

2. NATIONAL INCOME AND EXPENDITURE

2.1 Overall Trends

In 1996, the Gross Domestic Product (GDP) grew by 3.8 per cent in real terms. This was lower than the average growth rate of 5.5 per cent in the previous five years. The slowing down of the economy in 1996 was mainly an outcome of the prolonged drought which had adverse implications for agriculture, electricity generation and industrial output. The Gross National Product (GNP) (defined as the GDP adjusted for the net factor income from abroad), grew by only 3.1 per cent as the net income from abroad deteriorated significantly, due to a reduction in investment income receipts and an increase in interest payments on foreign debt in 1996, in contrast to its improvement in 1995. This reduction in investment income receipts was a

result of the drop in international reserves due to balance of payments deficits in 1995 and 1996, and lower international interest rates.

The GDP at current market prices was estimated at Rs.768,934 million. The estimated mid year population increased by 1.1 per cent to 18.315 million in 1996. Accordingly, the per capita GDP rose to Rs.41,984 (or US Dollars 760) in 1996. In terms of per capita GDP, Sri Lanka has reached the threshold to becoming a middle income developing country. This calls for an early preparation for a gradual reduction in the access to extremely concessional assistance from the donor community, which implies that Sri Lanka would have to rely on other sources including international financial markets to finance its future investment.

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

Sector	Rate of Increase (%)		Percentage Share of Increase in GNP		Percentage Share of GNP	
	1995(a)	1996(a)	1995(a)	1996(a)	1995(a)	1996(a)
1. Agriculture, Forestry and Fishing	3.3	-4.6	11.4	-30.0	20.3	18.8
Agriculture	3.3	-5.1	9.7	-28.3	17.2	15.8
Tea	1.6	5.1	0.5	3.1	1.9	1.9
Rubber	0.9	6.3	0.1	0.9	0.4	0.4
Coconut	5.1	-7.6	1.8	-5.2	2.1	1.9
Paddy	4.7	-26.7	3.4	-36.6	4.3	3.0
Other	2.6	3.5	3.8	9.5	8.5	8.5
Forestry	1.2	1.3	0.3	0.5	1.3	1.3
Fishing	4.9	-3.9	1.5	-2.3	1.8	1.7
2. Mining and Quarrying	3.4	8.9	1.4	7.0	2.4	2.6
3. Manufacturing	9.2	6.5	30.8	43.5	20.7	21.4
Processing of Tea, Rubber & Coconut Kernel Products	4.4	1.0	1.7	0.7	2.2	2.2
Factory Industry	10.0	7.3	27.5	39.9	17.0	17.7
Small Industry	7.1	6.3	1.7	2.9	1.5	1.5
4. Construction	4.9	3.4	5.8	7.6	7.0	7.0
5. Electricity, Gas, Water and Sanitary Services	10.2	-2.0	2.6	-1.0	1.6	1.5
of which:						
Electricity	9.7	-3.8	2.2	-1.7	1.4	1.3
6. Transport, Storage and Communication	5.5	7.5	10.5	27.3	11.3	11.8
of which:						
Communication	14.1	25.2	2.4	9.0	1.1	1.3
7. Wholesale and Retail Trade	3.6	5.2	13.3	36.0	21.6	22.1
Imports	2.1	7.4	3.3	21.5	9.0	9.4
Exports	12.6	8.2	6.4	8.5	3.2	3.4
Domestic	2.2	2.0	3.6	6.0	9.4	9.3
8. Banking, Insurance and Real Estate	10.5	10.1	9.9	19.0	5.9	6.2
9. Ownership of Dwellings	1.3	1.3	0.5	1.0	2.4	2.3
10. Public Administration and Defence	5.4	5.0	4.0	7.0	4.4	4.4
11. Services (n.e.s.)	4.5	4.0	2.9	4.8	3.8	3.8
12. G.D.P.	5.5	3.8	93.1	122.3	101.2	101.9
13. Net Factor Income from Abroad			6.9	-22.3	-1.2	-1.9
14. G.N.P.	6.0	3.1	100.0	100.0	100.0	100.0

(a) Provisional

Source: Central Bank of Sri Lanka.

