asia.

However, the resilience of the economy in a year following a change of government after 17 years augurs well for the future. A strong commitment by the new administration to open and market friendly economic policies established a continuity of policies irrespective of political differences, which was strongly welcomed by investors. Also welcomed was a strong commitment to settle the lingering conflict in the North and the East by negotiation.

¹ Data pertain to 1994, except for Taiwan (1995) and Bangladesh, India and Hong Kong (1993). Corresponding per capita GDP for Sri Lanka in 1993 and 1994 were US dollars 587 and 656, respectively. (Sources: International Financial Statistics-IMF, March 1996 and World Tables-World Bank, 1995).

Unfortunately, the negotiations were aborted in April 1995 and the subsequent resumption of hostilities continued to be a drag on the economy in terms of production and investment. Compounding the situation was a retrenchment of foreign investment in emerging economies of Asia, due to the uncertainties created by the crisis of the Mexican economy in late 1994.

The satisfactory performance of the economy in 1995 was also aided by good weather and an improvement in primary commodity prices in the case of agriculture. It is noteworthy that Sri Lanka achieved a record rice crop during the year, despite the disincentive of lower prices induced by the subsidisation of wheat flour prices. Incidentally, rice imports were reduced to virtually nothing during 1995. Rubber and tea fetched record prices but structural problems prevented the sectors from benefitting fully from the boom conditions by raising production. The predominantly state owned plantation agriculture continued to suffer from low productivity, high costs and financial constraints. On the whole, the Agriculture sector (including forestry and fishing) recorded a growth of 3.3 per cent in 1995, almost at the same rate as in the previous year, but its share in GNP declined from 21 to 20 per cent. Its contribution to economic growth declined from 13 per cent in 1994 to 12 per cent, most of the contribution coming from paddy and non-plantation agriculture, notably chillies, potatoes, onions, vegetables and other produce for domestic consumption. Meanwhile, the fisheries sector recorded a noteworthy growth of 5 per cent.

The diminishing role of the Agriculture sector is a cause for concern because it provides employment to about 37 per cent of the labour force, meets a large portion of the country's food requirements, contributes to 22 per cent of exports and has the potential of meeting the raw material needs of agro-based industries. The problems of the state owned plantation sector are expected to be met by the current policy of privatising their management on the basis of long-term leases, which will provide an incentive to the new managers to improve productivity. In the field of non-plantation agriculture, efforts are being made to reduce the heavy hand of government in land alienation, import regulation, direction of credit and inputs and excessive protection.

The rapid growth of the Manufacturing sector in Sri Lanka has been a recent phenomenon, a direct result of the liberalisation of the economy. In fact, this sector overtook the Agriculture sector for the first time in 1995 and emerged only slightly behind the lead sector, Wholesale and retail

TABLE 2.1
Sectoral Composition and Increase in Gross National Product at Constant (1982) Prices 1994 - 1995

