

DIVERGENT TRENDS OF PER CAPITA GDP AND AVERAGE PURCHASING POWER IN SRI LANKA

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The 4th International

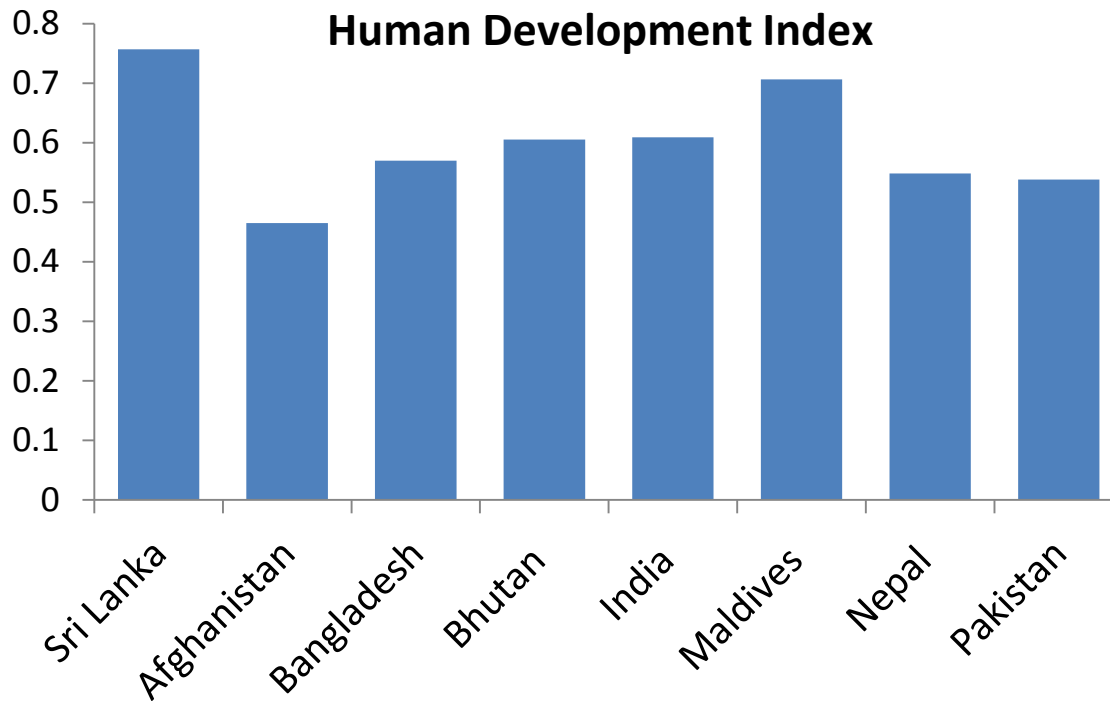
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“Strategies for meeting SDGs: Ending Poverty in all its Forms Everywhere”

05th – 06th December, 2017, Mövenpick Hotel, Colombo, Sri Lanka

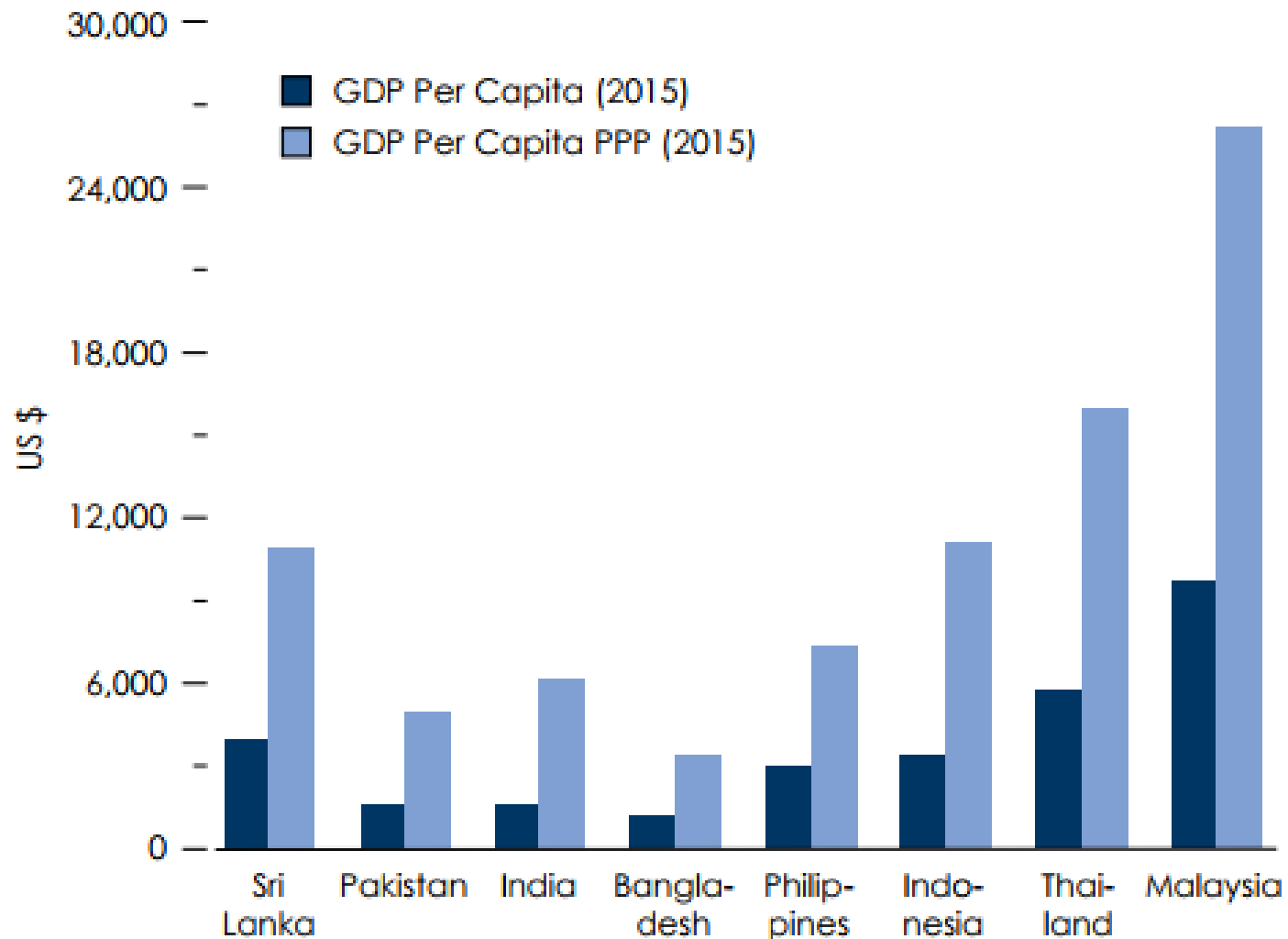
General Overview

- Lower-middle-income country US \$3835
- Has impressive socioeconomic indicators
- Outperformer on UNDP – HDI and MDG's