The economic performance in 1996 reflected the resilience of the economy. There was a quick recovery in the second half of the year, from a relatively depressed level of output in the first half. Industrial production recovered fast to reach the growth momentum experienced in recent years. Output of vegetables and minor export crops too reflected major increases. Investor sentiment, which was eroded by the terrorist activities in Colombo, was quickly restored with the Government firmly implementing open and market friendly policies, continuing the privatization programme and removing unsustainable consumer subsidies. These steps, together with relatively stable domestic financial and exchange markets, brought about a positive impact on both the local and foreign investment climate.

In recent years, the Manufacturing sector has emerged as the lead sector of the economy. For the first time, in 1995, the Manufacturing sector overtook the Agriculture sector as the largest contributor to GDP. In 1995, the share of the Manufacturing sector in GNP was 20.7 per cent, while the growth in the value-added by this sector, amounted to almost one third of the GDP growth in real terms during that year. In 1996, the Manufacturing sector grew by 6.5 per cent in real terms, contributing 44 per cent of the overall economic growth with factory industries alone contributing 40 per cent. Output in factory industries, led by an expansion in the exports of textiles and garments, food and beverages, rubber products, ceramics and jewellery, recorded a growth rate of 7.3 per cent in 1996. Industrial exports accounted for 73 per cent of Sri Lanka's export earnings in 1996.

There is a strong linkage between the Manufacturing sector and the Agriculture sector. The performance of the processing industry of tea, rubber and coconut kernel products is determined by the output of plantation crops. The relative share of these activities in domestic output has been declining with the growth of other sectors in the economy. The processing of other agricultural products in Sri Lanka is a dynamic industry and some areas have already developed high standards, with significant volumes of exports. Some of these industries too were affected by the drought in 1996. The industrial sub sector of food, beverages and tobacco, which accounts for almost one third of the value added in factory industries, depends on the Agriculture sector for its raw materials. Therefore, expansion in the Agriculture sector facilitates the growth process in the Manufacturing sector. The Manufacturing sector needs to become more competitive in terms of quality and productivity as trade and tariff policies are to be further rationalised with a view to achieving a lower and uniform tariff structure.

The main reason for the moderation in GDP growth in 1996 was the setback in the Agriculture, forestry and fishing sector under the impact of a prolonged drought. This sector represented 20.3 per cent of GNP and contributed to 11.4 per cent of the growth in 1995. In contrast to a growth of 3.3 per cent in its value added in 1995, this sector experienced a setback with a decline in output by 4.6 per cent in 1996. Within the Agriculture sector, the output of the paddy sub sector registered a sharp decline of 26.7 per cent. The failure of the paddy crop in both the Maha and Yala seasons necessitated the import of 341,200 metric tons of rice in 1996, whereas in 1995 a bumper crop reduced rice imports to only 9,460 metric tons. In view of the unfavourable weather conditions that prevailed in 1996, coconut production declined by 7.6 per cent, from the 1995 output level of 2,755 million nuts.

The increase in tea production by 5.1 per cent was entirely due to higher output of low grown tea. In recent years, the output of low grown tea has increased progressively and in 1996 it amounted to more than half of the total output of tea. Rubber production increased by 6.3 per cent in 1996. Although rubber prices continued to remain attractive, they declined in 1996 from the previous year's peak level due to increased production in major rubber producing countries. The increase in the output of vegetables, fruits, minor export crops and milk contributed to a moderate growth of 3.5 per cent in the 'other agriculture' sub sector. The marine fish supply, which accounts for 90 per cent of total fish production, declined during the second quarter of the year due to a drop in ice production.

The declining share of the Agriculture sector in the economy is a matter for concern. As the largest segment of Sri Lanka's population is in the rural sector, measures should be explored to improve the productivity in agriculture particularly of non-plantations, and to make the sector more dynamic. In this regard, a consistent set of policies to promote the development of infrastructure and markets and infuse new technology is necessary.

With the temporary setback in the contribution of the Agriculture sector to the economic growth, the importance of the Services sector was very significant in 1996. The share of the overall Services sector in GNP rose marginally from 51.0 per cent in 1995 to 52.1 per cent in 1996.

