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NATIONAL OUTPUT, EXPENDITURE, INCOME AND EMPLOYMENT

2.1 Overview

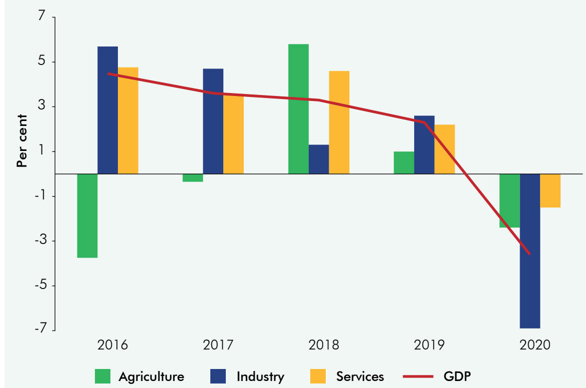
The Sri Lankan economy contracted by 3.6 per cent in 2020 on year-on-year basis in the backdrop of unprecedented disturbances to socio-economic activities due to adverse impacts of COVID-19 pandemic. The pandemic itself, together with related restrictions to contain the spread of pandemic, dragged down the performance of economies all over the world and Sri Lanka was no exception. Some of the business sentiment indices compiled by the Central Bank recorded their lowest values in 2020, particularly during the second quarter, reflecting the adverse impact of the nationwide lockdown. The pandemic situation severely affected economic activities for which physical engagement is vital, such as construction, manufacturing and transportation, in addition to the whole ecosystem built around the tourism industry. The setback in construction and manufacturing activities caused the contraction in Industry activities, while Services activities were adversely affected predominantly due to the contraction in transportation, other personal services, and accommodation, food and beverage services activities. Meanwhile, Agriculture activities also recorded a decline largely due to the pandemic-related disturbances, though the conducive policy environment supported the continuation of most Agriculture activities even during the lockdown periods. Investment expenditure contracted in 2020, mainly due to the uncertainty on the recovery timeline of the pandemic, locally as well as globally, whilst consumption expenditure recorded a slower growth. External demand also weakened during the year on the grounds of a loss of growth momentum across geographies with the pandemic. However, the rationalisation of non-essential imports curtailing the merchandise imports during the year, partly contributed to buffer the deterioration in net external demand amidst the contraction in exports. In 2020, the national savings-investment gap as a percentage of GDP narrowed on account of the considerable contraction in investment expenditure though national savings recorded a decline of 3.6 per cent during the year, compared to 2019. In line with the adverse impact that the COVID-19 pandemic had on economic activities, the labour market exposed its long term fragilities and vulnerabilities, deepening structural issues and inequalities further. Accordingly, resulting in a loss of family incomes, the unemployment rate increased to 5.5 per cent in 2020, the highest since 2009, amidst a considerable decline in labour force mainly due to the drop in female labour force participation. Meanwhile, the unemployment rate amongst females, youth and educationally qualified persons increased considerably in 2020 aggravating the inequalities further. In addition, departures for foreign employment declined sharply amidst the spread of the COVID-19 pandemic, while Sri Lankan migrant workers were also severely affected.

2.2 Gross Domestic Product (GDP),[1] Gross National Income (GNI) and GDP Per Capita

Reflecting the adverse impacts related to the COVID-19 pandemic, the GDP at constant market prices (constant prices) contracted by 3.6 per cent, recording Rs. 9,530.6 billion in 2020, compared to the growth of 2.3 per cent in 2019. Meanwhile, GDP at current market prices (current prices) was estimated at Rs. 14,973.0 billion (US dollar 80.7 billion) in 2020, which is a decline of 0.3 per cent compared to 2019, where it stood at Rs. 15,013.0 billion (US dollar 84.0 billion). Accordingly, the GDP implicit deflator increased to 3.4 per cent in 2020, from 2.7 per cent recorded in 2019.

1 Department of Census and Statistics (DCS) estimates GDP in production, expenditure and income approaches.

Figure 2.1
Annual GDP Growth Rate (a)



(a) Based on the GDP estimates (base year 2010)

Source: Department of Census and Statistics

GNI, which is derived by adjusting GDP for net primary income from the rest of the world, recorded a marginal contraction of 0.1 per cent at current prices in 2020, compared to the growth of 4.9 per cent in 2019. This contraction in GNI

Table 2.1
Gross Domestic Product by Industrial Origin at Constant (2010) Prices (a) (b)

Economic Activity	Growth (%) 2019 (c)	Growth (%) 2020	Contribution to Growth (%) 2019 (c)	Contribution to Growth (%) 2020	As a Percentage of GDP (%) 2019 (c)	As a Percentage of GDP (%) 2020
Agriculture, Forestry and Fishing	**1.0**	**- 2.4**	**0.1**	**- 0.2**	**6.9**	**7.0**
Growing of cereals (except rice)	- 10.5	41.3	- 0.01	0.04	0.1	0.2
Growing of rice	5.4	5.7	0.04	0.04	0.8	0.8
Growing of vegetables	- 3.6	10.1	- 0.02	0.05	0.5	0.6
Growing of sugar cane, tobacco and other non-perennial crops	9.9	17.0	0.00	0.00	0.0	0.0
Growing of fruits	8.5	6.2	0.05	0.04	0.6	0.7
Growing of oleaginous fruits (coconut, king coconut, oil palm)	17.7	- 10.2	0.11	- 0.07	0.7	0.6
Growing of tea (green leaves)	- 1.3	- 7.1	- 0.01	- 0.05	0.7	0.6
Growing of other beverage crops (coffee, cocoa, etc.)	- 25.8	21.6	- 0.00	0.00	0.0	0.0
Growing of spices, aromatic, drug and pharmaceutical crops	- 1.0	3.3	- 0.01	0.02	0.7	0.7
Growing of rubber	- 9.5	4.6	- 0.02	0.01	0.2	0.3
Growing of other perennial crops	0.5	1.8	0.00	0.00	0.2	0.2
Animal production	2.1	- 4.9	0.01	- 0.03	0.7	0.6
Plant propagation and support activities to agriculture	- 9.2	- 0.5	- 0.01	- 0.00	0.1	0.1
Forestry and logging	- 0.1	- 8.1	- 0.00	- 0.05	0.6	0.6
Fishing	- 4.3	- 16.6	- 0.05	- 0.19	1.1	1.0
Industries	**2.6**	**- 6.9**	**0.7**	**- 1.8**	**26.4**	**25.5**
Mining and quarrying	2.8	- 12.5	0.07	- 0.29	2.3	2.1
Manufacturing	1.8	- 3.9	0.28	- 0.60	15.6	15.5
Electricity, gas, steam and air conditioning supply	4.0	- 1.6	0.04	- 0.02	1.1	1.1
Water collection, treatment and supply	5.5	4.8	0.01	0.01	0.2	0.2
Sewerage, waste treatment and disposal activities	7.3	- 1.0	0.02	- 0.00	0.3	0.3
Construction	4.0	- 13.2	0.27	- 0.91	6.9	6.2
Services	**2.2**	**- 1.5**	**1.3**	**- 0.8**	**57.5**	**58.7**
Wholesale and retail trade, transportation and storage, and accommodation and food service activities	1.7	- 5.0	0.40	- 1.15	23.0	22.7
Information and communication	15.7	13.7	0.10	0.10	0.7	0.9
Financial, insurance and real estate activities including ownership of dwellings	2.4	5.0	0.34	0.71	14.2	15.4
Professional services and other personal service activities	2.2	- 5.9	0.25	- 0.67	11.4	11.1
Public administration, defence, education, human health and social work activities	2.3	2.0	0.19	0.17	8.1	8.6
Equals Gross Value Added (GVA) at Basic Price	**2.2**	**- 3.1**	**2.0**	**- 2.8**	**90.8**	**91.2**
Taxes less subsidies on products	2.4	- 8.0	0.22	- 0.74	9.2	8.8
Equals Gross Domestic Product (GDP) at Market Price	**2.3**	**- 3.6**	**2.3**	**- 3.6**	**100.0**	**100.0**
Net primary income from rest of the world	- 6.3	- 44.2				
Gross National Income at Market Price	**2.1**	**- 5.0**				

(a) Based on the GDP estimates (base year 2010)
(b) Provisional
(c) Revised

Source : Department of Census and Statistics

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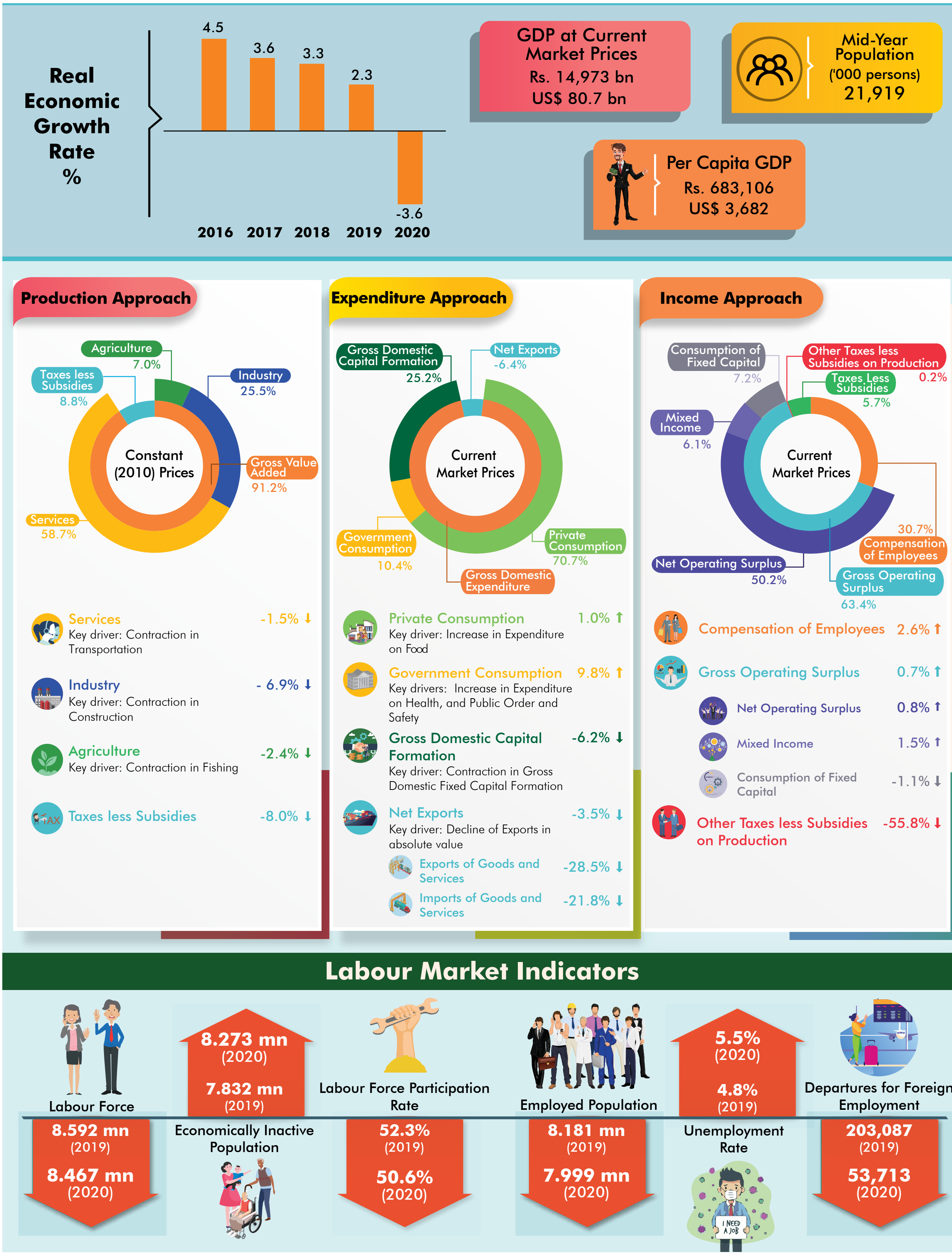
Figure 2.2
Snapshot of National Output, Expenditure, Income and Employment - 2020



was attributable to the decline in the GDP at current prices, even in the midst of an improvement in net primary income in 2020.