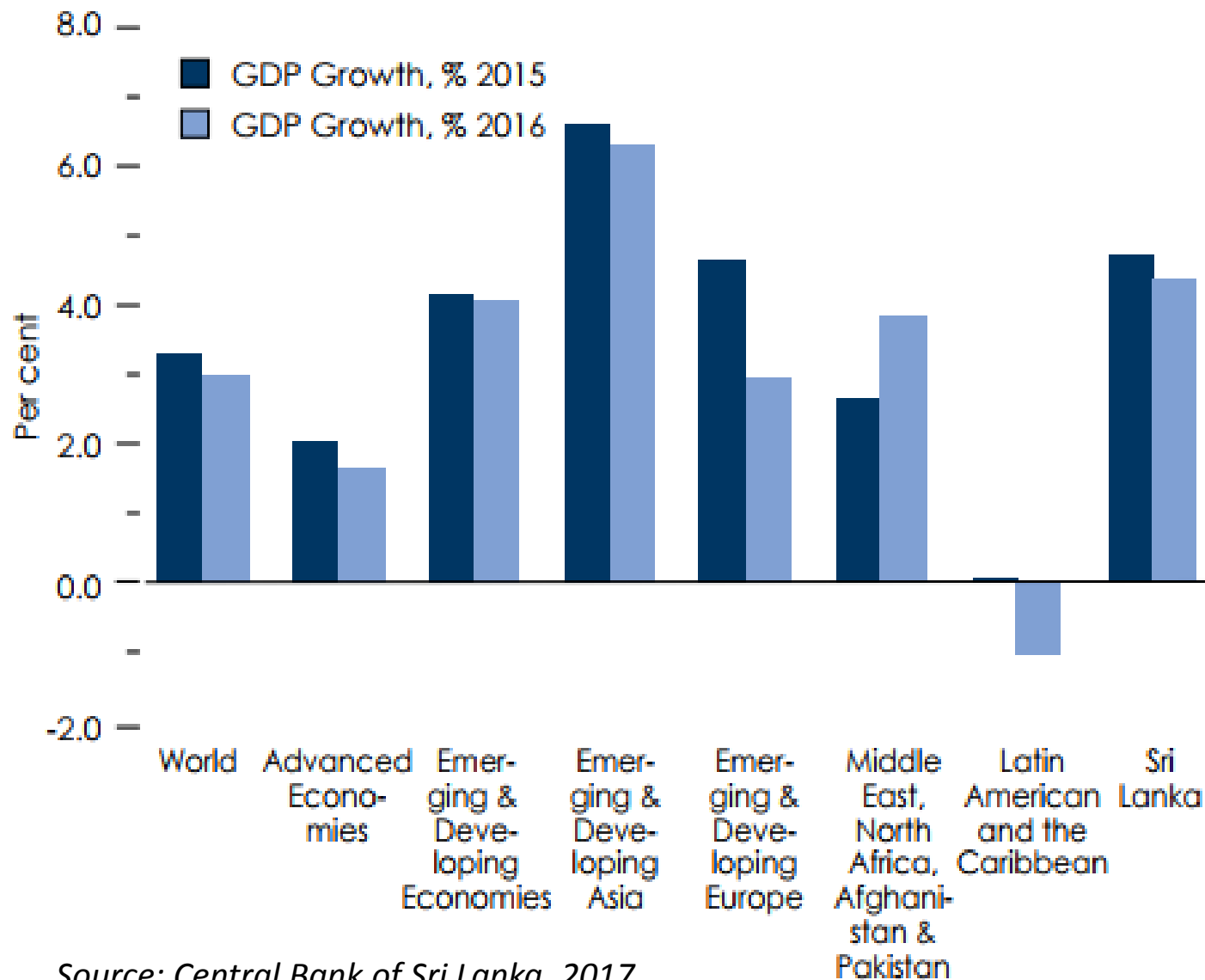
- **Sri Lanka experienced a robust annual growth of more than 6 % in terms of per capita GDP since early 2000.**
- **Sri Lanka was one of the fastest growing economies in Asia in the recent history.**
- **During 2009 to 2011, country recorded a 7- 8 % per capita GDP growth rate.**

GDP Per Capita/GDP Per Capita PPP Selected Regions



Source: Central Bank of Sri Lanka, 2017

World GDP Growth Selected Regions



Source: Central Bank of Sri Lanka, 2017

Has this growth been capable of increasing the purchasing power or the real income of a wider section of the population and of increasing economic wellbeing in general ?

This is of significant relevance as country strives to transition to an upper middle income country

MEASURES OF ECONOMIC WELL-BEING

Per capita GDP imputed by national accounts

GDP per capita deflated using the GDP deflator is the most widely used measure of real income from the national accounts that takes into account total income generated by economic activity in a country

Monthly income computed by household income survey

The income of a typical household from micro data is often measured by median household disposable income, deflated using a consumer price index (Nolan et al., 2016).

Purchasing power parity (PPP) adjusted threshold incomes are used in measuring poverty and the middle income population for international comparison (Ferreira 2015).