The growth momentum in the Services sector was sustained 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,

Green National Accounts

Box 2

The world community is increasingly concerned about the adverse impact of rapid economic development on natural resources and the environment. There are countries which have achieved rapid economic growth sacrificing their natural resources and environment. It is observed that such development is not sustainable in the long term. This is because the natural resources that are depleted may not be available in the future to support the high level of output. The degradation of the environment, meanwhile, will lead to a setback in the living standards of the community. Therefore, economic growth and management of natural resources and environment are no longer viewed as separate policy objectives but as mutually inter-dependent facets of the ultimate development goal. The concept of Green Accounting is an outcome of this development.

Green Accounts is a modification to the UN System of National Accounts (SNA) which is currently in use to provide aggregate measures of economic performance such as Gross National Product (GNP) and economic welfare. In Green Accounts, the loss of natural resources and damage to the environment in the course of economic activity are measured and quantified. The resulting aggregate, i.e. the GNP adjusted for the depletion of natural resources and environmental degradation, is considered to be a more refined indicator to measure the economic performance of a country.

The Statistical Division of the United Nations has been working to supplement the SNA with a satellite system of integrated economic and environmental ac-

counting (green accounting). These satellite accounts supplement both standard balance sheets and income accounts. The first step for each country is to draw up a comprehensive Balance Sheet of natural resources measured in physical quantities. For some, but not all, it is also possible to impute a monetary value for the stock of natural resources. This will enable estimating the monetary value of the depletion of natural resources, along with the deterioration of environmental quality. Once these estimates are made, environmentally unsound production and consumption patterns can be identified, offering early warnings of economic growth that may be leading to unsustainable development.

The Sri Lanka economy during the post-1977 period has recorded an average growth rate of 4.5 per cent per annum in real terms. Concomitantly, environmental problems are said to be emerging in both urban and rural areas. Urbanisation and industrialisation have resulted in air and water pollution, imperiling the health conditions of those who reside in industrial townships. In rural areas, increasing population has led to increased pressure on limited natural resources; the use of fuelwood and slash and burn cultivation have led to encroachments to the forest cover, resulting in rapid deforestation and deterioration of soil quality. Mineral resources are exploited to be exported in low value-added form. In order to progress towards the preparation of a system of Green Accounts in Sri Lanka, strengthening the collection of data on natural resources and environmental degradation is a pre-requisite, for which contributions from a number of public and private institutions are required.

accounting for 22.1 per cent of GNP. A higher rate of growth in this sector came mainly from the expansion in import trade.

The most outstanding performance within the Services sector was observed in the Transport, storage and telecommunication subsector. The development projects under both Sri Lanka Telecom and the private sector were the main reasons for this growth performance. The completion of the modernisation and expansion projects under the Sri Lanka Ports Authority and a significant increase in transshipment handling also contributed to the growth. The other subsectors, except Electricity, gas, water and sanitary services, registered increases in their value added

in 1996. However, the lower growth rates in comparison to 1995, indicated deceleration in these sub sectors. Among them, the Banking, insurance and real estate sub sector grew by 10.1 per cent, indicating a marginal deceleration when compared with the growth of 10.5 per cent in 1995. Commercial banking and insurance, two sub sectors within this sector, performed well and contributed to maintain the growth momentum despite the declining performance registered in the other sub sectors, i.e. leasing and real estate.

As a result of the drought, electricity generation declined and led to a negative growth of 2 per cent in the Electricity, gas, water and sanitary services sector. This

focuses on the need to reduce dependence on hydro-electricity and to expand the potential of other electricity generating sources.

With progressive liberalisation, the economy has been transformed from one that was heavily dependent on primary commodities to one which is diversified, in which the Manufacturing sector plays the dominant role alongside a dynamic services sector. The economy, having undergone this structural change, has become less vulnerable to the vagaries of the weather and fluctuations in primary commodity prices. Accordingly, a stable growth path has been made possible in recent years. While the economic performance in recent years has been good, the ability of the existing infrastructure to accommodate continued growth is somewhat strained. Adequate infrastructure is essential to lower production costs, improve productivity and to provide economic development. The bottlenecks in power generation surfaced during 1996 when the generation of hydro-electricity, the major supply source of power to the national grid was interrupted owing to the failure of monsoonal rains. The remedial measures in encouraging 'own-generation' of power enabled an easing of the supply shortage, averting a major disruption to production in the Manufacturing and Services sectors. However, given the trends in growth in the Manufacturing and Service sectors, the demand for power will remain high. Therefore, a clear plan of action to expand the infrastructure with a long-term horizon is necessary to break this bottleneck.