GDP per capita was estimated at Rs. 683,106 (US dollars 3,682) in 2020, compared to Rs. 688,573 (US dollars 3,852) in 2019. The decline in GDP per capita in rupee terms was mainly on account of the contraction in GDP at current prices, while the decline in GDP per capita in US dollar terms was a combined outcome of the contraction in GDP at current prices and the weakening of domestic currency against the US dollar on an annual average basis. Meanwhile, GNI per capita was estimated at Rs. 664,620 (US dollars 3,582) in 2020, compared to Rs. 668,748 (US dollars 3,741) in 2019.

2.3 Contribution from Institutional Sectors

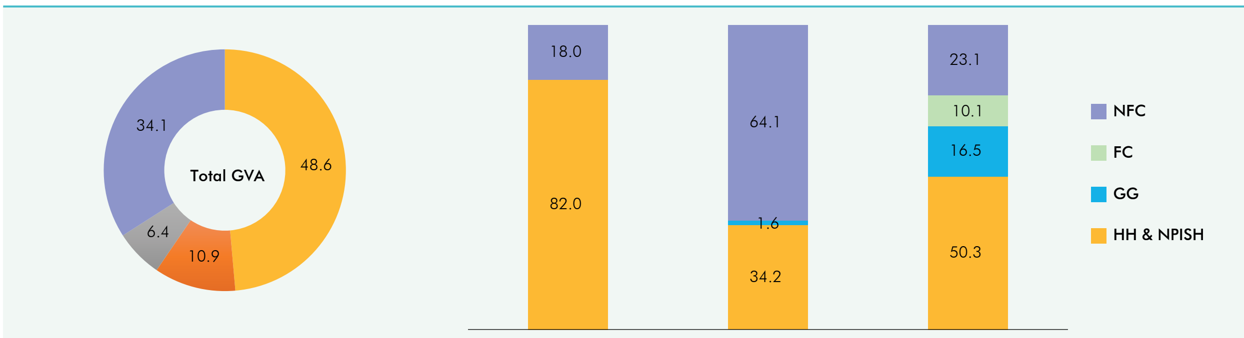
The Household and Non-Profit Institutions Serving Households (HH and NPISH) sector continued to be the major contributor to the Gross Value Added (GVA) of the economy at current prices in 2020. Accordingly, the HH and NPISH sector grew at a marginal rate of 0.4 per cent in 2020, accounting for 48.6 per cent of GVA of the economy. Meanwhile, the Non-Financial Corporations (NFC) sector recorded a contraction of 2.5 per cent, while the General Government (GG) and Financial Corporations (FC) sectors recorded growth rates of 7.7 per cent and 17.7 per cent, respectively. When considering the contribution of the institutional sectors to major economic activities, the HH and NPISH sector remained as the major contributor to the value added of Agriculture and Services activities in 2020, while the value added of Industry activities was mainly driven by the NFC sector.

2.4 Output, Policies, Institutional Support and Issues

Agriculture

Agriculture activities recorded a contraction of 2.4 per cent in 2020 in value added terms, compared to the growth of 1.0 per cent in 2019, due to the considerable decline in some of the major Agriculture activities, including fishing, growing of oleaginous fruits (including coconut), tea, forestry and logging, and animal production. This setback in Agriculture activities was largely due to the COVID-19 pandemic related disturbances on certain plantations and fishing activities. Especially, tea production was severely affected, particularly during March at the beginning of the first wave of the pandemic while fishing activities were hit hard during the first wave as well as in the last quarter of the year following

Figure 2.3
Percentage Share of Gross Value Added (GVA) by Institutional Sectors in 2020 (at Current Market Prices) (a)



(a) Based on the GDP estimates (base year 2010)

Source: Department of Census and Statistics the second wave of the pandemic. Meanwhile, growing of vegetables, rice, cereals (except rice), fruits and spices expanded during the year positively contributing to the overall Agriculture activities while conducive policy environment, specific actions initiated by the Government and favourable weather also supported to minimise pandemic related downturn.

Agriculture Production

The Agriculture Production Index, which measures only the output of the agriculture and fisheries sectors,[2] recorded an increase of 2.3 per cent in 2020 supported by the growth in sub-indices of paddy, rubber and other crops (other field crops, vegetables and fruits). However, tea, coconut, livestock and fisheries sub-indices declined in comparison to the previous year.

Paddy

Paddy production in 2020 increased to an all-time high level, supported by favourable weather conditions and conducive policies of the Government. Paddy production, which recorded a bumper harvest in 2019, further increased by 11.5 per cent to 5.1 million metric tons in 2020. The production in the 2019/2020 Maha season, which accounted for around 62 per cent of total annual production, increased by 4.0 per cent, while paddy output in the 2020 Yala season recorded an increase of 26.6 per cent. Government intervention in the form of guaranteed paddy purchasing price and the provision of free fertiliser for paddy cultivation contributed to the significant improvement in production in 2020. Further, these government interventions raised the household income levels of the paddy farming community, thereby improving their living standards. Annual paddy production in 2020, which is equivalent to 3.3 million metric tons of rice, is estimated to be sufficient to meet the household rice demand of the country for approximately 17 months.[3]

Paddy prices in the open market remained elevated during 2020 compared to the preceding year, despite the increase in production in 2019 as well as in 2020. The average open market paddy price of Nadu increased by 11.0 per cent, year-on-year, to Rs. 47.73 per kilogramme in 2020, while the average open market paddy price of Samba also increased by 18.2 per cent to Rs. 50.56 per kilogramme. The increase in certified paddy purchasing prices by the Government and the competition among private mill owners to purchase paddy stocks above the certified prices contributed to the increase in paddy prices. The certified paddy purchasing price for a kilogramme of rice for Samba and Keeri Samba (dry) paddy varieties was increased from Rs. 41.00 in 2019 to Rs. 50.00 in 2020, while the same for Nadu (dry) varieties was increased from Rs. 38.00 in 2019 to Rs. 50.00 in 2020. Meanwhile, certified price for paddy with high moisture content was

Table 2.2
Agriculture Production Index (2007-2010 =100)

Item	2019 (a)	2020 (b)	Growth Rate (%)	
			2018/19 (a)	2019/20 (b)
Agriculture and Fisheries	126.0	129.0	-0.1	2.3
1 Agriculture	120.8	129.1	1.0	6.9
1.1 Agriculture Crops	113.3	124.0	0.7	9.5
Paddy	122.8	136.9	16.9	11.5
Tea	96.3	89.5	-1.3	-7.1
Rubber	55.7	58.3	-9.5	4.6
Coconut	108.9	98.6	17.6	-9.5
Other Crops	136.3	167.9	-10.8	23.2
o/w Vegetables	123.0	142.7	-15.3	16.0
Fruits	150.1	199.6	-18.4	33.0
OFC	118.9	141.1	-11.4	18.6
1.2 Livestock	180.5	169.5	2.3	-6.1
2 Fisheries	151.6	128.5	-4.0	-15.2

(a) Revised
(b) Provisional
Source: Central Bank of Sri Lanka

2 Agriculture Production Index does not cover the forestry and logging sector

3 Household rice demand is computed using the average rice consumption of households based on the Household Income and Expenditure Survey – 2016 and mid-year population in 2020.

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Table 2.3
Paddy Sector Statistics

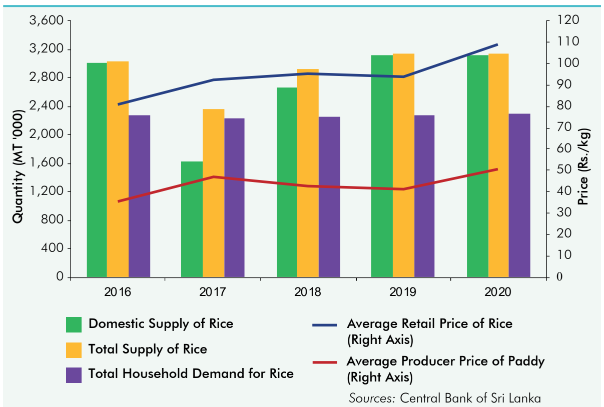
Item	Unit	2019 (a)			2020 (b)		
		Maha	Yala	Total	Maha	Yala	Total
Gross Extent Sown	hectares '000	748	369	1,117	752	456	1,208
Gross Extent Harvested	hectares '000	724	346	1,070	740	451	1,191
Net Extent Harvested	hectares '000	647	310	958	663	403	1,066
Production	mt '000	3,073	1,519	4,592	3,197	1,924	5,121
	bushels '000	147,256	72,822	220,078	153,207	92,218	245,425
Yield per Hectare (c)	kg/ hectare	4,747	4,896	4,795	4,821	4,770	4,802
Credit Granted	Rs. mn	4,471	2,865	7,336	4,230	2,998	7,228
Rice Imports (d)	mt '000	n.a.	n.a.	24	n.a.	n.a.	16
Paddy Equivalent of Imported Rice (d)	mt '000	n.a.	n.a.	35	n.a.	n.a.	23

(a) Revised
(b) Provisional
(c) Yield per hectare is calculated by dividing the production by the net extent harvested.
(d) Annual figure

Sources: Department of Census and Statistics
Sri Lanka Customs
Central Bank of Sri Lanka

set at Rs. 44.00 per kilogramme. Due to higher market power enjoyed by a few rice millers, retail rice prices remained higher than the maximum retail prices imposed by the Government. The average retail price of Samba rice was Rs. 104.37 per kilogramme in 2020 compared to Rs. 102.29 per kilogramme in 2019. Meanwhile, the average retail price of Nadu rice increased to Rs. 100.01 per kilogramme in 2020 in comparison to Rs. 93.48 per kilogramme recorded in the previous year. Further, rice imports declined to 15,770 metric tons in 2020, registering a 34.8 per cent decline over the previous year in response to higher production and import control measures.

Figure 2.4
Rice : Supply and Demand



Sources: Central Bank of Sri Lanka
Department of Census and Statistic
Sri Lanka Customs

Tea

The production of tea registered a notable decline of 7.1 per cent in 2020 due to adverse weather conditions and labour supply disruptions due to COVID-19 containment measures. Although a significant decline of 18.0 per cent was recorded in the first half of the year, tea production recovered in the second half of the year, with a 4.9 per cent year-on-year growth. Production of high, medium and low grown tea, which contributes about 22 per cent, 17 per cent and 61 per cent of the total production, respectively, declined by 1.3 per cent, 0.9 per cent and 10.5 per cent, respectively, in 2020. In the meantime, the average yield in the smallholder sector declined from 1,765 kilogrammes per hectare, compared to 1,938 kilogrammes per hectare reported in 2019, mainly due to the drought conditions that prevailed in tea growing areas.