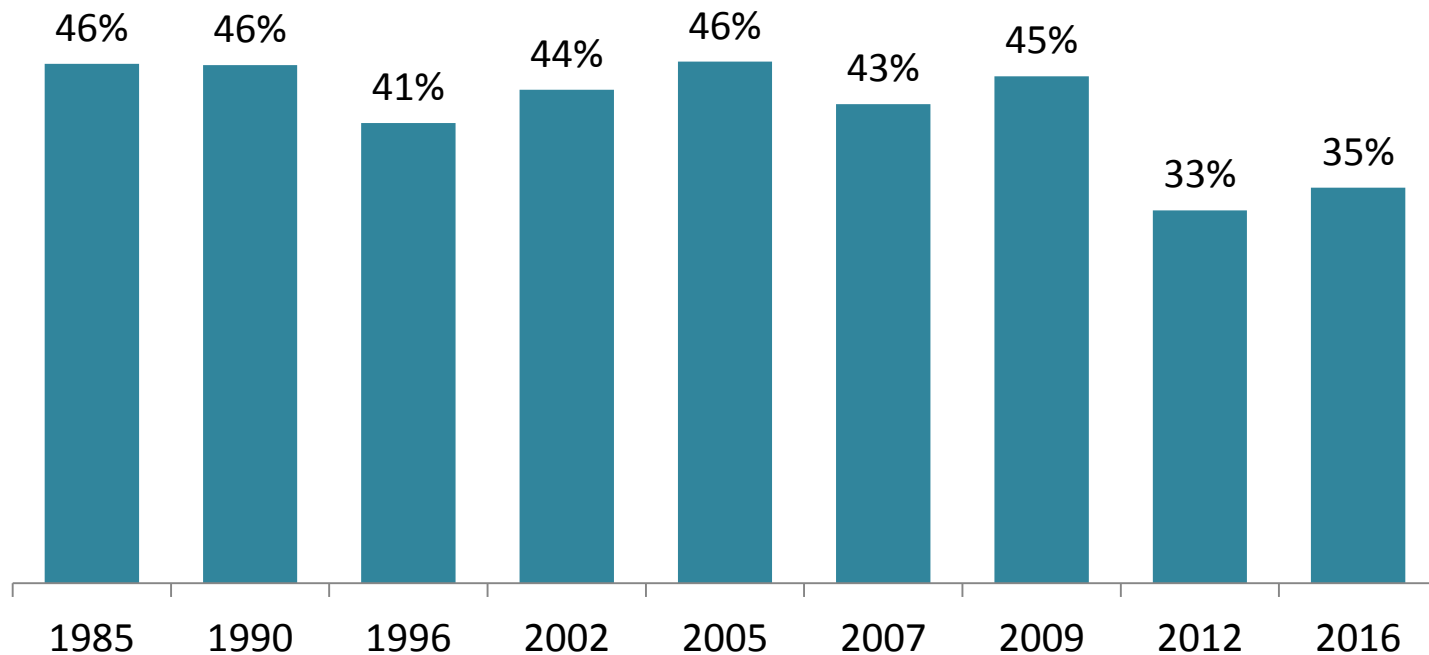
**Household disposable income
per capita and GDP per capita
can differ significantly**

Factors that create significant differences between household disposable income per capita and GDP per capita

Retained by CORPORATIONS AND GOVERNMENT and not accrue to households.

- may be appropriated by government to build up sovereign wealth funds or **to pay off debts**,
- may be appropriated by firms to build up balance sheets,
- may be appropriated by parent companies abroad repatriating profits from their affiliates.
- households can also receive income from abroad for example from dividends and interest receipts through investments abroad.

Mean Per Capita Disposable Income as a Percentage of Per capita GDP



Less than 50 % of the income generated by the economic activities are passed on to households

Source: Central Bank of Sri Lanka, 2017
Department of Census and Statistics

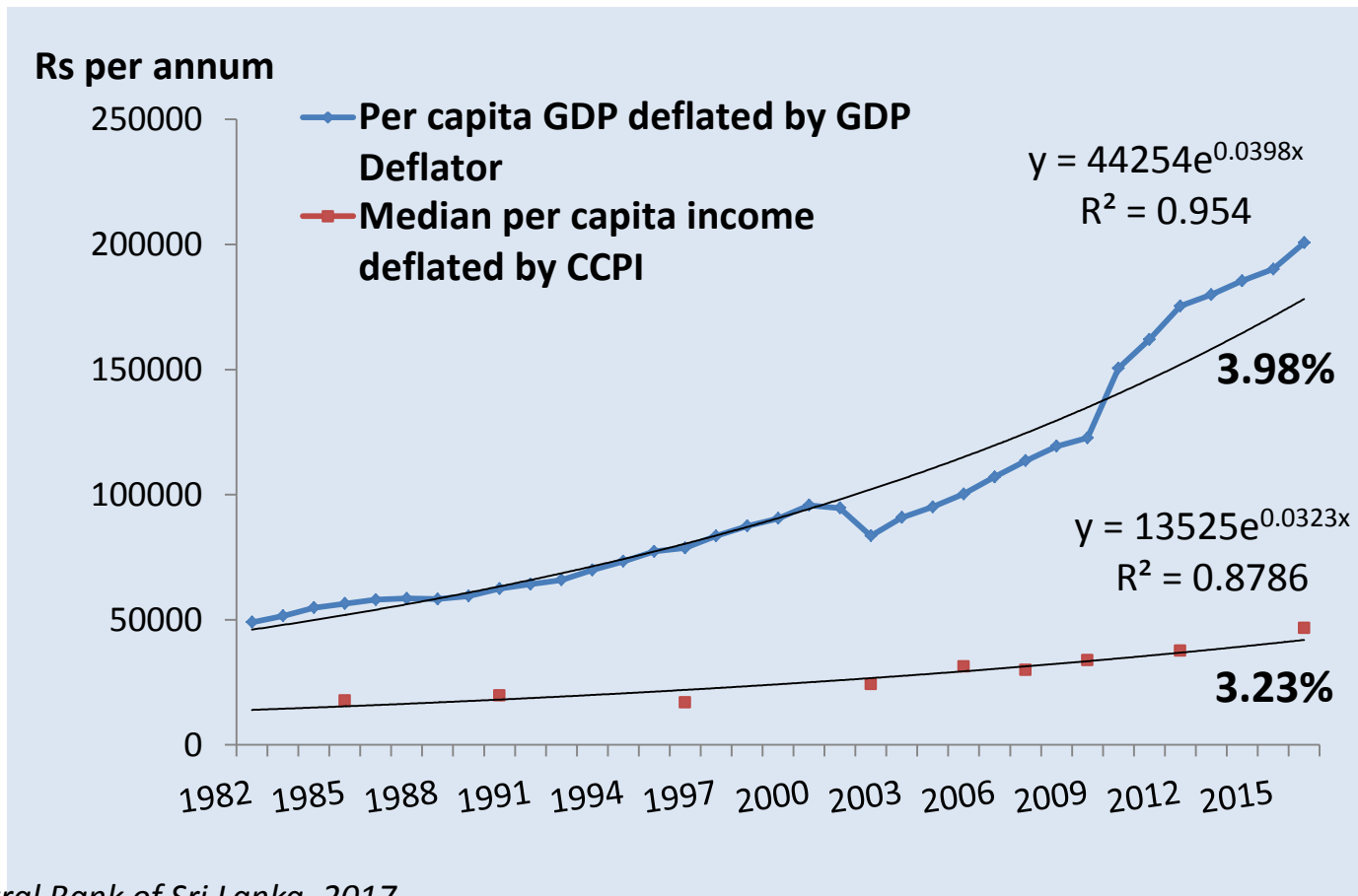
**Developments in household
disposable income per capita
can also differ significantly
from developments in GDP per
capita**