| Sector | Rate of Increase (%) | | Percentage Share of Increase in GNP | | Percentage Share of GNP | |
|---|----------------------|-------|-------------------------------------|-------|-------------------------|-------|
| | 1994* | 1995* | 1994* | 1995* | 1994* | 1995* |
| 1. Agriculture, Forestry and Fishing | 3.3 | 3.3 | 13.3 | 11.5 | 20.8 | 20.3 |
| Agriculture | 3.8 | 3.3 | 12.8 | 9.7 | 17.6 | 17.2 |
| Tea | 4.4 | 1.6 | 1.7 | 0.5 | 2.0 | 1.9 |
| Rubber | 1.0 | 0.9 | 0.1 | 0.1 | 0.4 | 0.4 |
| Coconut | 20.6 | 5.1 | 7.4 | 1.9 | 2.2 | 2.1 |
| Paddy | 4.7 | 4.7 | 3.9 | 3.4 | 4.3 | 4.3 |
| Other | -0.1 | 2.6 | -0.2 | 3.8 | 8.7 | 8.5 |
| Forestry | -0.2 | 1.2 | -0.1 | 0.3 | 1.4 | 1.3 |
| Fishing | 1.4 | 4.9 | 0.5 | 1.5 | 1.8 | 1.8 |
| 2. Mining and Quarrying | 6.0 | 3.4 | 2.8 | 1.4 | 2.5 | 2.4 |
| 3. Manufacturing | 9.1 | 9.2 | 33.4 | 31.0 | 20.1 | 20.7 |
| Processing of Tea, Rubber & Coconut Kernel Products | 13.0 | 4.4 | 5.2 | 1.7 | 2.3 | 2.2 |
| Factory Industry | 8.8 | 10.0 | 26.5 | 27.6 | 16.4 | 17.0 |
| Small Industry | 5.7 | 6.5 | 0.9 | 0.9 | 0.8 | 0.8 |
| Other | 6.8 | 7.8 | 0.8 | 0.8 | 0.6 | 0.6 |
| 4. Construction | 6.0 | 4.9 | 8.0 | 5.8 | 7.0 | 7.0 |
| 5. Electricity, Gas, Water and Sanitary Services | 9.9 | 10.2 | 2.7 | 2.6 | 1.5 | 1.6 |
| 6. Transport, Storage and Communication | 3.1 | 5.5 | 6.8 | 10.6 | 11.4 | 11.3 |
| 7. Wholesale and Retail Trade | 6.4 | 3.6 | 26.6 | 13.3 | 22.1 | 21.6 |
| Imports | 9.4 | 2.1 | 16.1 | 3.3 | 9.4 | 9.0 |
| Exports | 12.8 | 12.6 | 6.8 | 6.4 | 3.0 | 3.2 |
| Domestic | 1.9 | 2.2 | 3.6 | 3.6 | 9.7 | 9.4 |
| 8. Banking, Insurance and Real Estate | 9.5 | 10.5 | 9.7 | 9.9 | 5.6 | 5.9 |
| 9. Ownership of Dwellings | 1.2 | 1.3 | 0.6 | 0.5 | 2.5 | 2.4 |
| 10. Public Administration and Defence | 3.1 | 5.4 | 2.6 | 4.0 | 4.4 | 4.4 |
| 11. Services (n.e.s.) | 2.5 | 4.5 | 1.9 | 2.9 | 3.8 | 3.8 |
| 12. G.D.P. | 5.6 | 5.5 | 108.4 | 93.5 | 101.7 | 101.3 |
| 13. Net Factor Income from Abroad | - | - | -8.4 | 6.5 | -1.7 | -1.3 |
| 14. G.N.P. | 5.3 | 5.9 | 100.0 | 100.0 | 100.0 | 100.0 |

* Provisional

Source: Central Bank of Sri Lanka

trade. The Manufacturing sector grew by 9 per cent, at about the same rate as in the previous year. The sector's share of the economic growth of 1995 of 31 per cent was the highest, and over twice that of the next highest sector. Factory industries alone contributed to 28 per cent of the economic growth in 1995. This strong performance of factory industries was evident mostly in export-oriented industrial production. In fact, industrial exports accounted for 75 per cent of Sri Lanka's export earnings in 1995, as in the previous year. The share of the Manufacturing sector in GDP rose from 20 per cent in 1994 to 21 per cent in 1995. Within factory industries, food beverages and tobacco, textiles, wearing apparel and leather products and non-metallic mineral products recorded strong growth performance during the year. The leading sub-sector was textiles, wearing apparel and leather products which grew by 13 per cent, followed by food, beverages and tobacco which rose by 11 per cent.

While the robust growth of the Manufacturing sector is a healthy feature of the economy, the heavy reliance on textiles and garments would be a cause for concern as the international Multi-Fibre Agreement, which has created a regime of country export quotas to large markets, will be wound up gradually. This would call for inducing the industry to improve productivity to reach non-quota markets and fostering newer industries with export potential.

Rapid growth of the Services sector (items 5 to 11 in Table 2.1) is a widespread phenomenon in fast growing economies. This sector grew by 5 per cent in 1995 and contributed to 44 per cent of the recorded economic growth. High growth in this sector was sustained mainly by an expansion in the Wholesale and retail trade, Transport, storage and communication and Banking, insurance and real estate sectors. The Wholesale and retail trade sector continued to be the lead sector, accounting for nearly 22 per

Box 1**Purchasing Power Parity GNP Per Capita**

The Gross National Product (GNP) per capita of a country does not provide a good measure for comparing income across countries because it does not show what that per capita income can buy in different countries. In order to adjust for the purchasing power of different currencies, and hence to facilitate cross country comparisons, the GNP per capita is converted to Purchasing Power Parity (PPP) GNP per capita. A conversion factor is required to transform per capita GNP to GNP (PPP) per capita. This conversion factor is defined as the number of units of a country's currency that are required to purchase the same representative basket of goods and services that a US dollar would buy in the United States, or a similar basket of goods and services. Although the reference currency is the US dollar, any other currency could be used as the unit of account.