Tea prices at the Colombo Tea Auction (CTA) remained elevated throughout the year in comparison to the corresponding prices in 2019. The average price of tea increased by 15.9 per cent to Rs. 633.85 per kilogramme during 2020, from Rs. 546.67 per kilogramme recorded in the previous year. Average tea prices for high, medium and low grown tea reported year-on-year increases of 15.5 per cent, 18.7 per cent and 16.0 per cent, respectively, in 2020. Further, the average price received by smallholders for green leaves increased to Rs. 94.36 per kilogramme in 2020 from Rs. 80.15 per kilogramme in 2019. The average export price (FOB) of tea increased by 1.6 per cent to US dollars 4.67 per kilogramme during 2020, compared to US dollars 4.60 per kilogramme recorded in the preceding year. Although the increase in tea prices can be partly attributed to the decline in the quantity supplied to the CTA due to reduced local production, a significant drop in tea exports from global competitors due to setbacks caused by the COVID-19 pandemic enabled domestic exporters to attract a comparably higher price during 2020.

Rubber

Rubber production recorded an increase of 4.6 per cent in 2020 largely due to attractive market prices and favourable weather conditions that prevailed in the second half of the year. Although rubber production declined by 10.1 per cent in the first half of 2020 due to less tapping days amidst mobility restrictions during the first wave of the COVID-19 pandemic and dry weather conditions in rubber growing areas, rubber production improved considerably by 23.2 per cent during the second half of the year, supported by relatively favourable weather conditions. Among the major categories of rubber produced, sheet rubber production, which accounts for nearly 50 per cent of the total production, grew by 4.6 per cent to 39.1 million kilogrammes. However, the production of crepe rubber, which contributes 17 per cent of the total rubber production, declined by 10.2 per cent to 13.0 million kilogrammes in 2020. Meanwhile, the production of unspecified categories of rubber, which represents approximately 33 per cent of the total production, recorded a significant increase of 14.0 per cent to 26.1 million kilogrammes during the year. In 2020, domestic consumption of raw rubber in the Industrial sector decreased to 112.1 million kilogrammes, while total rubber exports increased by 21.3 per cent, year-on-year, to 15.8 million kilogrammes.

Rubber prices increased at the Colombo Rubber Auction, particularly towards the end of the year, supported by the surge in natural rubber prices in global markets. The average price of Ribbed Smoked Sheet 1 (RSS1)

Table 2.4
Trends in Principal Agricultural Crops

Category	Unit	2019 (a)	2020 (b)	Change (%) 2018/19 (a)	Change (%) 2019/20 (b)
1. Tea					
1.1 Production (c)	kg mn	300.1	278.9	-1.2	-7.1
1.2 Total Extent	hectares '000	200	200	-	-
1.3 Extent Bearing	hectares '000	193	193	-	-
1.4 Cost of Production (d)	Rs/kg	483.79	n.a.	1.8	-
1.5 Average Price					
- Colombo Auction	Rs/kg	546.67	633.85	-6.0	15.9
- Export (F.O.B.)	Rs/kg	822.25	866.70	0.2	5.4
1.6 Replanting	hectares	638	907	-37.9	42.2
1.7 New Planting	hectares	296	424	-32.0	43.2
1.8 Value Added as % of GDP (e)		0.7	0.6		
2. Rubber					
2.1 Production	kg mn	74.8	78.2	-9.4	4.6
2.2 Total Extent	hectares '000	138	138	0.4	0.2
2.3 Area under Tapping (f)	hectares '000	114	117	6.2	3.0
2.4 Cost of Production	Rs/kg	210.00	213.50	2.4	1.7
2.5 Average Price					
- Colombo Auction (RSS 1)	Rs/kg	288.51	351.46	2.5	21.8
- Export (F.O.B.)	Rs/kg	332.29	353.84	-8.7	6.5
2.6 Replanting (f)	hectares	1,040	955	19.5	-8.2
2.7 New Planting (f)	hectares	1,103	720	12.6	-34.7
2.8 Value Added as % of GDP (e)		0.2	0.3		
3. Coconut					
3.1 Production	nuts mn	3,086	2,792	17.6	-9.5
3.2 Total Extent	hectares '000	503	506	0.9	0.5
3.3 Cost of Production	Rs/nut	18.33	n.a.	-2.7	-
3.4 Average Price					
- Producer Price	Rs/nut	47.04	63.52	-22.5	35.0
- Export (F.O.B.) (g)	Rs/nut	41.60	58.91	-39.1	41.6
3.5 Replanting / Under Planting (h)	hectares	5,931	5,333	-21.4	-10.1
3.6 New Planting (i)	hectares	6,842	8,000	-32.8	16.9
3.7 Value Added as % of GDP (e)		0.7	0.6		

(a) Revised
(b) Provisional
(c) Includes green tea
(d) Includes green leaf suppliers' profit margin
(e) In growing and processing only
(f) Extent covered by cultivation assistance schemes of the Rubber Development Department
(g) Three major coconut kernel products only
(h) Extent covered by cultivation assistance schemes of the Coconut Cultivation Board (CCB)
(i) The extent newly planted is calculated based on the amount of coconut seedlings distributed by CCB at a conversion rate of 158 seedlings for one hectare.

Sources:
Sri Lanka Tea Board
Tea Small Holdings Development Authority
Ministry of Plantation
Department of Census and Statistics
Rubber Development Department
Coconut Cultivation Board
Coconut Development Authority
Plantation Companies
Sri Lanka Customs
Central Bank of Sri Lanka

witnessed an increase of 21.8 per cent to Rs. 351.46 per kilogramme in 2020, though RSS1 was not traded at the Colombo Rubber Auction from April to August 2020 due to lower global demand caused by the COVID-19 pandemic. Average price of latex crepe increased by 18.8 per cent to Rs. 359.04 per kilogramme during 2020. Meanwhile, average auction prices of RSS1 and latex crepe stood at Rs. 440.00 per kilogramme and Rs. 462.17 per kilogramme, respectively, in December 2020. Average FOB price of rubber also registered an increase of 2.6 per cent to US dollars 1.91 per kilogramme in 2020, in comparison to US dollars 1.86 per kilogramme in 2019. Recovery in Chinese demand during the second half of 2020, lower production in Thailand due to mobility restrictions and spread of a fungal disease in rubber plantations in South East Asia were the key reasons for the escalation of natural rubber prices in global markets.

Coconut

The supply of coconut and coconut products experienced a contraction in 2020. Coconut production showed a notable decline of 9.5 per cent in 2020, as a result of the lag effect of insufficient rainfall received by major coconut growing areas in 2019. The contraction in nut production and supply side disturbances that emerged amidst the COVID-19 pandemic adversely impacted coconut related industries. Accordingly, desiccated coconut production declined substantially to 25,255 metric tons in 2020 from 44,081 metric tons in 2019. Due to the limited supply of fresh coconuts to oil mills, coconut oil output also declined considerably by 55.7 per cent to 19,759 metric tons, whereas virgin coconut oil production increased by 18.1 per cent in 2020. Meanwhile, the importation of coconut oil increased significantly to 79,060 metric tons in 2020 from 4,628 metric tons in 2019. The Government adjusted the Special Commodity Levy (SCL) on coconut oil, virgin coconut oil and palm oil imports several times during 2020 with the aim of supporting the domestic coconut oil industry. Moreover, measures were taken to import sliced dry copra instead of importing coconut oil, in order to protect local oil manufacturers and to develop coconut based industries. In comparison to 2019, copra exports and fresh nut exports declined by 72.4 per cent and 25.2 per cent, respectively, in 2020. Despite the reduction in nut production, coconut cream and coconut milk production grew during 2020, though the production of coconut milk powder recorded a decline.

Severe shortage of coconuts for consumption and industrial usage due to low domestic production resulted in prices of coconut and coconut based products escalating in 2020. Accordingly, average retail price of coconut increased significantly by 45.8 per cent to Rs. 73.82 per nut compared to the preceding year. The average auction price of coconut at the Colombo Coconut Auction also increased to Rs. 48.89 per nut from Rs. 27.55 per nut in 2019. The increase in market price of fresh coconuts pushed up the cost of coconut based products. Accordingly, average price of coconut oil increased significantly by 31.9 per cent to Rs. 343.18 per 750 ml bottle in 2020, while the average local market price of desiccated coconut also increased to Rs. 447.56 per kilogramme in 2020 from Rs. 251.03 per kilogramme in 2019. Further, a 36.5 per cent decline in desiccated coconut exports was observed while export price of desiccated coconut increased by 37.3 per cent during the year. Although the Government imposed maximum retail prices for coconuts in September 2020, ranging from Rs. 60.00 to Rs. 70.00 per nut based on the circumference of coconuts, coconuts were sold above the controlled prices in local markets due to limited supply.

Minor Export Crops

According to the provisional estimates of the Department of Export Agriculture (DEA), the performance of minor export crops rebounded in 2020, registering a 23.6 per cent growth. The production of ginger, turmeric, cinnamon, pepper, cocoa, cardamom, and arecanut increased during the year, while the production of clove and nutmeg declined. Due to the import restrictions imposed by the Government on export agriculture crop products such as ginger, pepper and turmeric, farmers showed a significant interest in cultivating such crops. Accordingly, raw turmeric production at 25,506 metric tons in 2020, recorded a remarkable growth of 170.9 per cent, while production of ginger increased by 64.7 per cent to 22,705 metric tons. Pepper production also increased by 8.2 per cent to 23,970 metric tons during the year. The production of cinnamon increased marginally to 20,866 metric tons in 2020, while the production of arecanut grew by 15.7 per cent to 20,526 metric tons. Meanwhile, the production of clove and nutmeg declined by 26.6 per cent and 46.3 per cent to 3,512 metric tons and 2,751 metric tons, respectively, in 2020, owing to the belated harvesting period due to delayed crop cycles.

Other Field Crops

Restrictions imposed on the importation of certain other field crops (OFCs) led to a notable increase in local production, with local producers receiving premium prices. Accordingly, the overall production of OFCs increased by 21.7 per cent, year-on-year, to 664,380 metric tons in 2020. This was the combined outcome of a growth of 13.8 per cent in the 2019/2020 Maha season and a 38.2 per cent growth in the 2020 Yala season. The output of maize, finger millet (kurakkan), big onion, red onion, green gram, black gram, ground nut, sorghum, and cowpea increased in 2020, compared to the previous year. Meanwhile, big onion production, which declined by 33.7 per cent in 2019, bounced back with a significant growth of 131.2 per cent during the year. However, importation of big onions increased by 10.7 per cent to 265,863 metric tons in 2020. Moreover, potato production declined by 36.0 per cent to 65,085 metric tons in 2020 and potato imports also dropped by 10.8 per cent. It is expected that the improved local supply of OFCs would support domestic industries that use such produce, dampening the demand for imports. In order to strengthen domestic food security, further efforts are required to improve the supply of all OFCs by promoting seed production, pest management, expanding storage capacity, adopting best practices on climate resilient agriculture and increasing access to diverse markets for better price realisation.

Vegetables

According to the estimates of the DCS, vegetable production increased to 1.7 million metric tons in 2020, registering a growth of 13.0 per cent despite COVID-19 related supply chain interruptions. This increase was supported by a 7.0 per cent increase in production in the 2019/2020 Maha season and a 20.7 per cent growth in the 2020 Yala season. However, there were wide fluctuations in vegetable prices throughout the year owing to supply chain disruptions caused by COVID-19 related lockdowns and mobility restrictions. Therefore, agricultural produce was transported to economic centres with delays, resulting in comparatively high post-harvest losses at the farm gate and economic centres, creating frequent price fluctuations in retail markets. Meanwhile, 33,206 metric tons of vegetables worth US dollars 36.6 million were exported, while 716,494 metric tons of vegetables worth US dollars 352.9 million were imported during 2020. Improving storage and distribution, optimal usage of agricultural inputs such as fertiliser and pesticides, and adopting climate smart and sustainable agricultural practices have become imperative to ensure higher incomes for farmers, protect consumers and increase the sustainability of the sector.