Divergence trend

Divergence between per capita GDP imputed by national accounts and the monthly income computed by household income surveys

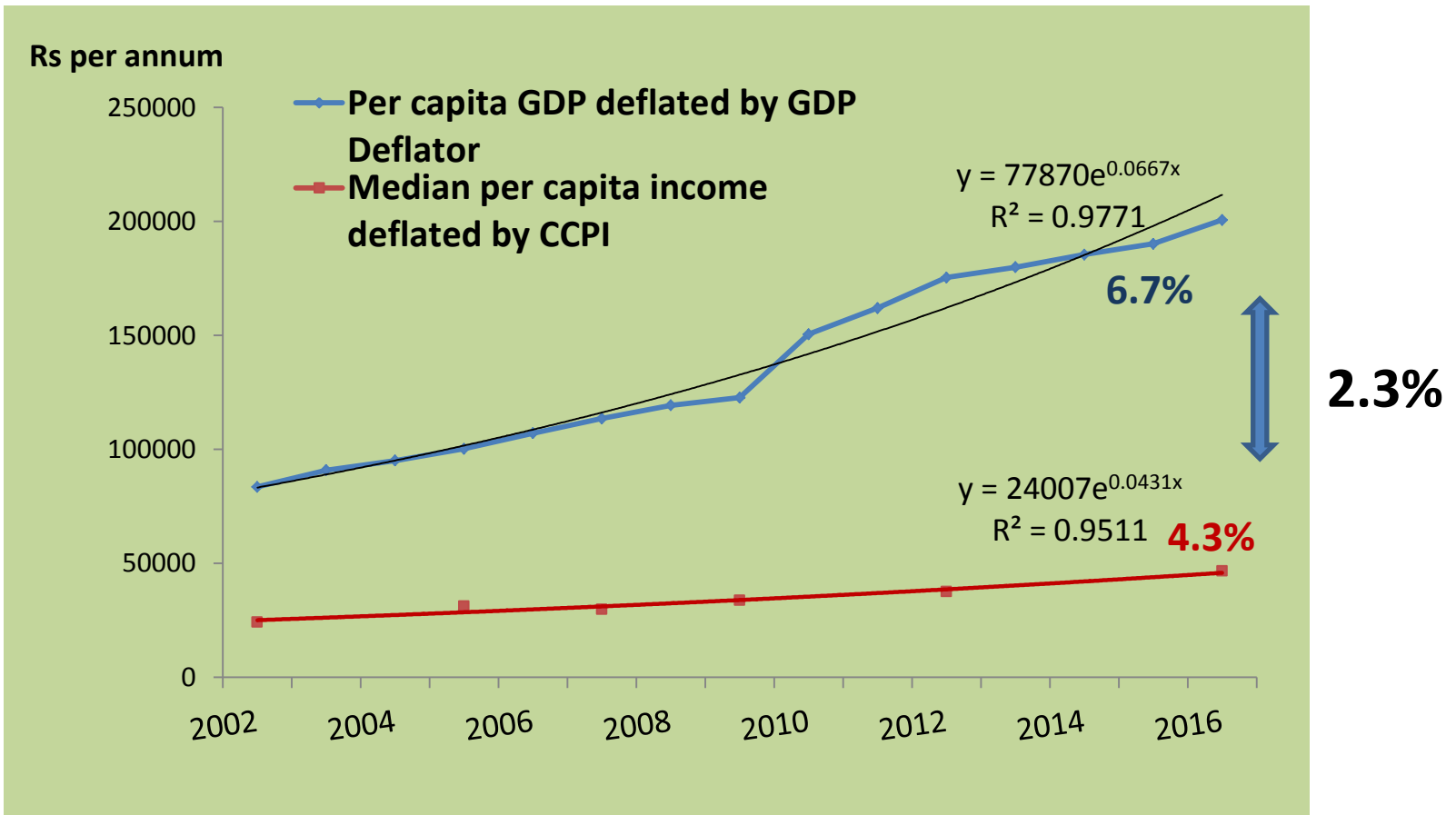
1982 to 2016



Source: Central Bank of Sri Lanka, 2017
Department of Census and Statistics

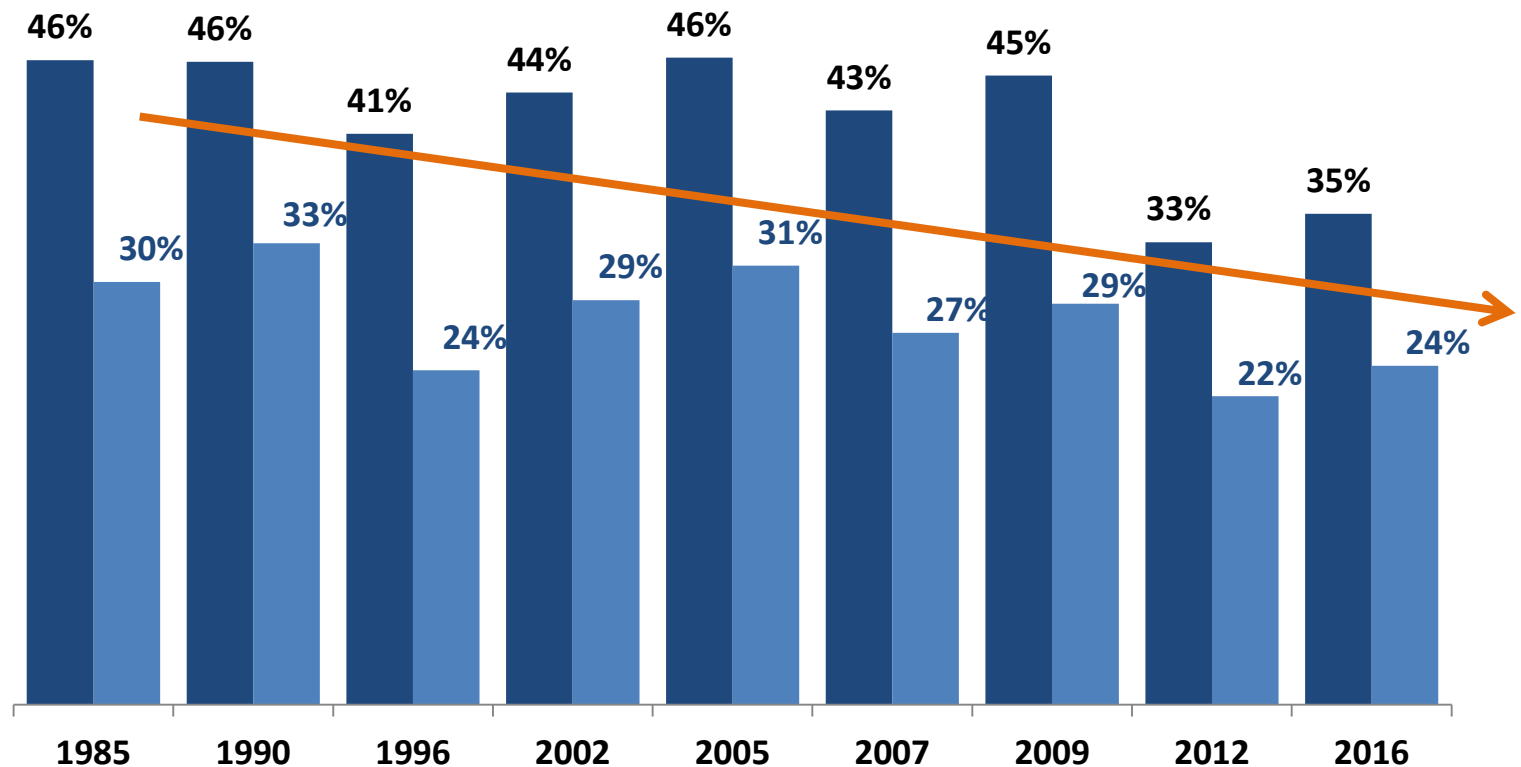
Divergence between per capita GDP imputed by national accounts and the monthly income computed by household income surveys