On the basis of the latest (1993) data given in the World Development Report 1995 of the World Bank, the GNP (PPP) per capita values for industrialised countries were somewhat lower than the corresponding per capita GNP, whereas for the newly industrialised countries of East Asia - Hong Kong, Taiwan and South Korea, the GNP (PPP) per capita values were higher than the per capita GNP, with a narrower gap between the two indicators. In the case of the fast growing countries of East Asia - Malaysia, Thailand and Indonesia, as well as the South Asian countries - India, Pakistan, Bangladesh, Nepal and Sri Lanka, the GNP (PPP) per capita values were much higher, ranging upto nearly six times the corresponding per capita GNP values. The GNP (PPP) per capita for Sri Lanka was almost five times the corresponding per capita GNP. It becomes apparent that the income disparity among countries is less pronounced when GNP (PPP) is examined than when absolute GNP values are considered. For example, the USA's per capita GNP in dollar terms was 40 times that of Sri Lanka, whereas the GNP (PPP) per capita of the USA was only about 8 times that of Sri Lanka.

cent of GNP. There was a slow growth of import trade, but export and domestic trade showed improvement. The Financial sector, with its direct linkages to the fast growing sectors of the economy, grew by 11 per cent as compared with 10 per cent in 1994. The sector's contribution to economic growth was 10 per cent in 1995, as in 1994, reflecting the continuing expansion of Banking, insurance and financial services. The Transport, storage and communication sector grew by 5.5 per cent, largely due to an increase in road haulage brought about by the expansion in the output of the agriculture and industrial sectors and a notable increase in the passenger transport fleet. In addition, there was a rapid expansion in communication and port activities during the year. Communication services grew by 14 per cent and was one of the most dynamic growth sectors. Port handling grew by 7 per cent, reflecting increased volumes of exports and trans-shipment cargo handling.

GNP at current factor cost prices is estimated to have increased by 14.8 per cent in 1995. The implicit GNP deflator, which is a measure of overall price changes in the economy, increased at a lower rate of 8.4 per cent in 1995, compared to 9.4 per cent in the previous year. This growth in the deflator was also consistent with the inflation trends indicated by the aggregate price indices, namely, the

Colombo Consumers' Price Index, the Greater Colombo Price Index and the Wholesale Price Index.

Gross Domestic Expenditure at market prices of Rs.725,710 million, registered a growth of 12 per cent in 1995. Consumption expenditure rose by 14 per cent and investment expenditure by 6 per cent. There was a deceleration in the growth of private consumption expenditure from 16 per cent in 1994 to 13 per cent in 1995, largely accounted for by the decline in prices. Government consumption expenditure on public administration and security rose sharply by 24 per cent.

Gross Domestic Capital Formation increased by 6 per cent to Rs.166,370 million, a major portion (87 per cent) of which was accounted for by the private sector. Government investment recovered from the decline during the 1994 election year to increase by 18 per cent, whereas private investment, when adjusted for aircraft purchases in 1994 and 1995, recorded a trend growth of 9.6 per cent, which was lower than in the previous year owing to the slowdown in foreign investment and construction activity. When adjusted for inflation, the overall Gross Domestic Fixed Capital Formation in real terms showed a marginal decline of 1 per cent in 1995, compared with an increase of 9 per cent in

the previous year. The decline was mainly due to the sharp decline in foreign investment.

Reflecting the continued buoyancy of the economy and attractive incentives available to savers, domestic savings are estimated to have risen to Rs.102,562 million in 1995, an increase of 16 per cent. As a ratio of GDP, this shows an improvement from 15.2 per cent in 1994 to 15.5 per cent in 1995. Meanwhile, along with foreign savings, the national savings ratio has shown a healthy improvement from 19.1 per cent to 19.7 per cent.

2.2 Sectoral Performance

Value added in agriculture increased by 3.3 per cent in 1995. The sluggish growth of this sector has reduced its relative importance in GDP. In the early 1960's the share of agriculture in GDP was around 40 per cent. This had declined to 23 per cent by 1990. The ratio dropped further to 20 per cent in 1995 and below that of the industrial sector. This development was also partly a result of the gradual transformation of the Sri Lankan economy towards a more diversified structure.