Fruits

The production of fruits increased in 2020 by 3.1 per cent compared to the decline of 3.1 per cent recorded in the previous year, with significant improvements in the production of mango, banana, papaw, guava, and melon. During the year under review, 38,725 metric tons of fruits worth US dollars 33.1 million were exported, while 52,778 metric tons of fruits, including apples, mandarins, oranges and grapes, valued at US dollars 58.1 million were imported. Despite good export demand for local fruits and vegetables, the inability to supply large quantities of good quality products on a continuous basis by the local producers was a major constraint for the development of the fruit export sector. Promoting good agricultural practices, especially with regard to the usage of agricultural inputs and harvesting, establishing direct links between producers and exporters, and further development of the contract farming system are key to improving fruit exports.

Sugar

The production of sugar increased by 14.5 per cent to 59,869 metric tons in 2020, supported by increased extent cultivated and the quantity of cane crushed. The production at Gal Oya and Sevenagala sugar factories increased by 81.3 per cent and 0.6 per cent to 20,173 metric tons and 16,114 metric tons, respectively. However, output at Pelwatte sugar factory, which accounts for around 39 per cent of the total domestic sugar production, declined by 6.3 per cent to 23,582 metric tons in 2020 owing to low yield caused by dry weather conditions and low sugar recovery rate.[4] Negotiations on the re-establishment of the Kantale sugar factory and the sugarcane plantation progressed during the year. Meanwhile, a new sugar factory under Ethimale plantations (Pvt) Ltd. commenced sugarcane cultivation with a view to launching manufacturing operations in the near future. Overall, the sugar recovery rate declined to 6.8 per cent in 2020 from 7.2 per cent in the previous year, and domestic sugar production in 2020 was sufficient to meet around 9 per cent of the total sugar requirement of the country. Sugar imports increased by 22.7 per cent to 682,553 metric tons in 2020, especially after the reduction of the SCL on sugar imports in October 2020. Considering the potential for the expansion of the domestic sugar production and the significant amount of foreign exchange incurred in importing sugar, it is crucial to revitalise the sugar industry with the use of modern technology, high yielding sugar cane varieties and better crop management practices.

Livestock

Output in the domestic livestock sector declined in 2020, except for milk production. According to the estimates of the DCS, the total national milk production increased notably by 9.8 per cent, year-on-year, to 492 million litres in 2020. The increase in production can be attributed to farmers receiving attractive prices for raw milk, growing demand for raw milk from milk collectors

4 Sugar Recovery Rate $= \dfrac{\text{Sugar Produced} \times 100}{\text{Quantity of Cane Crushed}}$

Table 2.5
Livestock Sector Statistics

Sub-Sector	2019 (a)	2020 (b)	Change (%) 2018/19 (a)	2019/20 (b)
1. National Herd (No.) (million)	1.4	1.4	-2.5	3.0
Neat Cattle	1.1	1.1	-2.2	1.6
Buffalo	0.3	0.3	-3.4	8.2
2. National Milk Production (million litres)	447.6	491.5	-6.3	9.8
Cow Milk	374.0	413.6	-4.5	10.6
Buffalo Milk	73.6	77.9	-3.4	5.9
3. Milk Products (million litres) (c)	220.3	n.a.	-	-
4. Producer Price - Cow Milk (Rs./litre)	69.96	74.62	4.6	6.7
5. National Egg Production (No.) (million)	2,084.2	1,869.7	5.7	-10.3
6. National Poultry Meat Production (mt '000)	224.0	216.2	4.6	-3.5

(a) Revised
(b) Provisional
(c) According to Department of Animal Production and Health data

Sources: Department of Census and Statistics
Department of Animal Production and Health

and part time farmers actively involved in animal rearing during the pandemic period. The average cost of production of a litre of milk was Rs. 49.28, which was an increase from Rs. 48.32 reported in 2019. With regard to the poultry sector, egg production declined by 10.3 per cent in 2020 due to production losses resulting from early culling of commercial layers and limited availability of feed material. Further, as per the provisional data of the Department of Animal Production and Health (DAPH), poultry meat production decreased by 3.5 per cent to 216,160 metric tons. Local production of broiler parents recorded an increase while the importation of broiler parents declined during 2020 due to restrictions imposed on live animal importation, resulting in lower availability of broiler day-old chicks in 2020. However, the importation of layer parents increased, in response to high demand for layer chicks for egg production. Meanwhile, the production of beef, pork and mutton declined by 54.5 per cent, 4.7 per cent and 11.0 per cent, respectively, to 13,580 metric tons, 8,580 metric tons and 1,610 metric tons, respectively, in 2020. Reduced demand from the leisure sector and the curtailment of social activities with the onset of the pandemic contributed negatively to the performance of the domestic livestock sector.

Fisheries

The fisheries sector experienced a setback in 2020. The total fish production declined by 15.2 per cent in 2020, mainly due to a decline in marine fish production, which accounts for 76 per cent in total fish production. A considerable contraction in deep sea and coastal fishing activities was experienced due to frequent weather disturbances and restrictions imposed on fishing and other supply chain activities during the pandemic, especially with the emergence of a COVID-19 cluster within the fish supply chain. In contrast, the total inland fish production witnessed a growth of 12.7 per cent supported by the inland capture and the shrimp farm production. Improved practices of stocking and releasing of fingerlings into inland water bodies contributed to a notable increase in the inland fisheries production. Meanwhile, the domestic fish consumption of the household and hotel sectors, which was affected by the domestic and global lockdown measures, and the fear about fish being a carrier of the virus, resulted in volatile prices throughout the year. In terms of prices, on average, large fish varieties recorded a marginal decline of 0.4 per cent while small fish varieties recorded an increase of 19.2 per cent during the year. Meanwhile, seafood exports witnessed a decline of 29.5 per cent during 2020, as a result of lower demand from key export destinations and the disturbances to global logistic chains.

Table 2.6
Fish Production

mt '000

Sub-Sector	2019	2020 (a)	Change (%) 2018/19	2019/20 (a)
Marine	415	327	-5.4	-21.3
Coastal and Lagoon	243	183	-2.6	-24.7
Off-shore	173	144	-9.2	-16.5
Inland Fisheries	90	102	3.0	12.7
Capture	73	84	3.1	15.1
Aquaculture	11	10	26.1	-5.3
Shrimp Farms	6	7	-21.8	15.0
Total	506	429	-4.0	-15.2

(a) Provisional

Source: Ministry of Fisheries

2

Agriculture Policies and Institutional Support

The Government introduced several measures to enhance paddy production and stabilise paddy prices. Accordingly, under the fertiliser subsidy programme, fertiliser was issued to farmers at a subsidised price of Rs. 500.00 per 50 kilogrammes bag in the 2019/2020 Maha season. Accordingly, around 193,322 metric tons of fertiliser were issued to paddy farmers during the said season. Moreover, the Government decided to provide fertiliser free of charge for paddy farmers for a maximum land extent of two hectares from 2020 Yala season onwards and 131,309 metric tons of fertiliser were issued in the 2020 Yala season. In order to ensure that the paddy farmers receive a remunerative price and to stabilise paddy market prices, the Government took steps to implement the paddy purchasing programme at a guaranteed price. The Paddy Marketing Board (PMB) purchased around 26,000 metric tons of paddy stocks from the 2019/2020 Maha harvest, but only around 4,000 metric tons were purchased in the 2020 Yala season since the prevailing market prices were higher than the guaranteed price offered by the PMB. Meanwhile, the Rice Research and Development Institute (RRDI) developed new hybrid short duration rice varieties with drought resistant modifications. Moreover, the Ministry of Agriculture (MOA) continued its support services including extension services, crop insurance and pest management, while implementing a special mid-season cultivation programme, popularising climate smart agricultural practices.

The Sri Lanka Tea Board (SLTB), Tea Small Holdings Development Authority (TSHDA) and the Tea Research Institute (TRI) continued their development activities aimed at productivity and technological enhancements. During the pandemic period, the tea auction was shifted from the conventional physical presence system to an e-auction platform where buyers were able to bid from remote locations. Accordingly, over 200 million kilogrammes of tea were sold through e-auctions during the period under review. Meanwhile, the Government decided to increase the daily wage of the plantation sector workers up to Rs. 1,000.00 through the Wages Board in order to resolve prolonged wage issues in the sector. The SLTB initiated a Model Tea Garden project for

Table 2.7
Availability of Major Food Commodities

Item	Unit	2010			2019			2020 (a)		
		Production	Imports	Per Capita Availability (kg per Year)	Production	Imports	Per Capita Availability (kg per Year)	Production	Imports	Per Capita Availability (kg per Year)
Rice (b)	mt '000	3,011	126	152	3,214	24	149	3,585	16	164
Maize	mt '000	162	16	9	246	118	17	314	44	16
Wheat	mt '000	-	1,051	51	-	1,159	53	-	1,404	64
Big Onion	mt '000	59	158	10	19	240	12	43	266	14
Sugar	mt '000	31	548	28	52	556	28	60	683	34
Potatoes	mt '000	52	130	9	102	142	11	65	127	9
Fresh Fish	mt '000	385	14	19	506	19	24	429	13	20
Cow Milk	mn litres	192	-	9(c)	374	-	17(c)	414	-	19(c)
Coconut Oil	mt '000	65	3	3	45	5	2	20	79	5

(a) Provisional
(b) 1 mt of paddy = 0.7 mt of rice
(c) Litres per year

Sources: Department of Census and Statistics
Sri Lanka Customs
Lanka Sugar Company (PVT) Ltd Sevanagala Unit
Lanka Sugar Company (PVT)-Palwatte Unit
Gal Oya (Higurana) Sugar Industries Ltd
Ministry of Fisheries
Coconut Development Authority

middle scale tea estates by providing Rs. 1 million per acre of model tea gardens. Under the Tea Sector Revival and Modernisation Programme of the SLTB, Rs. 168 million was granted to 56 tea factories in 2020. The TSHDA continued its efforts on tea replanting and new planting programmes and crop rehabilitation subsidy programmes. In 2020, around 648 hectares of tea lands were replanted and about 424 hectares of new lands were converted into tea lands, whilst 2.1 million tea plants were used for infilling vacancies in tea lands.

Several measures were implemented by the Rubber Development Department (RDD) and the Rubber Research Institute (RRI) to improve productivity and to expand the extent of rubber cultivation. Accordingly, 720 hectares of new rubber cultivations were established under the new planting programme in 2020. Meanwhile, 815 hectares of land were improved under the productivity improvement programme while 955 hectares were replanted during the year. In 2020, 300 hectares of untapped land were brought to the tapping stage. Meanwhile, the subsidy for fixing a rain guard per tree was increased for both the smallholder sector and the corporate sector in 2020. The RRI continued its research and development on all aspects of rubber cultivation, processing and product development. Accordingly, the RRI initiated special development programmes for rubber growers under four categories, namely, small scale growers, medium scale growers, regional plantation companies / estates and growers who have abandoned tapping. The RRI carried out activities related to the upgrading and accrediting of technological laboratories of rubber, promoting slow release fertiliser technology and promoting of the rubber industry as an environmentally sustainable industry.