2002 to 2016

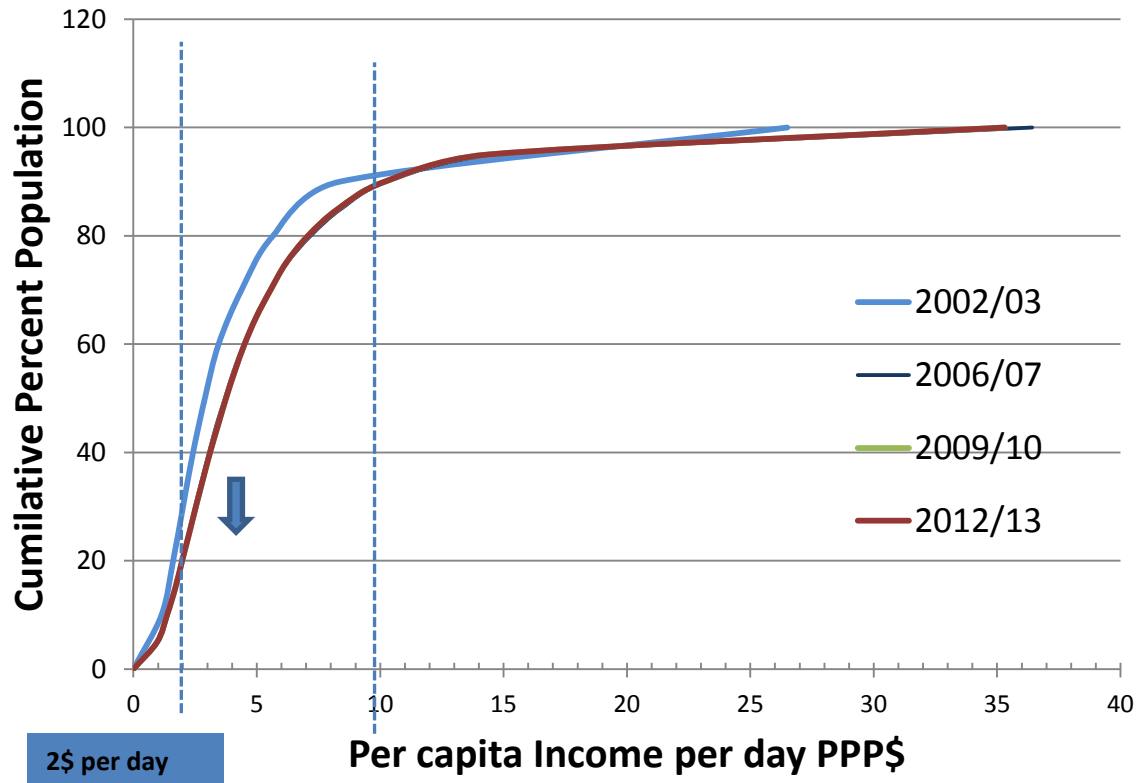


THE PERCENTAGE SHARE OF PER CAPITA GDP RECEIVED BY A MEDIAN HOUSEHOLD HAS COME DOWN

- Mean per capita income as a percentage of Per capita GDP
- Median per capita income as a percentage of Per capita GDP



Per Capita Income Changes from 2002/03 HIES to 2012/13 HIES



Global middle class - 10 US\$ -100 US\$ PPP
Local middle class – 2 US\$ - 10 US\$ PPP

Source: Department of Census and Statistics
World Bank

This is further exemplified by not declining the budget share on food by an average Sri Lankan during the period from 2006/07 to 2012/13.

	Poverty Head Count Ratio (%)
1980/81	
1985/86	
1990/91	26.1
1995/96	28.8
2002	22.7
2005	-
2006/07	15.2
2009/10	8.9
2012/13	6.7



	Food Expenditure Ratio (as a percentage)
1980/81	65
1985/86	57.6
1990/91	60.9
1995/96	54.4
2002	44.5
2005	39.6
2006/07	37.6
2009/10	42.3
2012/13	37.8