GNP at current factor cost prices was estimated at Rs.685 billion in 1996; an increase of 15.8 per cent over the level of Rs.591 billion reported in 1995. The implicit GNP deflator, which is a measure of the overall price change in the economy, increased by 12.3 per cent in 1996 when compared to 8.4 per cent in 1995. This trend is consistent with the other indicators of inflation, namely the Colombo Consumers' Price Index and the Greater Colombo Consumers' Price Index.

On the expenditure side, Gross Domestic Expenditure at current market prices was estimated to be Rs.836 billion, an increase of 13.3 per cent over the corresponding estimate of Rs.737 billion in 1995. Consumption expenditure, which represents the largest share in overall expenditure, rose by 15 per cent in 1996. Of this, Private consumption registered an increase of 16 per cent. However, government consumption expenditure registered a significant deceleration in 1996 when compared with 1995. Gross Domestic Capital Formation was estimated to have risen by 8.4 per cent to Rs.186 billion in 1996. Investment as a ratio of GDP dropped slightly from 25.7 per cent in 1995 to 24.2 per cent in 1996. Domestic Savings increased

from Rs.102 billion in 1995 to Rs.119 billion in 1996, resulting in a marginal increase in the domestic savings ratio from 15.3 per cent to 15.5 per cent.

2.2 Sectoral Performance

The Agriculture sector suffered a setback in 1996 due to the prolonged drought that prevailed in the first half of the year. This sector registered a negative growth of 4.6 per cent in 1996, in contrast to a 3.3 per cent growth in the previous year. This was the lowest growth in the agriculture sector recorded since 1987, a year in which drought conditions had a similar impact on agricultural output.

Paddy, the single most important crop is highly vulnerable to unfavourable weather conditions. Paddy production dropped in both Maha and Yala seasons by 24 per cent and 30 per cent, respectively, registering an overall production decline of 26.7 per cent over the previous year. In terms of production magnitude, this represented a drop from 2,810 thousand metric tons in 1995 to 2,060 thousand metric tons in 1996, which had the lowest output registered since 1979. In view of the drought, the gross extent sown in paddy was 749,000 hectares in 1996, whereas in 1995 it was 915,000 hectares. The ratio of the extent harvested to sown also dropped to 75 per cent in 1996 (in a normal year, it is around 85 per cent) which indicates a considerable loss to paddy farmers. While almost all paddy growing districts suffered crop damage, the situation in four major producing districts, Kurunegala, Ampara, Anuradhapura and Polonnaruwa, was particularly adverse.

The decline in paddy production was reflected in both rice prices and rice imports. Rice imports, which were minimal in the previous year, reached the decade's highest level of 341,200 metric tons in 1996. Despite this significant increase in imports, the price of rice also rose sharply during the year under review. In addition to the supply shortages, the shift in demand for rice and rice products from wheat flour, mainly due to the removal of the consumer subsidy on wheat flour and bread during the year, also contributed to the above price increase.

The plantation sector as a whole performed well during the year under review. Tea production surpassed the peak production of the previous year to a record level of 258 Mn. Kgs. registering an increase of 5.1 per cent. This increase came solely from low grown tea in 1996 which contributed to over 50 per cent of the total production. This phenomenon has been observed for the first time in the tea sector. Attractive prices which prevailed during

the year and enhanced productivity of smallholders were the contributory factors towards this increase. The change in the management of some companies in the tea sector is also believed to have had a favourable impact on production. The increasing trend in world tea prices continued registering a significant growth of 43 per cent, when compared with an increase of 12 per cent on average in the previous year. Rubber production, which grew only marginally in 1995, increased by 6.3 per cent in 1996. The price of rubber, though registering a decline of 6 per cent over the previous year, was still high when compared with prices which prevailed in the last few years. Coconut production declined significantly by 7.6 per cent in 1996, compared with an increase of 5.1 per cent in the previous year. This was mainly due to the lagged effect of the drought that began in late 1995.