The Government implemented several measures in the coconut sector to support the nut production and coconut based industries. Drought conditions and supply chain disturbances caused by mobility restrictions, such as increased wastage due to market closures, labour shortage and logistic difficulties, adversely affected the coconut sector in 2020. Therefore, the Coconut Development Authority (CDA) took steps to continue production activities amid containment measures while minimising the impact of COVID-19 on the coconut sector. The CDA initiated e-auction facilities to enable a continuous exchange process and to maintain reasonable price levels. Activities such as the introduction of a general subsidised price for coconut seedlings (Rs. 100.00 per plant) for systematic cultivation and home gardening, provision of financial support to implement a systematic irrigation system and control of pests and diseases, and conducting of training programmes were undertaken by the Coconut Cultivation Board (CCB) with a view to establishing sustainable coconut cultivation strategies. Meanwhile, the Coconut Research Institute (CRI) introduced a new coconut hybrid variety (CRISL 2020) with high yielding and early flowering traits, while taking steps to establish a new coconut seed garden jointly with Kurunegala Plantations Ltd., to produce a high yielding *Kapsuwaya* hybrid coconut cultivar.

The DEA supported stakeholders of the export agriculture sector, including growers, collectors, processors and exporters, in various ways amid the COVID-19 outbreak. Accordingly, several measures were introduced to increase the production of export agriculture crops by expanding new planting activities while improving the yield of existing cultivations. The DEA implemented several crop value addition programmes to motivate pepper farmers, while an ‘accelerated turmeric cultivation development programme’ was also initiated with the aim of achieving self-sufficiency in turmeric by 2021.

2

The Food Production National Programme (FPNP) for the period 2020-2022 focuses on several targets, including making the country self-sufficient in crops such as maize, onion and potato through crop diversification and productivity improvements. Accordingly, the Department of Agriculture continued its efforts to popularise Good Agricultural Practices (GAP), expand the extent under cultivation of OFCs, ensure soil conservation, improve efficient crop management techniques, and ensure high yielding seeds usage and improve water management. Moreover, the MOA continued the Nutrition Sensitive Home Gardening programme and the Cluster Village Development programme under the FPNP, with the aim of developing the production of OFCs. However, the country needs to adopt a well coordinated and comprehensive approach towards increasing productivity in relation to all food categories through efficient agricultural input usage, climate smart practices and post-harvest practices, rather than attempting to achieve food self-sufficiency only by increasing the land extent cultivated.

During the year, the Sugarcane Research Institute (SRI) carried out several research activities and extension services aimed at enhancing domestic sugar production. Accordingly, the SRI started a programme to introduce imported sugarcane varieties with high sugar content for commercial cultivation. Further, steps have been taken to expand sugarcane cultivation in Kilinochchi, mainly for jaggery and syrup production. The SRI extended its technical information and assistance to new investors to establish new sugar factories at Vavuniya and Welioya.

The DAPH implemented several development programmes in 2020 to improve the national livestock population and productivity. Under the Livestock (Dairy) Breeding Project, the implementation of artificial insemination services, strengthening and maintenance of artificial insemination centres, progeny testing of bull-calves for natural breeding and pasture development programmes were conducted to upgrade the existing cattle population in order to increase domestic milk production. Accordingly, 202,516 artificial inseminations were carried out on cattle and buffalos through divisional veterinary offices in 2020. Institutional support for the livestock sector development was continued through the Field Veterinary Services Improvement programme. Further, 410,459 animals were immunised against Foot and Mouth disease, 178,243 animals were immunised against Black Quarter disease and 279,407 animals were immunised against Haemorrhagic Septicaemia in 2020, under the Control of Contagious and Infectious Diseases Project.

Policy measures of the Government for the fisheries sector underlined the necessity to increase fish production against the backdrop of emerging challenges. The National Aquaculture Development Authority (NAQDA) continued its efforts to increase inland fish production through proper management of water bodies and stock enhancements. Construction work of Dambulla freshwater fish genetic development centre, which was aimed at producing high quality brood stock, increasing fish seed quality and developing new strains of indigenous species, was completed in 2020. During the period under review, the NAQDA stocked 77.7 million freshwater prawn post larvae and 92.9 million fingerlings in water bodies. Moreover, steps were taken to promote the export-oriented fisheries sector, including the initiation of an ornamental fish breeding centre in Polonnaruwa, the establishment of two crab cities in Hambantota, the commencement of large scale sea bass farming in Trincomalee, and the establishment of sea cucumber export villages in Kilinochchi and

Jaffna. In addition, the construction of a milkfish hatchery in Puttalam was commenced. The NAQDA took steps to intensify the shrimp culture activity in the North Western Province through the introduction of a water recirculation system and enhanced biosecurity of farming areas. However, lack of investment, low adoption of modern fishing technologies, delays in obtaining land and sea area on lease for aquaculture projects and low value addition in exports remain as barriers for the expansion in the fisheries sector.

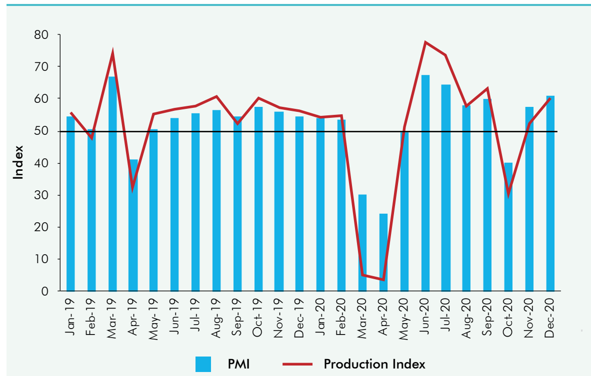
Industry

Reflecting the adverse impacts of the COVID-19 pandemic, mainly on construction, manufacturing, and mining and quarrying activities, Industry activities contracted by 6.9 per cent in 2020 in value added terms, compared to the growth of 2.6 per cent recorded in 2019. The adverse impacts of the pandemic on the major export markets also spilled over to Sri Lanka, weakening the demand, especially for textile and wearing apparel related manufacturing activities. In the meantime, electricity, gas, steam and air conditioning supply activities, and sewerage, waste treatment and disposal activities slightly contracted during the year. However, water collection, treatment and supply activities contributed positively towards the Industry activities in 2020. Reflecting the contraction in Industry activities, the Demand and Production sub-indices related to the Industry sector of the Business Outlook Survey (BOS) conducted by the Central Bank on a quarterly basis, declined on average during the year.

Manufacturing

Owing to the pandemic related disturbances, the value addition from manufacturing activities recorded a contraction of 3.9 per cent in 2020, compared to the growth of 1.8 per cent recorded in 2019. The COVID-19 pandemic, which first spread in Sri Lanka in mid-March 2020 and the subsequent imposition of strict restrictions to contain it, adversely affected the manufacturing activities, particularly during the first half of the year. Apart from that, being a global pandemic, the adverse impacts of the COVID-19 on major trading economies also spilled over to the Sri Lankan economy. Weaker external demand as well as disturbances to the global supply-chain of inputs further deteriorated the capacity utilisation and volume produced in manufacturing firms as a whole. Accordingly, a significant contraction was observed in the manufacturing of textiles, wearing apparel and leather-related products, the second largest sub-activity of manufacturing, especially during the second quarter. Further, the contraction recorded in most of the other manufacturing sub-activities also contributed to the overall contraction of manufacturing activities in 2020. However, manufacturing of food, beverages and tobacco products, which is the largest sub-activity of manufacturing, recorded a growth during the year. Considering the manufacturing-related indicators, the Index of Industrial Production (IIP) compiled by the DCS recorded a decline in 2020. Further, reflecting the adverse impact of the first wave of the COVID-19 pandemic on the manufacturing

Figure 2.5
Purchasing Managers' Index - Manufacturing (a)



(a) PMI is based on a perception survey which captures monthly developments compared to the previous month. This is a diffusion index ranging from 0-100 where an index value above the neutral level of 50 denotes an expansion, while a value below 50 denotes a contraction in the respective activity in general.

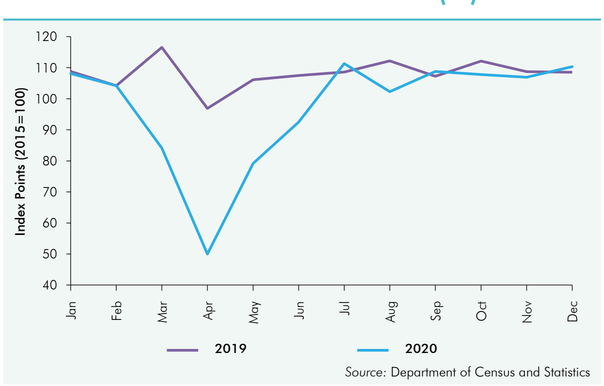
Source: Central Bank of Sri Lanka

activities, the Purchasing Managers' Index (PMI) for manufacturing activities, compiled by the Central Bank on a monthly basis, recorded its historically lowest index value in April 2020, which subsequently indicated signs of recovery from the third quarter onwards.

Index of Industrial Production

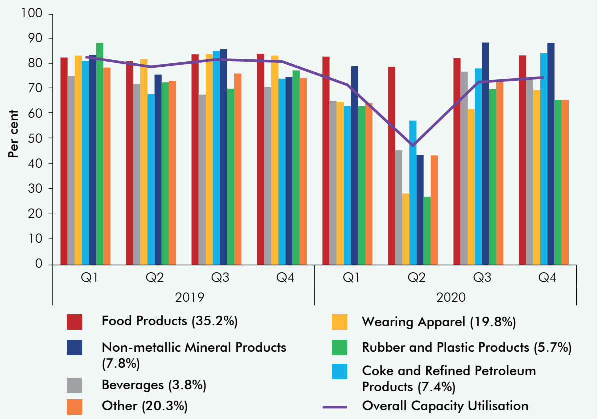
Although occasional shutdowns across key manufacturing sectors, due to the spread of COVID-19, led to a significant decline in the overall annual performance of the Index of Industrial Production (IIP), a notable recovery was observed in the second half of the year. As reflected in the IIP, manufacturing sector activities contracted by 10.2 per cent in 2020 compared to an expansion of 1.3 per cent recorded in 2019. While manufacturing activities across certain key sub-sectors deteriorated during 2020, the manufacture of food products, and basic pharmaceutical products and pharmaceutical preparations, and printing and reproduction of recorded media sub-sectors recorded an expansion in activity. The expansion recorded in the categories of food products and basic pharmaceutical products was driven by the essential nature of these sectors during the COVID-19 pandemic. Although manufacturing activities experienced significant disruptions during the second quarter of 2020 due to the nationwide lockdown and other mobility restrictions to curtail the spread of COVID-19, manufacturing activities returned to pre-pandemic levels by July 2020 with the easing of mobility restrictions and gradual restoration of normalcy to the economy. Notably, the marginal contraction recorded in the IIP during the third and fourth quarters were largely driven by the wearing apparel sector that suffered from several setbacks, including COVID-19 outbreaks in factories. Amid these setbacks, manufacturing activities recorded a positive performance, on a year-on-year basis, in December 2020 despite the contractions recorded in October and November 2020.