Value added in tea, rubber and coconut in 1995 registered increases of 1.6 per cent, 0.9 per cent and 5.1 per cent, respectively. Although rubber prices almost doubled during the year, production increased only marginally by 0.4 per cent. Meanwhile, the domestic consumption of natural rubber has increased in recent years owing to the growth of rubber based industries. Tea prices too showed an improvement in the latter part of the year. Coconut production further expanded by 5.1 per cent in 1995, following a 20.6 per cent increase in the previous year, reflecting the lagged effects of favourable weather and increased fertiliser use. Altogether, these three plantation crops contributed 18 per cent of total export earnings and 84 per cent of agricultural exports. However, the importance of these crops within the sector has been diminishing as a result of crop diversification and lack of investment, owing to resource constraints and weak management.

Paddy, the most important single crop, registered a 4.7 per cent annual growth in 1995 and reached a record level of 2,810 thousand metric tons. With this increase in output and a decline in the demand for rice on account of heavily subsidised wheat flour, the imports of rice during 1995 dropped to a negligible level.

'Other agriculture', which consists of all the other crops and animal husbandry, grew by 2.6 per cent in 1995. The output of most subsidiary food crops increased considerably during the year. There was also a noteworthy

growth in animal husbandry. Poultry farming, which has become more organised in production and marketing in the recent past, performed well during the year. Milk production, which was stimulated by regular buying activities of organised private institutions, increased by 11 per cent in 1995. However, the contribution of minor export crops to growth was negative as some major items registered production decreases.

The fisheries sector performed favourably in 1995. The addition of new boats, engines and fishing gear, increased conversion of one day boats to multi-day vessels, and increased deep sea fishing were the major contributory factors to the high growth in fish production. The cultivation of prawns for export too emerged as a highly lucrative operation.

In the Mining and quarrying sector, gem mining, which accounts for a large share, suffered a setback in 1995. Export earnings of precious and semi-precious stones declined by 7 per cent in SDR terms during the year. However, other mining activities, especially graphite, performed well. An upsurge in the ceramic and tile industry, which is mainly aimed at international markets, led to a growth in quarrying of raw materials. Altogether, the mining and quarrying sector grew by 3.4 per cent in real terms in 1995.

The Manufacturing sector, which includes factory industry, processing of tea, rubber and coconut products and small industry, has been the leading growth sector for well over a decade. Its share in GDP has increased steadily from 14 per cent in 1982 to 20 per cent in 1995. Within the sector, factory industry accounts for 82 per cent of value added, which reflects the slow expansion of the plantation and a fair under-estimation of the small industry sector.

The expansion of factory industry was supported by inducements provided under the liberalisation measures implemented since 1989 and attractive tax concessions granted from time to time. Substantial growth in the industrial sub-categories of textiles, wearing apparel and leather products, food, beverages and tobacco, and fabricated metal products, which accounted for more than 85 per cent of industrial output, were the major contributors to growth in the factory industry sub-sector. The share of factory industry in the Manufacturing sector has risen from 65 per cent in 1982 to 82 per cent in 1995.

The other important sub-sector under manufacturing was processing of tea, rubber, and coconut kernel products. This sub-sector registered a 4.4 per cent growth in 1995, reflecting the trends in agriculture referred to earlier. Small industries, which are mainly industries operating at the

household level, have been estimated to have grown by 6.5 per cent in 1995 as against 5.7 per cent in the previous year. There is evidence of strong growth of this sector, which expanded and created new self-employment opportunities, but estimation is difficult owing to a lack of numbers. The other industry category, which includes mainly the bakery industry and paddy milling, expanded by 7.8 per cent, reflecting the effects of increased paddy output and growing demand for bakery products.

The Construction sector, consisting of building construction and infrastructure development projects, registered a 5 per cent growth in 1995, contributing 6 per cent to overall economic growth, as compared to a growth of 6 per cent and a contribution of 8 per cent in 1994. Evidently, the reduction in foreign capital inflows has led to a slowing down in construction activities in the industrial and services sectors. Moreover, temporary shortages of cement and rising prices along with some delays in implementation of housing projects led to a slowing down in housing construction activities. However, road construction expanded during the year, as a result of utilisation of higher allocation of funds by the Government to this sector.

The Electricity, gas, water and sanitary services sector grew by 10.2 per cent. The gas sub-sector registered the highest growth, indicating the changing consumer preference for liquified petroleum gas. Electricity generation grew by 10 per cent in 1995, while the supply of pipe borne water through foreign funded projects also increased during the year.