'Other agriculture', which consists of all other agricultural activities, including animal husbandry, grew by 3.5 per cent in 1996, mainly reflecting the increased output of vegetables and minor export crops. However, production of subsidiary food crops dropped marginally during the year owing to unfavourable weather conditions. In this category, production of red onions, big onions, green chillies, kurakkan and maize decreased, while production of green gram, cowpea and potatoes registered increases. A significant expansion in potato production due to the ready availability of seeds and enhanced land usage was noteworthy. The production of both eggs and other poultry products dropped in 1996, mainly as a result of the gambaro disease that prevailed in the first half of the year in the Puttalam, Kurunegala and Gampaha districts where small scale farmers were severely affected.

The decline in the production of fish in contrast to its growth of 4.9 per cent in the previous year aggravated the problems of the primary sector. This decline was solely due to a drop in marine fish production, which consists of

the coastal fishing and deep sea fishing sub sectors. In the second quarter of the year fish production was reduced due to the scarcity of inputs (ice, fuel etc.) owing to the powercuts. Shortfalls in the Northern and Eastern marine fish production due to the deterioration in the security situation also added to the decline. However, an increase in inland fish production by 11.3 per cent partly offset the decline of marine fish production.

The mining and quarrying sector grew significantly by 8.9 per cent, compared with 3.4 per cent in the previous year. The performance of the mining subsector was mainly responsible for this growth. In this category, gem mining, which accounts for the largest share, grew significantly during the year. Export earnings of precious and semi-precious stones increased by 16 per cent in SDR terms during 1996. Other mining activities, such as the extraction of graphite and mineral sands, also expanded in 1996. However, the quarrying subsector moved upward slowly mainly due to the moderate growth of the Construction sector.

The Manufacturing sector, which includes factory industry, processing of tea, rubber, and coconut products, and small industries, grew by 6.5 per cent in 1996. This growth, when compared with the corresponding growth of 9.2 per cent in the previous year, indicated a deceleration in performance. This was mainly due to the unfavourable factors, the manufacturing sector experienced during the reference period. The factory industry subsector, which represents more than 80 per cent of the overall manufacturing sector, registered a real growth of 7.3 per cent and indicated a deceleration when compared with the corresponding growth of 10.0 per cent in 1995. This growth trend was reflected in all major sub categories under factor industry except the sub categories of paper and paper products and chemical, petroleum, rubber and plastic products. These two categories registered significantly high growth performance in 1996 compared to 1995.

The sharp drop in production in the coconut sub-sector adversely affected the processing industry. The small industry subsector also registered a deceleration in growth. A significant drop in paddy production adversely affected paddy milling, which contributed to reducing the growth in this subsector. The deceleration in the factory industry sub sector also had some impact on this trend.

The Construction sector grew by 3.4 per cent in 1996 compared to 4.9 per cent in 1995. This was reflected in both building construction and road construction. This trend was consistent with the reduction in the availability of basic inputs such as cement, asbestos and other construction materials.

TABLE 2.2
Composition of the Other Agriculture Sub Sector

Sector	Value Added at Constant (1982) Prices (Rs. Mn.)			
	1993	1994(a)	1995(a)	1996(a)
Vegetables	5,398	5,181	5,541	5,765
Subsidiary Food Crops(b)	3,435	3,602	3,673	3,687
Minor Export Crops (c)	1,715	1,603	1,462	1,543
Sugar cane	221	257	287	279
Tobacco	261	211	175	169
Animal Husbandry (d)	1,055	1,117	1,248	1,344
Other	1,597	1,697	1,635	1,725
Total	13,681	13,667	14,021	14,512

Source: Central Bank of Sri Lanka.

(a) Provisional

(b) Subsidiary Food Crops mainly include potatoes, chillies, red onions, big onions, greengram, cowpea, kurakkan and other subsidiary food crops.

(c) Minor Export Crops mainly include coffee, pepper, cinnamon, cloves, cashew nuts, betel leaves and other exported minor crops.

(d) Animal Husbandry comprises milk, eggs, poultry and other meats.

The Electricity, gas, water and sanitary services sector experienced a negative growth of 2 per cent, reflecting a decline in hydro-electricity generation. The total hydro power generation during the year dropped drastically by 28 per cent to 3,249 Gwh compared with an increase of 10 per cent in the previous year. In order to meet the additional demand, thermal power generation was increased to 972 Gwh using the existing capacity at maximum level. In the wake of acute supply shortages, 154 Gwh were supplied to the national grid by the private sector. In addition, self generation of power in the private sector was encouraged by offering attractive incentives such as cash rebates and bank loan facilities at concessional rates to import diesel generators and allowing industrial entrepreneurs to import duty free generators.