Figure 2.6
Index of Industrial Production (IIP)



Source: Department of Census and Statistics

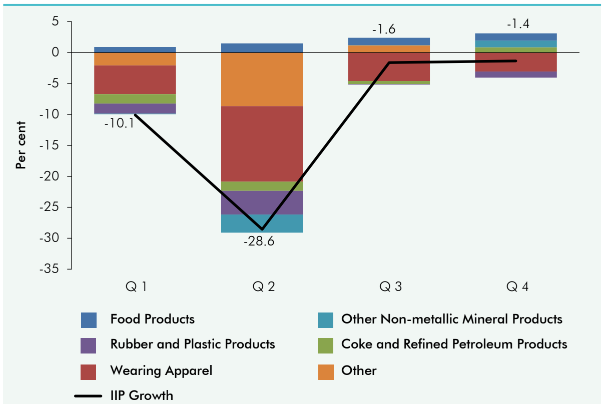
Figure 2.7
Capacity Utilisation



Source: Department of Census and Statistics

Although the disruptions caused by the COVID-19 pandemic had a lesser impact on the food manufacturing sector due to the essential nature of the products, beverage manufacturing activities experienced a contraction during 2020. During 2020, the manufacture of food products sub-sector, the largest sub-sector in the IIP, recorded a growth of 3.3 per cent largely driven by the essential nature of food products and increased demand due to consumer stockpiling during the pandemic. The sector's positive performance was driven by the increased production of milk powder, wheat flour, yoghurt and

Figure 2.8
Contribution to Year-on-Year Change by Major Divisions of IIP in 2020



Source: Department of Census and Statistics

Table 2.8
Index of Industrial Production (IIP) 2015=100

Division (a)	2019	2020 (b)	Change (%) 2018/19	Change (%) 2019/20 (b)
1. Manufacture of Food Products (35.2%)	105.6	109.1	-0.4	3.3
2. Manufacture of Beverages (3.8%)	103.4	96.5	3.6	-6.7
3. Manufacture of Tobacco Products (1.7%)	81.0	72.1	-12.6	-11.0
4. Manufacture of Textiles (3.3%)	108.3	102.2	-1.7	-5.6
5. Manufacture of Wearing Apparel (19.8%)	117.2	81.2	1.9	-30.8
6. Manufacture of Leather and Related Products (0.3%)	116.7	77.6	-0.2	-33.5
7. Manufacture of Wood and Products of Wood and Cork, Except Furniture; Manufacture of Articles of Straw and Plaiting Material (0.2%)	101.9	71.8	3.3	-29.5
8. Manufacture of Paper and Paper Products (1.7%)	96.7	81.8	11.4	-15.5
9. Printing and Reproduction of Recorded Media (1.4%)	102.9	112.6	-3.4	9.4
10. Manufacture of Coke and Refined Petroleum Products (7.4%)	106.8	97.2	9.6	-9.0
11. Manufacture of Chemicals and Chemical Products (4.1%)	102.2	94.2	10.3	-7.8
12. Manufacture of Basic Pharmaceutical Products and Pharmaceutical Preparations (0.1%)	98.2	104.7	-2.0	6.6
13. Manufacture of Rubber and Plastic Products (5.7%)	106.4	75.8	-5.0	-28.7
14. Manufacture of Other Non-metallic Mineral Products (7.8%)	117.8	111.7	8.2	-5.2
15. Manufacture of Basic Metals (2.4%)	124.2	110.7	-3.2	-10.9
16. Manufacture of Fabricated Metal Products (Except Machinery and Equipment) (1.3%)	110.7	100.9	-11.7	-8.9
17. Manufacture of Electrical Equipment (2.0%)	86.9	67.5	6.3	-22.3
18. Manufacture of Machinery and Equipment n.e.s. (0.7%)	99.3	102.9	-2.6	3.6
19. Manufacture of Furniture (0.8%)	90.3	77.0	-0.4	-14.8
20. Other Manufacturing (0.3%)	66.0	65.7	-30.7	-0.5
Index of Industrial Production	**108.1**	**97.1**	**1.3**	**-10.2**

(a) Weights applicable for each division are in parenthesis
(b) Provisional

Source: Department of Census and Statistics

biscuits. In contrast, the manufacture of beverages sub-sector recorded a contraction of 6.7 per cent during the year on account of reduced production of beer, arrack and soft drinks. The closure of restaurants and liquor shops, low demand from the hotel sector and subdued leisure activities adversely affected beverage manufacturing. However, during the second half of 2020, beverage manufacturing activities recorded a substantial growth of 11.5 per cent with the resurgence of economic activity compared to the 23.9 per cent contraction during the first half of 2020. The recovery of the sector during the second half of the year is significant when weighed against the minor expansion of 1.8 per cent recorded in the corresponding period of 2019.

The disruptions in global supply chains, limited availability of labour owing to domestic mobility restrictions together with poor local availability of raw materials adversely affected the manufacturing of wearing apparel and textiles industries in 2020. As reflected in the IIP, the manufacture of wearing apparel sector recorded a contraction of 30.8 per cent in 2020, compared to a growth of 1.9 per cent recorded in the previous year, largely due to COVID-19 containment measures and decline in orders from export destinations. The nationwide lockdown measures imposed throughout the month of April resulted in the sector sharply contracting during the month. However, with factories gradually returning to normal operational levels from the latter part of May, a strong rebound was observed in the manufacturing performance of the sector with occasional declines due to the second wave of infections, which resulted in several short closures within the sector. Decline in the wearing apparel sector was limited to a certain extent with several key apparel producers shifting to the production of personal protective equipment (PPE) targeting the United States and European markets. Although the manufacture of textiles sector recorded an overall contraction during the year, the sector grew by

11.9 per cent in the second half of 2020 signalling the restoration of normalcy to economic activity and diversification of production lines to cater to new demands arising from the health sector, PPE products in particular. The increased production of finished fabrics, coir fibre and printing of fabrics largely contributed to the growth momentum in the second half of 2020.

Although the manufacture of other non-metallic mineral products, the manufacture of basic metals and the manufacture of fabricated metal products sub-sectors registered overall contractions in 2020, some signs of recovery were observed in the second half of the year. The decline in the production of floor tiles, porcelain tableware and glass bottles largely contributed to the slowdown in the manufacture of other non-metallic mineral products sub-sector. Subdued demand from the local construction sector and global markets along with import restrictions, contributed to reduced production in the other non-metallic mineral products sub-sector. The decline in the production of lead and aluminium bars, owing to subdued demand, contributed to the overall contraction of the manufacture of basic metals and the manufacture of fabricated metal products sub-sectors.

The manufacture of coke and refined petroleum products sub-sector witnessed a contraction of 20.3 per cent during the first half of 2020, but recorded a growth of 1.6 per cent during the second half of the year. The initial decline could be attributed to the decline in production of petrol, auto diesel, furnace oil, and bitumen stemming from reduced demand for refined petroleum products in the domestic market and the partial closure of the Ceylon Petroleum Corporation (CPC) refinery for 45 days since 15 February 2020.

The manufacture of tobacco products sub-sector continued to remain subdued in 2020. Accordingly, the manufacture of tobacco products sub-sector recorded a contraction of 11.0 per cent during 2020, following the contractionary trend observed in 2018 and 2019. The high level of taxes on tobacco products and muted consumer demand stemming from the COVID-19 outbreak resulted in a reduction in the manufacture of tobacco products in 2020.

The manufacture of rubber and plastic products, leather and related products, and chemicals and chemical products sub-sectors contracted in 2020. The decline in the production of rubber sheets, plastic bottles, tyres, rubber bottles and zippers, that cater to international markets, underpinned the slowdown experienced in the rubber and plastic products sub-sector. Leather and related products sub-sector recorded a contraction of 33.5 per cent in 2020 caused by a decline in production of finished leather, leather bags, school shoes and leather jackets. Although the manufacture of chemicals and chemical products sub-sector witnessed a contraction of 23.2 per cent in the first half of 2020 due to the decline in production of paints, fertiliser and poly bags, the sector recorded an expansion of 6.7 per cent in the second half of 2020, with the revival of economic activity with the easing of nationwide lockdown measures.

The manufacture of basic pharmaceutical products and pharmaceutical preparations sub-sector witnessed an expansion in 2020. In response to the increased demand for medicines and other health related products following the COVID-19 outbreak, notable increases were observed in the production of capsules and Ayurvedic balms. This sub-sector is expected to continue its growth momentum with the

Government's goal of meeting half of local medicine demand through local production by 2024. The Government's commitment to support indigenous medicine sector, domestic pharmaceutical manufacturing and establishing new pharmaceutical manufacturing zones in Hambantota, Anuradhapura and Horana is expected to support the industry in the period ahead.

The IIP sub-sectors relating to the manufacture of paper and paper products, and wood products (except furniture), electrical equipment, machinery and equipment, and furniture recorded subdued performance in 2020. On account of the decline in the production of corrugated paper, cardboard boxes, paper bags and exercise books, the manufacture of paper and paper products sub-sector weakened in 2020. Despite the growing consumer base and the increased penetration of locally produced electronic goods in the consumer durables segment, the COVID-19 pandemic disrupted the growth momentum of the manufacture of electrical equipment and furniture during the year.

Industrial Policies and Institutional Support

The activities of government agencies overseeing industrial activities continued albeit at a slower pace amidst the COVID-19 outbreak in 2020. The State Ministry of Skills Development, Vocational Education, Research and Innovation, and the Ministry of Environment were in the process of finalising the National Policy on Mineral Resources. The policy is expected to create an enabling environment for mineral-based industries to expand their scope for value addition. In collaboration with the Ministry of Foreign Employment, the State Ministry of Skills Development, Vocational Education, Research and Innovation also undertook measures to expand vocational education opportunities to cater to the changing needs of the domestic and foreign job markets. Further, the Ministry successfully conducted the National Technology and Innovation Exhibition – Inno Tech 2020 in March 2020 in Homagama. The exhibition sought to promote science literacy among all social segments. The State Ministry also began the Multi-Purpose Development Task Force training programme through the National Apprentice and Industrial Training Authority (NAITA) for 100,000 unskilled individuals from low-income households who had been provided public sector employment. In the meantime, the Ministry of Industries developed Standard Operating Procedure guidelines for the automobile manufacturing, assembling and manufacturing of spare parts industry in Sri Lanka with the assistance of relevant government agencies, leading industrialists, and professionals in the sector. At the beginning of 2021, the Cabinet of Ministers granted approval to implement the provisions outlined in the said guidelines.

Intending to create a production economy, several other government authorities also undertook measures to promote and strengthen the domestic industrial sector. The National Enterprise Development Authority (NEDA) established an E-Commerce Trade Portal in 2020 to facilitate market access for Micro, Small and Medium scale entrepreneurs (MSMEs). This project is expected to enhance market access of scattered and isolated entrepreneurs and to modernise their enterprises through the integration of their activities on an online platform. The NEDA also conducted several short-term capacity development training, financial assistance, market facilitation, and other enterprise development services islandwide. In 2020, the NEDA trained 4,855 entrepreneurs and

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implemented cluster development programmes for several selected industrial clusters. The National Productivity Secretariat continued to conduct productivity enhancement programmes for small scale entrepreneurs. Further, the NEDA took measures to establish incubation and technology transfer centres in each province, while launching a 'Made in Sri Lanka' logo to affirm the domestic origins and authenticity of products. Meanwhile, the Industrial Development Board (IDB) in collaboration with the Ministry of Industries and a state bank, launched the 'Made in Sri Lanka' loans programme in keeping with the Government's national policy framework that aims to support domestic industries with greater potential for export, import substitution, domestic value addition, and employment generation. This loan programme is expected to boost the development of local export-oriented and import alternative industries, while improving the quality of local products. The IDB is expected to provide necessary technical and managerial support, while the state bank provides specialised financial support to ensure the sustainability of their businesses. As at end 2020, around 600 MSMEs were registered for this special loan scheme. The IDB also established an accredited food laboratory at Katubedda with the assistance of the Ministry of Industries, focusing on the testing and development of new products to promote small and medium scale domestic food manufacturers. Around 112 small and medium scale industrialists were facilitated through this project, while providing laboratory reports for 246 samples of food products. Meanwhile, during the year, the Industrial Technology Institute (ITI) developed twenty herbal-based products and ten food-based products to cater to novel needs arising from COVID-19. Technology developed in relation to the manufacturing of hand sanitiser was transferred from ITI to small business industries. The Sri Lanka Institute of Nanotechnology (SLINTEC) has filed fifteen patents up to now and seven patents are in the pipeline for 2020/21. The SLINTEC evaluated over 100 research projects in 2020 giving priority to revenue generating projects.