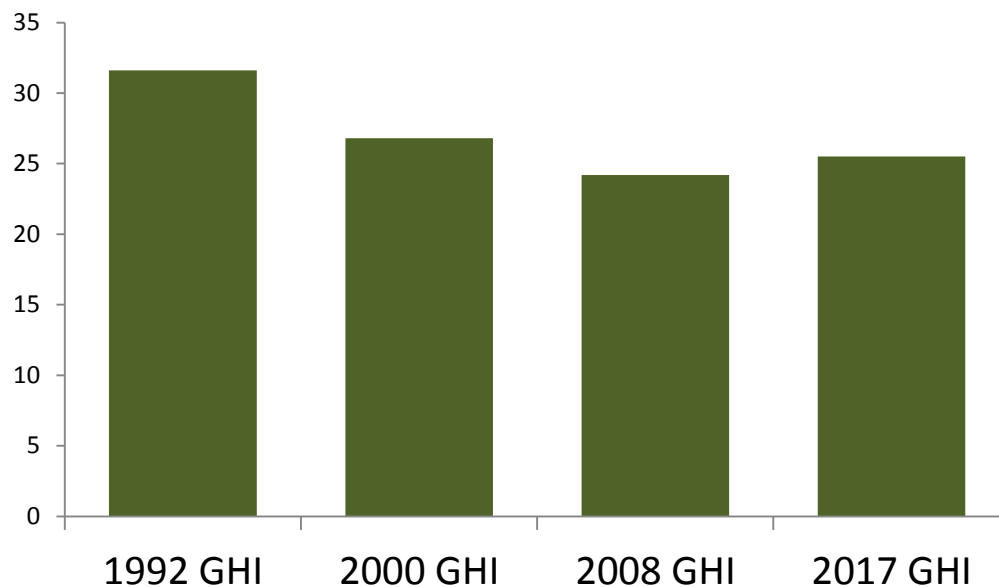


Poverty Alleviation programs

Although poverty has declined, both Global Hunger Index (GHI) and the Global Food Security Index (GFSI) rank Sri Lanka poorly in terms of food security.

GLOBAL HUNGER INDEX SCORES BY RANK

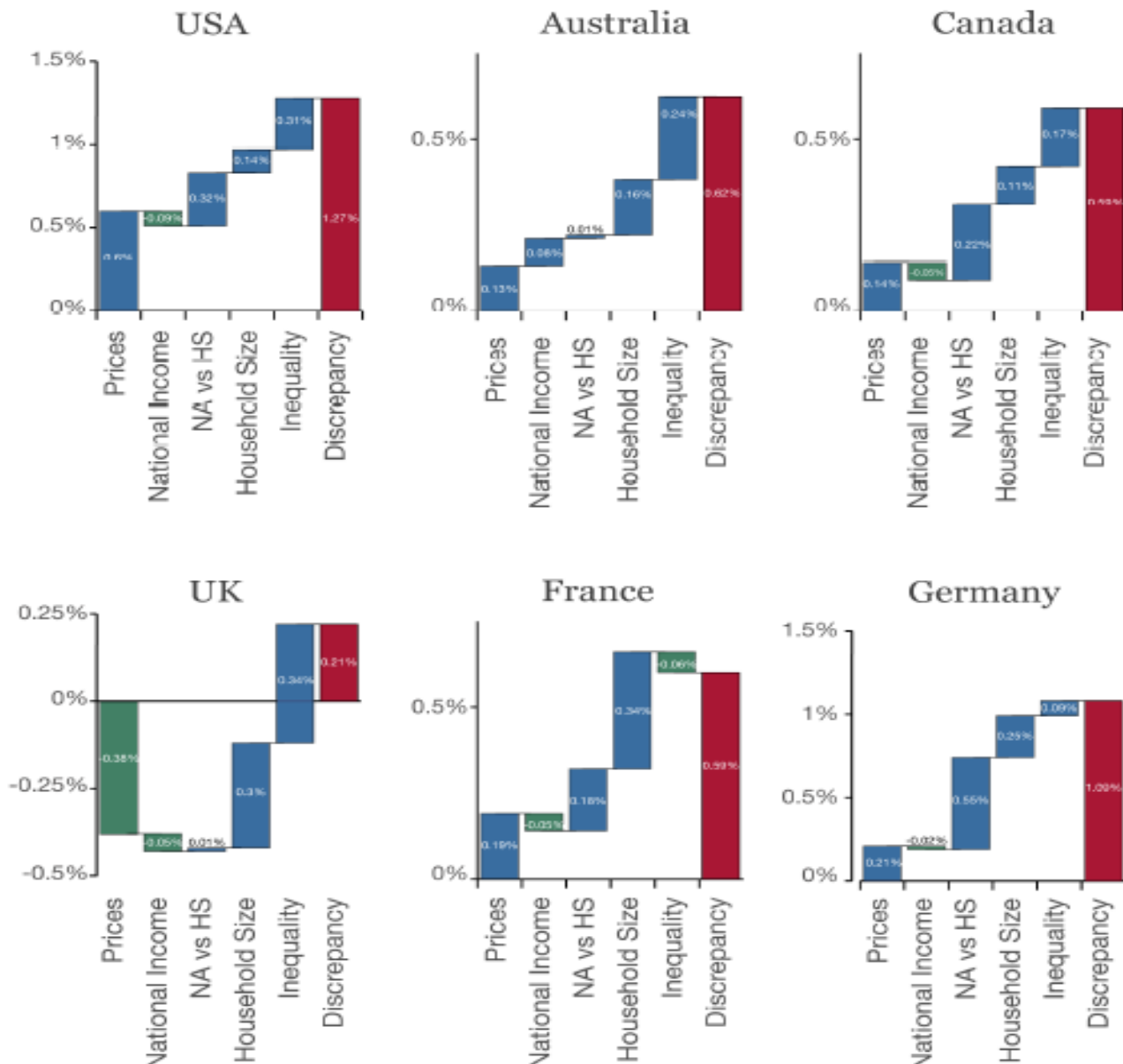
	1992 GHI	2000 GHI	2008 GHI	2017 GHI
Sri Lanka	31.6	26.8	24.2	25.5



Factors that contribute to diverging patterns of growth between household disposable income and GDP

- Difference in price deflators
- GDP and Gross National Income (GNI)
- GNI per capita as measured in the National Accounts and mean income per head as captured in household surveys
- Household size
- Income Distribution and Inequality

DIVERGENCE BY CONTRIBUTORY FACTORS



Factors that contribute to diverging patterns of growth between household disposable income and GDP