The growth of the Transport, storage and communication sector rose from 3 per cent in 1994 to 6 per cent in 1995 and contributed to 11 per cent of the growth

in GNP. The communication sub-sector registered the highest growth rate of 14 per cent, partly due to increased investment by the Sri Lanka Telecom. Increased private sector participation helped the growth process there. In 1995, the number of cellular phones, paging units and pay phone booths increased by more than 75 per cent. The value added in postal services and port and shipping activities also expanded during the year. There was a notable increase in containerised cargo handling following the modernisation of port facilities in Colombo. Storage and container yard facilities also expanded in parallel to cope with increasing demand.

The transport sub-sector, which includes road haulage, public bus transport, rail transport and air transport, grew by 4.2 per cent in 1995. The growth in export and domestic trade raised the value added in road haulage. A large number of buses were assembled and put on the road during the year. Rail transport registered a marginal increase in value added, while air transport also expanded with enhanced capacity created by the reflecting of the national airline.

The Wholesale and retail trade sector grew by 4 per cent in 1995 compared with 6 per cent in the previous year. Although its contribution to overall growth in GNP dropped sharply from 27 per cent in 1994 to 13 per cent in 1995, largely owing to a decline in import trade, the sector continued to maintain its leading position. Value added in export trade grew by 12.6 per cent and in domestic trade, by 2.2 per cent.

The value added in the Banking, insurance and real estate sector registered a growth rate of 11 per cent in real terms, while its contribution to the overall GDP growth was

TABLE 2.2
Total Resources and Their Uses 1982 - 1995

| Item | At Current Market Prices Rs. Million | | | | At Constant (1982) Prices | | | | | | | | | |
|--|---|---------|---------|---------|---------------------------|---------|---------|---------|------------------|------|------|------|-------------------|-------|
| | | | | | Rs. Million | | | | Percentage Share | | | | Percentage Growth | |
| | 1982 | 1993* | 1994* | 1995* | 1982 | 1993* | 1994* | 1995* | 1982 | 1993 | 1994 | 1995 | 1994 | 1995 |
| 1. Total Resources | 145,143 | 716,304 | 843,313 | 963,445 | 145,143 | 235,016 | 254,783 | 264,674 | 100 | 100 | 100 | 100 | 8.4 | 3.9 |
| GDP at Market Prices | 99,238 | 499,760 | 579,147 | 661,902 | 99,238 | 158,208 | 167,068 | 176,257 | 68 | 67 | 66 | 67 | 5.6 | 5.5 |
| Imports of Goods & Non-Factor Services | 45,905 | 216,544 | 264,166 | 301,543 | 45,905 | 76,808 | 87,715 | 88,417 | 32 | 33 | 34 | 33 | 14.2 | 0.8 |
| 2. Utilisation | 145,143 | 716,304 | 843,313 | 963,445 | 145,143 | 235,016 | 254,783 | 264,674 | 100 | 100 | 100 | 100 | 8.4 | 3.9 |
| Consumption | 87,468 | 419,576 | 490,948 | 559,340 | 87,468 | 139,729 | 148,657 | 155,307 | 60 | 59 | 58 | 59 | 6.4 | 4.5 |
| Gross Domestic Fixed Capital Formation | 30,279 | 126,070 | 154,310 | 165,420 | 30,279 | 39,946 | 43,571 | 43,068 | 21 | 17 | 17 | 16 | 9.1 | -1.2 |
| Government | 4,866 | 20,765 | 17,661 | 20,877 | 4,866 | 5,531 | 4,335 | 4,617 | 3 | 2 | 2 | 2 | -21.6 | 6.5 |
| Private sector & Public Corporations | 25,413 | 105,305 | 136,649 | 144,543 | 25,413 | 34,415 | 39,236 | 38,451 | 18 | 15 | 15 | 15 | 14.0 | -2.0 |
| Changes in Stocks | 248 | 1,800 | 2,250 | 950 | 248 | 325 | 387 | 152 | .. | .. | .. | .. | 19.1 | -60.7 |
| Exports of Goods & Non-factor Services | 27,148 | 168,858 | 195,805 | 237,735 | 27,148 | 55,016 | 62,168 | 66,147 | 19 | 23 | 24 | 25 | 13.0 | 6.4 |

* Provisional.

.. Denotes an amount below one per cent.