The transport, storage and communication sector performed well in 1996 compared to many other sectors. The overall growth of this sector was 7.5 per cent in 1996. Its contribution to the overall GNP growth was 11.8 per cent. This share, compared to its contribution of 11.3 in 1995, indicates the growing importance of this sector.

Among the three sub sectors, the telecommunication subsector registered a significantly high growth performance in the period under review. The network development projects under both Sri Lanka Telecom and the private sector contributed to its performance. The growth in this subsector was reflected in various types of telecommunication facilities such as cellular mobile phones, radio paging services, wireless access telephones, data communication services, public pay phones and internet. The number of subscribers having access to these facilities increased by 36.4 per cent in 1996. However, the increasing number of applications in the waiting list especially for services under Sri Lanka Telecom, indicates further the growth potential in this subsector.

Value added in port activities and related areas such as container handling and storage facilities made a significant contribution to economic growth in 1996. The total volume of cargo handled by the three ports increased by 16.4 per cent. The performance was very significant in the second half of the year with an impressive growth of 23.9 per cent in cargo handling. The recent development projects for modernisation and capacity expansion of the ports contributed to this growth.

The transport subsector, which includes road transport, rail transport and air transport, grew by 4.7 per cent in 1996. Road transport and rail transport contributed to the growth through freight and public transport. In the public transport sector, peopled bus companies introduced a new service, viz the semi-luxury intercity service,

while the Sri Lanka's Government Railway (CGR) added two new engines to its fleet. However, the air transport sector recorded a setback mainly due to the poor performance of the tourist sub sector which reduced the number of tourists visiting the country in 1996.

The Wholesale and retail trade sector grew by 5.2 per cent in 1996. It had a share of 22.1 per cent in GNP and contributed 36.0 per cent of the overall GNP growth in 1996. This growth, when compared with 1995, indicated an acceleration in the performance of the sector. The growth momentum of the sector came mainly from the subsectors of Import and Domestic trade.

In 1996, the Banking, insurance and real estate sector grew by 10.1 per cent in comparison to the growth of 10.5 per cent in 1995. Within this sector, the largest sub sector, commercial banking, which contributes more than half of the value-added in the sector, recorded a growth of 8.6 per cent in 1996. The expansion in the Trade sector, especially in import and export trade, contributed to the expansion in 1996. Further, the reduction in personal and corporate taxes and the continuation of the liberalisation policies giving more incentives for banking sector expansion, were also favourable in this aspect.

The Insurance subsector which contributes about 11 per cent of the value added of the whole sector, grew by 9.5 per cent when compared to 3.8 per cent in 1995. The growth in this sector came mainly from the life insurance activities rather than from general insurance. Net premium income from life insurance business of the five insurance companies increased by 22 per cent from Rs.2.6 billion in 1995 to Rs.3.1 billion in 1996, whereas general insurance business expanded only by 14 per cent in 1996. However, the downturn in economic activities, adversely affected in general, the insurance activities in the country in 1996.

2.3 Expenditure

Gross Domestic Expenditure (GDE), the sum of Consumption expenditure and Gross Domestic Capital Formation, was estimated at Rs.836 billion, showing an increase of 13.3 per cent in 1996.

Consumption expenditure was estimated at Rs.650 billion; a 15 per cent increase over Rs.566 billion in 1995. Private consumption expenditure which represents about 87 per cent of the overall consumption expenditure registered a growth of 16 per cent, increasing from Rs.489 billion in 1995 to Rs.569 billion in 1996. In contrast to the consumption pattern that prevailed in 1995, private consumption expenditure on imported goods and non-factor

services rose at a lower rate (11.1 per cent) than the expenditure on domestically produced goods and services (18.5 per cent). Within the domestically produced goods and services, consumption expenditure on coconut, other food crops and industrial products recorded a significant growth and contributed more than 65 per cent of the overall increase in Private Consumption Expenditure.