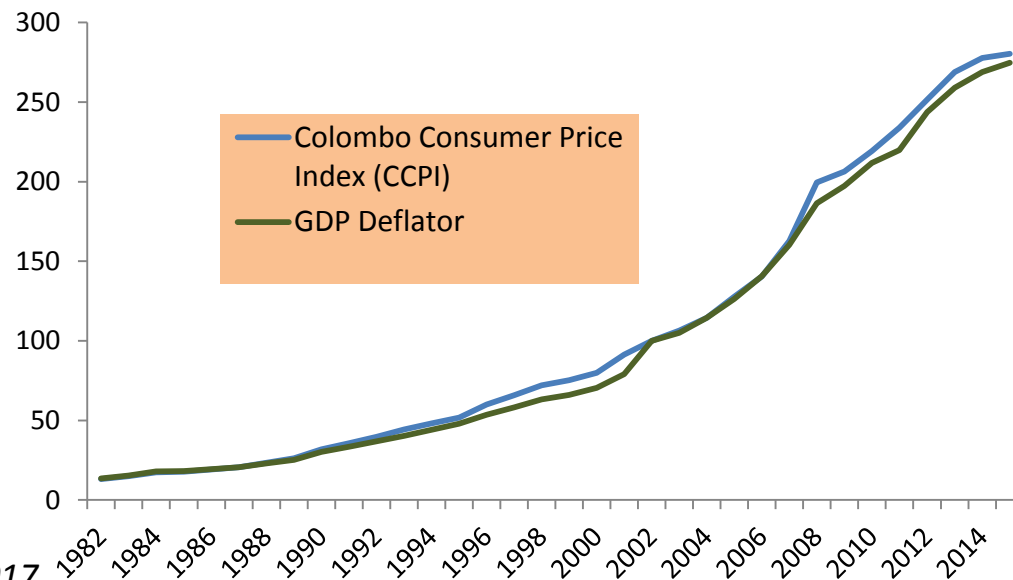
- **Difference in price deflators**
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Nolan et al, 2016

Difference in price deflators

In real terms, differences in consumer price inflation and changes in the GDP deflator, reflecting in part evolutions in terms of trade, can also contribute to divergences.

- CPI designed to measure the changes in prices of the goods and services consumed by the typical household whereas the GDP deflator relates to the prices of all domestically produced final goods and services in the economy - to production rather than consumption
- The GDP deflator thus does not adjust for changes in prices of goods imported from other countries, but does cover those of capital goods, unlike the CPI. The difference between the two – the **“terms of trade wedge”** thus reflects a difference in price growth of products households purchase relative to what they produce.

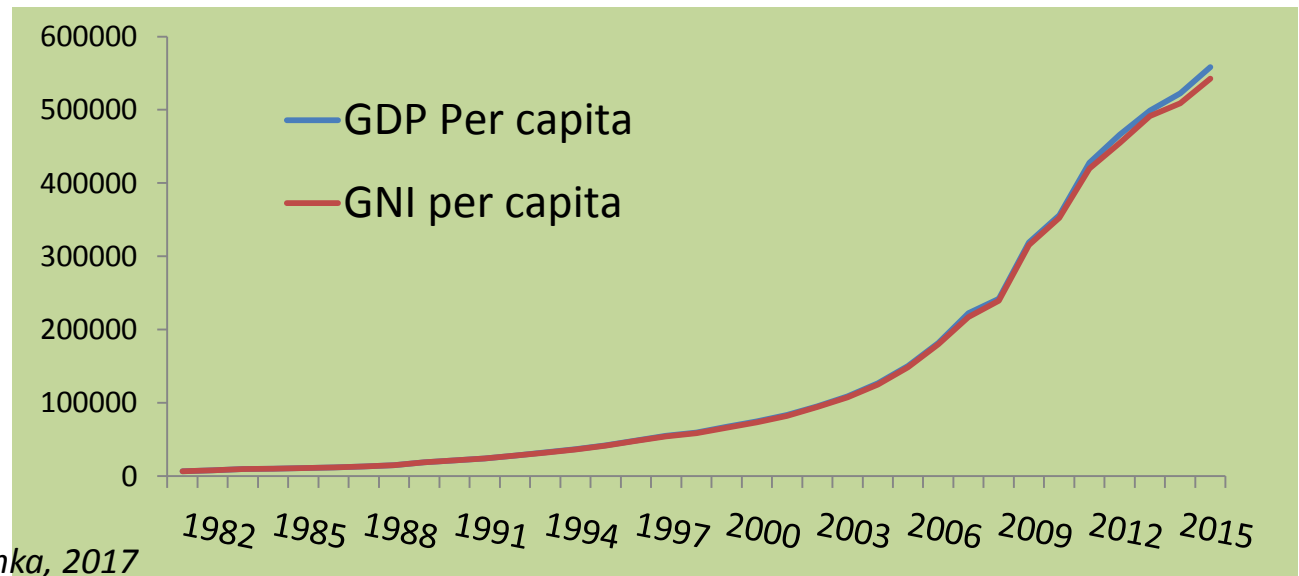


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GDP and Gross National Income (GNI)

- GDP measures the economic output of the country in question, whereas household surveys capture income flows to resident households including income from other countries and excluding income accruing externally.
- In national accounts terms, Gross National Income (GNI), which adjusts GDP for net factor income flows from abroad, is more closely aligned to the geographical coverage of household surveys. Parent companies abroad repatriating profits from their affiliates. households can also receive income from abroad for example from dividends and interest receipts through investments abroad.
- Comparing GDP and GNI per capita allows the impact of this factor to be assessed.



Source: Central Bank of Sri Lanka, 2017

Department of Census and Statistics

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Income Distribution and Inequality

Growing income inequality → **Median income**

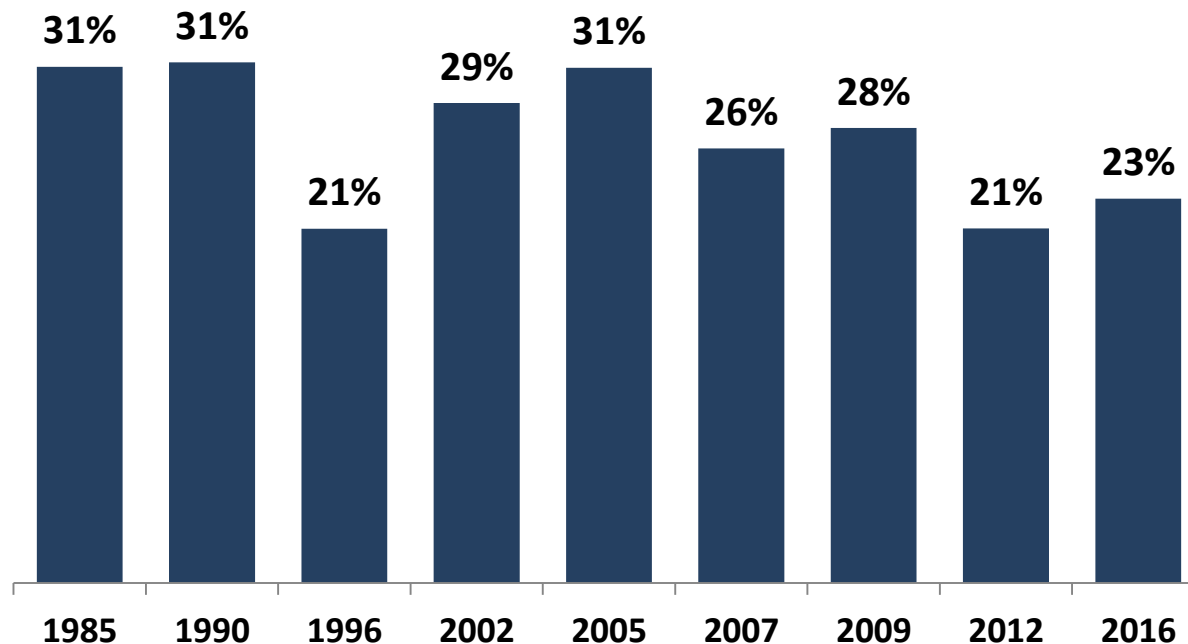


The rate of income growth in the upper or lower parts of the income distribution differs substantially from that around the middle

Evolution of the gap between the mean and the median has itself been seen as a useful way of capturing growing income inequality.