Source: Central Bank of Sri Lanka

around 10 per cent. Facilities and services provided by the commercial banking sector improved further in 1995. Commercial banking represented around 53 per cent of this category. A notable expansion of domestic credit and diversification of services with new instruments and modern facilities contributed to the expansion of the commercial banking sector. Further, the opening of new commercial banks during the year represented growing confidence, creating a conducive environment for the growth of banking activities. The depressed share market activities affected value addition by brokering firms. The insurance sub-sector, which has become more competitive, expanded rapidly during the year. Introduction of new insurance policies and aggressive selling campaigns helped the growth of the industry. The value added in this sector increased by 4 per cent in 1995.

2.3 Expenditure

Gross Domestic Expenditure (GDE) at market prices of Rs.725,710 million showed an increase of 12 per cent in 1995. Consumption expenditure and investment expenditure grew by 13.9 per cent and 6.3 per cent, respectively, during the year. Private consumption expenditure (PCE), which accounted for more than 85 per cent of the overall consumption expenditure, increased by 12.7 per cent in 1995. This growth was lower than the growth in nominal income, and as a result, private consumption as a ratio of GDP dropped marginally. The drop in private consumption in relation to GDP was also partly a result of the drop in the demand for durable consumer goods. The import of consumer goods, which accounted for 28 per cent of the basket of Private Consumption Expenditure, declined significantly from 24 per cent in 1994 to 13 per cent in 1995. Government consumption expenditure rose by 24 per

cent, mainly due to salary increases, subsidies and higher defence expenditure.

Gross Domestic Capital Formation (GDCF), which represents the investment expenditure of both the private sector and the government sector, increased by 6 per cent to Rs.166,370 million. Government investment recovered from a dip in 1994 to register a growth of 18 per cent in 1995, to Rs.20,927 million. The private sector investment expenditure rose by 5 per cent in 1995 to Rs.145,443 million, following a growth of 30 per cent recorded in 1994. The higher growth in 1994 was mainly due to the purchase of aircraft by the national airline, Air Lanka. When adjusted for aircraft purchases, the private investment to GDP ratio dropped by 1.2 percentage points, which was largely accounted for by the drop in foreign direct investment (FDI). The drop in private investment as a ratio of GDP was also partly caused by the slowing down of construction activities referred to earlier.

2.4 Availability and Utilisation of Resources

The total resources available to the economy defined as the sum of Gross Domestic Product and the import of goods and non-factor services (foreign resources) increased to Rs.963 billion in 1995 from Rs.843 billion in 1994. The increase in total resources of Rs.120 billion was generated by the Rs.83 billion increase in GDP and the Rs. 37 billion increase in foreign resources. Of the total resources, 58 per cent was spent on consumption and 17 per cent on capital formation, while 25 per cent was reflected in exports of goods and non-factor services.

The availability of resources valued at constant (1982) prices rose by 3.9 per cent in 1995, compared with the increase of 8.4 per cent in 1994. In real terms, consumption expenditure grew by 4.5 per cent in 1995 compared to an increase of 6.4 per cent in 1994, the GDCF dropped by 1.2 per cent compared to an increase of 9.1 per cent in the previous year.

2.5 National Savings

Domestic savings in 1995 have been estimated as Rs.102,562 million, which is 15.5 per cent of GDP, an improvement of 16 per cent over the previous year, where the ratio to GDP was 15.2 per cent. Net foreign private transfers, mainly consisting of remittances by migrant Sri Lankan workers, stood at Rs.34,820 million in 1995, reflecting an increase of 12.4 per cent. Inclusive of net foreign incomes, the national savings in 1995 rose to Rs.130,300 million, which was 19.7 per cent of GDP.

TABLE 2.3
National Savings at Current Market Prices

| Category | Rs. Mn | | | |
|---|--------|---------|---------|---------|
| | 1982 | 1993 * | 1994 * | 1995 * |
| 1 Gross Domestic Product at Market Prices | 99,238 | 499,760 | 579,147 | 661,902 |
| 2 Domestic Savings | 11,770 | 80,184 | 88,199 | 102,562 |
| 3 Net Factor Income from Abroad | -1,959 | -5,979 | -8,310 | -7,082 |
| 4 Net Private Transfers from abroad | 5,494 | 27,090 | 30,989 | 34,820 |
| 5 National Savings | 15,305 | 101,295 | 110,878 | 130,300 |
| 6 Domestic Savings Ratio (2 as a % of 1) | 11.9 | 16.0 | 15.2 | 15.5 |
| 7 National Savings Ratio (5 as a % of 1) | 15.4 | 20.3 | 19.1 | 19.7 |

* Provisional

Source: Central Bank of Sri Lanka