Several initiatives were underway by Industrial Chambers and other relevant institutions to promote the domestic industrial sector amidst disruptions caused by the COVID-19 outbreak. The National Chamber of Commerce of Sri Lanka (NCCSL) continued its endeavour to educate and uplift MSMEs by conducting training programmes in 2020. The NCCSL took a major step in introducing a digital B2B (business-to-business) platform that connects Sri Lankan exporters with global markets. The NCCSL also continued to work on MSME development activities at both the district and provincial levels, addressing key entrepreneurial issues, including access to finance, markets and technology. The NCCSL entered into several Memoranda of Understanding with industry associations and provincial chambers to enhance cooperation across several different business sectors. Meanwhile, the Ceylon Chamber of Commerce (CCC) continued to facilitate trade related training programmes, webinars and trade fora to promote trade and investment, while submitting several proposals to the Government on accelerating economic recovery. The CCC conducted a series of webinars to educate, empower and boost the confidence of COVID-19 affected businesses, MSMEs and entrepreneurs. The CCC also launched the 'Trade Watch' web page, a dedicated page to keep the private sector updated on trade services offered by key government agencies in the wake of COVID-19.

The Export Development Board (EDB) of Sri Lanka and the Board of Investment (BOI) undertook various measures to ensure the continuity of business operations of enterprises amidst the lockdown. The EDB established a

24-hour help desk to address queries relating to operations during the lockdown period. The EDB intervened to facilitate cargo movements throughout the lockdown period in coordination with relevant authorities. Also, the EDB proactively coordinated with Sri Lanka Missions overseas by organising weekly online meetings with the Foreign Ministry to share quick intelligence reports with exporters on new opportunities. The EDB also facilitated the procurement of essential raw materials for certified export orders by establishing an online mechanism to submit applications. The EDB established online B2B promotions and regular webinars to educate exporters and MSMEs on branding, marketing, and financial issues. Meanwhile, with the imposition of travel restrictions, which directly had an impact on both inward and outward promotion missions, the BOI moved its promotional strategy to virtual platforms. Permission was granted for BOI enterprises to engage in additional product lines to cater to the changing and rising demand for certain products as a result of the COVID-19 pandemic. In 2020, the BOI granted approvals for 50 companies to engage in the production of PPEs as an additional activity. The BOI, as the facilitator for zonal enterprises, undertook various measures to assist businesses in recommencing their operations during the lockdown period by obtaining the necessary approvals from relevant authorities. The BOI also implemented a paperless import and export documentation process for BOI exporters, in consultation with Sri Lanka Customs. To enhance the domestic value addition of rubber-based manufacturing, the BOI facilitated two key projects, which are expected to attract foreign direct investment of US dollars 550 million. The first phase of a project on producing passenger car radial tyres was completed during 2020 with realised investment of US dollars 100 million, and operations commenced in January 2021. Phase two of the same project is expected to be completed by mid-March 2022. In the meantime, an agreement was signed in November 2020 towards constructing a tyre manufacturing plant on a land extent of 121 acres within the Hambantota International Port. This project is expected to attract foreign direct investment of US dollars 300 million.

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The Government, in collaboration with the Central Bank of Sri Lanka, introduced an expansive relief package including debt relief, debt moratorium, and working capital loan facilities to SMEs, self-employed persons, and individuals severely affected by the COVID-19 pandemic. The Central Bank introduced the 'Saubhagya COVID-19 Renaissance Loan Scheme Facility' in three phases to provide working capital loans to businesses adversely affected by COVID-19 related disruptions. Under this facility, the Central Bank provides funds to participating banks at a concessionary interest rate and this is on-lent by commercial banks at an interest rate of 4 per cent per annum, with a repayment period of 24 months, inclusive of a grace period of 6 months. By the end of the year, 59,854 loan applications received from COVID-19 affected businesses, for a sum of Rs. 173.9 billion had been approved. Further, the Small and Medium Enterprise Line of Credit Scheme and the Rooftop Solar Power Generation Line of Credit Scheme funded by the Asian Development Bank (ADB) continued in 2020. By the end of 2020, Rs. 32.8 billion had been granted under these two credit schemes. Further, the total government subsidy payments for the 'Enterprise Sri Lanka' loan programme amounted to Rs. 6.0 billion in 2020.

Construction, and Mining and Quarrying

Health-related concerns severely affected the performance of construction, and mining and quarrying activities leading these activities to contract by 13.2 per cent and 12.5 per cent, respectively, in 2020, which grew by 4.0 per cent and 2.8 per cent, respectively, in 2019. Mining and quarrying activities mainly include mining activities that provide inputs to the construction activities such as sand mining, other than gem mining and other mining activities. The setback in construction activities, owing to the adverse impact of the COVID-19 pandemic and related restrictions on mobility, had mainly contributed to the contraction in mining and quarrying activities. The contraction in construction activities was reflected in the total cement availability of the country, which recorded a significant contraction of 11.5 per cent in 2020. Moreover, building material imports also contracted, partly due to the policy measures adopted to encourage import substitution industries. However, this in turn increased the demand for local supplies. Meanwhile, a recovery in construction activities and hence in mining activities was observed during the latter part of the year. Indicating this recovery, credit to the private sector granted by Licensed Commercial Banks (LCBs) for construction activities, including personal housing construction activities, recorded a considerable growth as at the end of December 2020, supported by the low interest rate environment. Meanwhile, the construction sector related business surveys conducted by the Central Bank demonstrated that most of the construction firms experienced a subdued performance, especially during the second quarter of the year, due to the health-related concerns that arose with the pandemic.

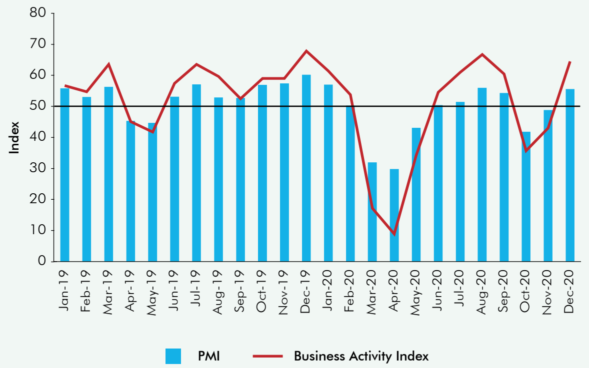
Electricity, Water and Waste Treatment

With the subdued performance in the economy, the value added of electricity, water, and waste treatment activities contracted marginally by 0.8 per cent in 2020 compared to the growth of 4.9 per cent recorded in 2019. Among the sub-economic activities within the category, the largest activity of electricity, gas, steam and air conditioning supply contracted by 1.6 per cent in 2020 compared to the growth of 4.0 per cent recorded in 2019. Considering electricity generation data, the total electricity generation recorded a marginal contraction in 2020, largely driven by the decrease in demand for electricity from the industry sector with a low level of economic activities, especially during the second quarter of the year. With regard to the other sub-economic activities within the category, the value added of water collection, treatment and supply activities grew by 4.8 per cent in 2020, while sewerage, waste treatment and disposal activities recorded a contraction of 1.0 per cent during the year.

Services

The COVID-19 pandemic had a positive impact on some Services activities, especially related to IT and telecommunication, while it caused severe disturbances to mobility and tourism-related activities leading to an overall contraction in Services in 2020 by 1.5 per cent in value added terms, in comparison to the growth of 2.2 per cent recorded in 2019. The pandemic particularly affected tourism-related services activities as tourist arrivals dropped drastically since mid-March 2020 due to restrictions imposed on arrivals. Accordingly, transportation, other personal services, and accommodation, food and beverage service activities which were severely interrupted by restrictions on mobility, were the largest contributors

Figure 2.9
Purchasing Managers' Index - Services (a)



(a) PMI is based on a perception survey which captures monthly developments compared to the previous month. This is a diffusion index ranging from 0-100 where an index value above the neutral level of 50 denotes an expansion, while a value below 50 denotes a contraction in the respective activity in general.

Source: Central Bank of Sri Lanka

to the contraction in overall Services activities. However, IT programming and telecommunication services benefitted from the boost in demand for digital platforms and communication services. Further, financial services, wholesale and retail trade, human health, public administration and education services expanded during the year. Reflecting the overall subdued performance in Services activities caused by the pandemic, the PMI for Services activities, compiled by the Central Bank indicated a contraction on a month-on-month basis during the months where the COVID-19 pandemic severely affected the country. Further, the Demand and Sales sub-indices of BOS related to Services activities remained in the negative territory during the year. Moreover, Google Community Mobility reports have also witnessed a decline in some of the key Services activities during 2020.

Wholesale and Retail Trade

In the backdrop of subdued demand conditions and limited mobility, the value added of wholesale and retail trade activities grew only by 1.4 per cent in 2020, compared to the growth of 3.0 per cent recorded in 2019. Besides the developments in demand front, the rationalisation of non-essential imports, together with the restrictions on mobility imposed to contain the COVID-19 pandemic, particularly during and ahead of key festive seasons, largely attributed to this slowdown in trade activities in 2020. The total import volume index declined during the year on top of the decline recorded in the previous year, limiting the space for trade. Considering the sub-categories of import volume index, the consumer goods import volumes continued to decline further during the year, largely driven by the decrease in non-food consumer goods imports. Meanwhile, import volumes of the intermediate goods and investment goods also declined in 2020.

Transportation and Storage

Transportation of goods and passengers, including warehousing activities, contracted by 6.7 per cent in 2020 in value added terms, in comparison to the growth of 1.4 per cent recorded in 2019, mainly due to the COVID-19 pandemic related restrictions on mobility and the set back in the tourism industry. Indicators related to transportation activities witnessed this hindrance in transportation services. Considering the land transportation, total kilometres operated by the bus operators as well as the Sri Lanka Railway declined sharply in 2020, compared to 2019. The subdued passenger traffic was also reflected in Google Community Mobility trends for Sri Lanka with respect to public transport. Meanwhile, air transportation activities also contracted significantly during the year, mainly due to the restricted operations of Sri Lankan airports since mid-March 2020, as a measure of containing the pandemic. Accordingly, the passenger kilometres flown by SriLankan Airlines contracted significantly during the year. Considering the water transport activity related indicators, the container traffic (measured in terms of TEUs - Twenty Foot Equivalent Units) and cargo handled by Sri Lankan ports also declined during the year compared to 2019.

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Accommodation and Food Service Activities

With the significant contraction in tourist arrivals, accommodation, food and beverage service activities contracted significantly by 39.4 per cent in 2020 in value added terms, on top of the decline of 4.6 per cent recorded in 2019. Tourist arrivals, which were affected by the Easter Sunday attacks in 2019, declined further by 73.5 per cent in 2020 amidst the restrictions imposed on tourist arrivals to contain the spread of the pandemic. Accordingly, the earnings from tourism as well as the average room occupancy rate in graded hotel establishments approved by the Sri Lanka Tourism Development Authority decreased significantly in 2020 compared to the previous year. Further, owing to the restrictions on mobility and gatherings, the local community stayed away from dining at restaurants which adversely affected the performance of food and beverage services.