THE PERCENTAGE SHARE OF PER CAPITA GDP RECEIVED BY A MEDIAN HOUSEHOLD HAS COME DOWN

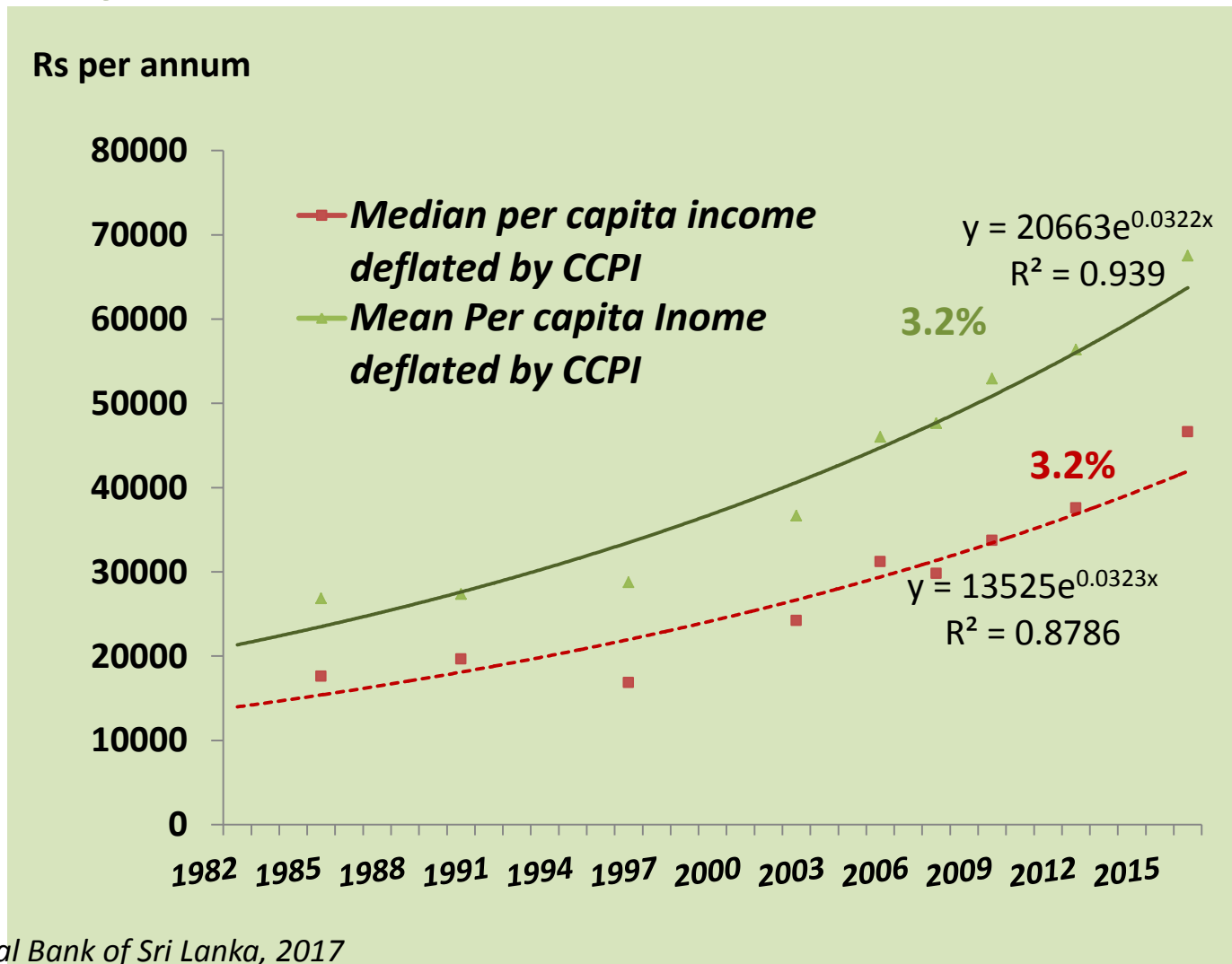
Only 21 % of the per capita GDP had been received by an individual in a median income household in 2012 which was 29 % in 2002



Relatively high income inequality persists in the country which is well above the generally accepted Gini coefficient of 0.4

	Gini coefficient of household income	Gini coefficient of household expenditure
1980/81	0.43	
1985/86	0.46	
1990/91	0.43	
1995/96	0.46	0.36
2002	0.47	0.41
2005	0.47	0.40
2006/07	0.49	0.41
2009/10	0.49	0.37
2012/13	0.48	0.40
2016		

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Source: Central Bank of Sri Lanka, 2017
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GNI per capita as measured in the National Accounts and mean income per head as captured in household surveys

- Rising shares of government to build up sovereign wealth funds or **to pay off debts**
- Declining shares of compensation of employees in value-added
- Trends in value of in-kind services provided by government, such as subsidized health care and educational services
- Rising shares of profits retained by corporations
- Differences in tax and redistribution policy can also play a significant role (taxes going to government, social benefits coming from government and interest payments on household loans going to financial corporations)

- Study investigated the extent of divergence of per capita GDP and average purchasing power in Sri Lanka and the factors that contribute to it.
- Results reveal GDP per capita rose faster than median household income
- Of the relevant factors cited in literature to explain the divergent trends in other countries,
 - **Difference in price deflators, GDP and Gross National Income (GNI) and household size**
 - **inequality and wealth accumulation in the upper income class, unaccounted corporate profits, and unaccounted transfers within the economy**

ACCELERATED GROWTH MODEL

Need better balance between social development and **wealth creation**.



Private investment-led export expansion supported by FDI.

Sri Lankan Model of Development by
Godfrey Gunatilleke

Growth Model proposed by **Joseph E. Stiglitz**

Thank You

