



GNP and the Economic Performance in 1975

In Sri Lanka, as in the case of most other developing countries, the Gross National Product figures have to be considered as no more than rough and crude estimates of the total output of goods and services in the economy. These estimates are bound to contain a fairly high margin of error owing to the shortcomings and inadequacies in the data on which they are based. For example, no accurate data are available on the level of production and its changes in many areas of the economy such as non-plantation agriculture, small-scale industry, fisheries, animal husbandry, construction and non-government service industries. Hence the output of such activities must necessarily be rough approximations. However, it is unfortunate that many official documents in Sri Lanka rely heavily on GNP figures to evaluate the performance of the economy and great importance is attached to changes in the GNP from year to year without adequate recognition of the imperfections in the data base of the GNP estimates. Moreover, it is now widely recognised that even with the best of data, GNP is an inadequate measure of the economic performance of a nation since this measure does not indicate the distribution of income, the level of poverty, the employment situation, and many other important elements in the social and economic life of a nation. With this note of caution, let us briefly examine the growth performance of the economy in 1975 as revealed in the GNP statistics compiled by the Central Bank.

The GNP at constant prices (in real terms) in 1975 has been estimated at Rs. 11,115 million which represents an increase of Rs. 386 million or 3.6% from the previous year's level. This shows a marginal improvement over the growth rates of the previous three years which were 1974—3.4%, 1973—3.5% and 1972—3.1%. When allowance is made for a population growth rate of 1.6%, the GNP in per capita terms has risen by 2% in 1975. The level of the GNP per capita was Rs. 817, equivalent to less than US \$ 100 when converted at the

prevailing exchange rates. (Note again that such conversions are not very meaningful). The question may be posed: How satisfactory is this growth record? It may be noted here that the minimum desirable annual growth rate as conceived by our planners in the Five Year Plan (1972-76 is) 6%. The planners believed that such a growth rate (given the pattern of investment envisaged in the Plan) would generate a volume of employment in the region of 810,000 and this when coupled with a special works programme organised throughout the country, could virtually eliminate the problem of unemployment in the country by the end of the Plan period. Judged in relation to these planned targets, the economic performance of 1975, as well as in the four year period 1972-75, has fallen far short of the desired level. The actual growth rate of the GNP during 1972-75 was only 3.4% as against the planned target of 6%. Although statistics are not available on the employment picture, all indications are that despite the adoption of various programmes for employment creation (such as settlement schemes under the Land Reform, DDC projects, food production drive, Graduate Training Scheme etc.) it has not been possible to prevent a rise in the volume of unemployment. Available data indicate an unemployment figure of 546,000 in 1970 (Socio-economic Survey of 1969/70) and 793,000 in 1973 (Labour Force Participation Rate Survey of 1973).

Factors affecting growth

One of the principal factors that adversely affected the growth performance of the economy in 1975 was the sharp decline in the paddy crop as a result of adverse weather conditions. The crop was only 55 million bushels compared to 77 million bushels in 1974 which is a drop of nearly 28%. There was also a decline in the contribution of the construction sector to the GNP reflecting mainly the reduced level of construction activity in the private sector. The highest percentage increase in output was recorded by the

mining and quarrying sector with nearly 30% growth (largely reflecting the recovery of the gem industry from the recession of the previous year) followed by manufacturing with 7.5% growth. Primary production (consisting of agriculture, fisheries, forestry, hunting, mining and quarrying) accounted for 35% of the GNP in 1975 compared to 13% contributed by manufacturing.

Another adverse element in the economic picture of 1975 was the deterioration of the terms of foreign trade by nearly 21% compared to a decline of 11% in 1974. This was the combined result of the rise in the import price index (by 17%) and the decline in the export price index (by nearly 7%). The deterioration of the terms of trade reflects a drop in the real purchasing power of exports or the capacity to import. It is a factor which leads to a loss of real income and the magnitude of this loss in 1975 can be gauged by the fact that when the GNP (at constant prices) is adjusted for the deterioration of the terms of trade the growth rate of the resulting real national income was only 1.2% and there was no increase in the per capita real income at all.

The adverse trade terms aggravated the payments imbalance which led the country to rely more heavily on foreign finances to meet the deficits in payments. The result was a further increase in the external debt in 1975 both in volume and rate which conformed to the rising trend on the foreign debt during the previous years. The average rate of increase for the previous five fiscal years has been in the order of 15 per cent. The country's debt service ratio had increased from about 18 per cent in 1974 to almost 30 per cent in 1975.

Given the importance of foreign trade in the overall economy, an adverse movement in the terms of trade could frustrate the attempts on the domestic front to raise the real incomes.

As pointed out in this column in our January issue, the economy in 1976 should show a better performance in relation to 1975. A tentative forecast for this year would be a growth rate in the range of 4% (low estimate) to 5% (high estimate).