Gross Domestic Capital Formation (GDCF), which includes investment expenditure of both the private and the public sector is estimated to have increased by 8.4 per cent to Rs.186,264 million in 1996. Private investment amounted to Rs.160,646 million, while its contribution to overall GDCF was 86 per cent. An encouraging development in private investment activities in 1996 was the substantial increase in foreign investment. Foreign Direct Investment (FDI) rose from Rs.1,011 million (10.3 million SDR) in 1995 to Rs.4,756 million (59.5 million SDR) in 1996. Portfolio investment also showed an increase in 1996 compared to 1995. Foreign investment was concentrated in manufacturing and infrastructure development activities such as communication, power and port services. The major industrial category that absorbed these investments was textiles, wearing apparel and leather products. Government investment, estimated at Rs.26 billion was mainly concentrated on the development and maintenance of infrastructure facilities such as roads, distribution of electricity and pipe-borne water, telecommunication and ports. However, the slowing down of construction activities and the lower level of imports of transport equipment lowered the country's investment ratio to 24.2 per cent of GDP in 1996 from 25.7 per cent in 1995.

2.4 Availability and Utilisation of Resources

The total resources available to the economy, comprising Gross Domestic Product and imports of goods and non-factor services (foreign resources), increased to Rs.1,106 billion in 1996 from Rs.975 billion in 1995. The increase in total resources of Rs.131 billion was generated by the Rs.101 billion increase in GDP at current market prices and the Rs.30 billion increase in foreign resources. Of the total resources, 58.8 per cent was spent on consumption and 16.8 per cent on capital formation, while the balance 24.4 per cent was reflected in exports of goods and non-factor services.

The availability of resources, valued at constant (1982) prices, rose by 3.5 per cent in 1996, compared with the increase of 4.0 per cent in 1995. In real terms, con-

TABLE 2.3
Total Resources and Their Uses at
Constant (1982) Prices

Item	Percentage Share				Percentage Growth	
	1982	1994(a)	1995(a)	1996(a)	1995	1996
1. Total Resources	100	100	100	100	4.0	3.5
GDP at Market Prices	68	66	67	67	5.5	3.8
Imports of Goods & Non-Factor Services	32	34	33	33	1.0	2.8
2. Utilization	100	100	100	100	4.0	3.5
Consumption	60	58	59	59	5.4	3.5
Gross Domestic Fixed Capital Formation	21	17	17	16	1.0	2.5
Government	3	2	2	2	22.7	0.1
Public Corporations & Private sector	18	15	15	15	-1.4	2.8
Changes in Stocks	0	0	0	0	-60.7	90.8
Exports of Goods & Non-factor Services	19	24	24	24	2.9	3.9

(a) Provisional.

Source: Central Bank of Sri Lanka.

sumption expenditure grew by 3.5 per cent in 1996 compared to an increase of 5.4 per cent in 1995, while GDFCF increased by 2.5 per cent compared to an increase of only 1.0 per cent in the previous year.

2.5 National Savings

Domestic savings in 1996 have been estimated as Rs.119,260 million, which indicated an improvement of 16.8 per cent over the previous year. The ratio of domestic savings to GDP rose from 15.3 per cent in 1995 to 15.5 per cent in 1996. Net foreign private transfers, which consist mainly of remittances by migrant Sri Lankan workers, stood at Rs.39,485 million, reflecting an increase of 13.4 per cent over the previous year. National Savings, which is defined as the sum of domestic savings and net foreign income, also increased to Rs.147,552 million which was 19.2 per cent of GDP in 1996.

TABLE 2.4
National Savings at Current Market Prices

Category	Rs. Million			
	1982	1994(a)	1995(a)	1996(a)
1. Gross Domestic Product at Market Prices	99,238	579,084	667,772	768,934
2. Domestic Savings	11,770	88,149	102,111	119,260
3. Net Factor Income from Abroad	-1,959	-8,310	-6,958	-11,193
4. Net Private Transfers from Abroad	5,494	30,989	34,820	39,485
5. National Savings	15,305	110,828	129,973	147,552
6. Domestic Savings Ratio (2 as a % of 1)	11.9	15.2	15.3	15.5
7. National Savings Ratio (5 as a % of 1)	15.4	19.1	19.5	19.2

(a) Provisional.

Source: Central Bank of Sri Lanka.