Financial, Insurance and Real Estate Activities including Ownership of Dwellings

Financial, insurance, and real estate activities, including ownership of dwellings expanded by 5.0 per cent in 2020, in comparison to the growth of 2.4 per cent recorded in 2019, mainly supported by the substantial growth in financial services, which benefitted from the accommodative monetary policy stance that prevailed during the year. Accordingly, financial service activities and auxiliary financial services grew by 10.9 per cent in 2020, compared to the growth of 2.0 per cent recorded in 2019. Considering the financial services related indicators, the aggregate of gross loans and advances in banks and non-bank financial institutions grew in 2020, compared to the previous year. This was also reflected by the expansion in the sub-index of demand for bank credit in BOS. Moreover, as per the Survey on Credit Supply conducted by the Central Bank on a quarter-on-quarter basis, the overall willingness to lend by the banking sector increased during 2020. Further, the aggregate deposit base of banks and non-bank financial institutions also grew in 2020 despite the prevailing low interest rate environment. In the meantime, insurance, reinsurance, and pension funding related activities grew marginally by 0.6 per cent in 2020, while real estate activities, including ownership of dwellings, recorded a contraction of 1.2 per cent during the year.

Information and Communication

Telecommunication, and IT programming consultancy and related services grew by 14.1 per cent in 2020 compared to the growth of 16.2 per cent recorded in 2019, benefitting from the increased demand for telecommunication and IT services during the year under social distancing-related measures. Accordingly, telecommunication activities sustained a high growth of 15.4 per cent in 2020 on top of the growth of 17.2 per cent recorded in 2019, as telecommunications infrastructure played a pivotal role, particularly under the working-from-home and learning-from-home arrangements adopted by most workplaces and educational institutions amidst the COVID-19 pandemic-related restrictions on mobility and physical distancing requirements. Meanwhile, reflecting the growing demand for IT-enabled services including e-commerce and digital platforms that connect and ensure continuous functioning of businesses, governments, and societies, IT programming consultancy and related activities also grew at a healthy rate of 10.0 per cent in 2020 on top of the growth of 13.1 per cent recorded in 2019.

Other Services Activities

Considering other services-related activities, other personal services and professional services contracted largely owing to the adverse impact of the pandemic, while public administration, education, and human health-related services expanded during 2020 compared to 2019. Public health-related concerns, restrictions on mobility and social distancing requirement discouraged the demand for personal services, such as entertainment activities and beauty culture activities while the setback in tourism-related activities also led the demand for personal services related to hotels and restaurants to decline during the year. Accordingly, other personal services activities, which recorded a growth of 2.1 per cent in 2019, contracted by 6.5 per cent in 2020. In the meantime, professional services also declined by 2.7 per cent during the year. However, public administration, defence, and compulsory social security services and human health-related services grew by 1.6 per cent and 4.3 per cent, respectively, in 2020, supported by the government's involvement in combatting the COVID-19 pandemic throughout the year. Further, education services grew by 0.9 per cent in 2020.

2.5 Expenditure

Gross Domestic Expenditure (GDE), which consists of consumption and investment expenditure, recorded broadly a stagnant performance at current prices in 2020 compared to 3.8 per cent growth in 2019. Accordingly, investment expenditure contracted by 6.2 per cent in 2020, while consumption expenditure grew at a moderate pace of 2.1 per cent in nominal terms in 2020 compared to 2019. On the external front, export of goods and services declined significantly by 28.5 per cent compared to 2019, reflecting the lack of demand from export destinations which were severely affected from COVID-19 pandemic. Meanwhile, the import of goods and services also contracted by 21.8 per cent compared to 2019, contributing favourably to the net external demand, partly due to the measures taken to rationalise non-essential imports and encourage import substitution industries. Consequently, net external demand at current prices contracted by 3.5 per cent in 2020 compared to the growth of 13.4 per cent in 2019. As a combined outcome of these developments, GDP at current prices, which is the aggregate of GDE and the net external demand, contracted marginally by 0.3 per cent in 2020

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Table 2.9
Aggregate Demand (a)

Item	Current Market Prices (Rs.mn)			Constant (2010) Prices (Rs.mn)		
	2018 (b)	2019 (b)(c)	2020 (c)	2018 (b)	2019 (b)(c)	2020(c)
A. Domestic Demand						
Consumption	11,086,732	11,902,168	12,146,234	7,453,373	7,739,402	7,556,276
(% Change)	10.0	7.4	2.1	3.2	3.8	-2.4
Gross Domestic Capital Formation	4,266,053	4,030,195	3,778,482	3,487,278	3,122,105	2,806,894
(% Change)	1.3	-5.5	-6.2	3.6	-10.5	-10.1
Total Domestic Demand	**15,352,785**	**15,932,363**	**15,924,716**	**10,940,651**	**10,861,507**	**10,363,170**
(% Change)	**7.4**	**3.8**	**0.0**	**3.3**	**-0.7**	**-4.6**
B. External Demand						
Export of Goods and Services	3,292,414	3,472,337	2,483,056	1,722,275	1,845,686	1,668,855
(% Change)	13.2	5.5	-28.5	0.5	7.2	-9.6
Import of Goods and Services	4,354,292	4,391,746	3,434,777	2,997,547	2,823,843	2,501,420
(% Change)	12.4	0.9	-21.8	1.8	-5.8	-11.4
Net External Demand	**-1,061,878**	**-919,410**	**-951,721**	**-1,275,272**	**-978,157**	**-832,565**
(% Change)	**-10.3**	**13.4**	**-3.5**	**-3.5**	**23.3**	**14.9**
C. Total Demand	**14,290,907**	**15,012,953**	**14,972,995**	**9,665,379**	**9,883,350**	**9,530,606**
(% Change)	**7.2**	**5.1**	**-0.3**	**3.3**	**2.3**	**-3.6**

(a) Based on the GDP estimates (base year 2010)
(b) Revised
(c) Provisional

Sources: Department of Census and Statistics
Central Bank of Sri Lanka

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compared to the growth of 5.1 per cent in 2019. At constant prices, GDE contracted by 4.6 per cent in 2020, a higher rate compared to the marginal decline of 0.7 per cent in 2019, owing to the decline in both consumption and investment expenditure. In the meantime, even amid the notable decline in exports, net external demand at constant prices grew by 14.9 per cent in 2020 due to the positive contribution from curtailing imports. As a result of these developments, GDP at constant prices declined by 3.6 per cent in 2020 compared to the growth of 2.3 per cent in 2019.

Consumption

Consumption expenditure, which accounted for 81.1 per cent of the aggregate expenditure of the economy at current prices in 2020, grew at a moderate pace of 2.1 per cent during the year compared to the growth of 7.4 per cent in 2019, hampered by the lockdowns and the cautious consumer spending due to income uncertainty. This moderation is mainly attributable to the considerable slowdown in private consumption expenditure (PCE), which is the main consumption expenditure category, while prices of most of the consumer goods categories remained high during the year. In the meantime, government consumption expenditure (GCE) grew at a higher rate of 9.8 per cent in 2020 compared to the previous year.

Reflecting the negative impact on consumer behaviour from the COVID-19 pandemic, PCE at current prices grew only marginally by 1.0 per cent in 2020 compared to the growth of 7.3 per cent in 2019. The pandemic formed adverse conditions in many consumer markets during the year led by restrictions on mobility, working-from-home arrangements and other health-related precautions which made consumers stay away from the markets, contracting most PCE categories such as transport, restaurants and hotels, and clothing and footwear. However, being essential goods and services, PCE on food and non-alcoholic beverages, housing, water, electricity, gas and other fuels, health and communication categories expanded during the year even amidst a pandemic.

Table 2.10
Composition of Private Consumption Expenditure at Current Market Prices (a)

Category	As a Percevetage of Total PCE (%)			Growth (%)	
	2018 (b)	2019 (b)(c)	2020 (c)	2019 (b)(c)	2020 (c)
1. Food and Non-alcoholic Beverages	29.2	28.0	30.9	2.6	11.5
2. Alcoholic Beverages, Tobacco and Narcotics	3.5	3.6	3.4	9.9	- 4.0
3. Clothing and Footwear	4.1	4.2	3.6	10.1	- 13.2
4. Housing, Water, Electricity, Gas and Other Fuels	10.3	10.2	10.4	6.4	3.5
5. Furnishings, Household Equipment and Routine Household Maintenance	1.1	1.0	1.0	2.8	- 2.1
6. Health	2.7	2.8	2.9	14.0	2.1
7. Transport	23.8	24.2	20.2	9.3	- 15.9
8. Communication	0.9	0.7	0.8	- 11.3	2.5
9. Recreation and Culture	1.7	1.7	1.8	4.9	5.3
10. Education	1.2	1.2	1.4	9.8	9.8
11. Restaurants and Hotels	4.2	4.0	2.6	0.1	- 34.2
12. Miscellaneous Goods and Services	21.8	21.6	21.5	6.4	0.5
13. Direct Purchases Abroad by Residents	2.9	2.9	1.4	9.0	- 52.3
14. Less: Direct Purchases in Domestic Market by Non-residents	7.3	6.2	1.7	- 9.4	- 72.5
Total Private Consumption Expenditure	**100.0**	**100.0**	**100.0**	**7.3**	**1.0**

(a) Based on the GDP estimates (base year 2010)
(b) Revised
(c) Provisional

Source: Department of Census and Statistics

BOX 2
Improved Global Rankings: Steppingstone for Investors

The involvement of foreign investors has been notable in Sri Lanka's mega scale development projects related to infrastructure and private sector ventures, particularly in the last decade. However, given the persistent gap between savings and required investment, difficulties in attracting enough foreign investments remain a major bottleneck that has slowed down Sri Lanka's journey towards development. Such difficulties have had a multifaceted impact on growth, employment and income distribution. In the current context, the unforeseeable future bundled with the global pandemic has escalated the spectrum of challenges for Sri Lanka to address, including the need to reduce overdependency on debt creating foreign inflows, in order to sustain medium to long run economic growth and stability. Against this backdrop, the country has redoubled its efforts to attract foreign direct investments (FDIs) as a key source of non-debt creating inflows. In doing so, it is crucial to improve the investment landscape, which could be done by focussing on improving Sri Lanka's global rankings (Table B 2.1), thereby enhancing the country's viability as a preferred destination for investors based on different aspects of socio-economic conditions.

Table B 2.1
Selected Indices for Investors

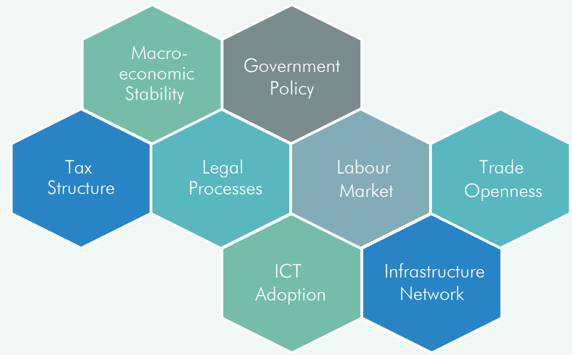
Index	Sri Lanka (Latest Ranking)	Best
Ease of Doing Business Index (2020)	99/190	New Zealand 1/190
Global Competitiveness Index (2019)	84/141	Singapore 1/141
Corruption Perception Index (2020)	94/180	Denmark New Zealand 1/180

Sri Lanka was positioned at the 99th place out of 190 countries in the Ease of Doing Business Index[1] of the World Bank in 2020, advancing by one position from the ranking in 2019. An overall score of 61.8 was recorded covering 10 areas of focus. In terms of the Global Competitiveness Index[2] compiled by the World Economic Forum, Sri Lanka was positioned at the 84th place in 2019 out of 141 countries, and this was also an advancement of one place from the previous year. Both these reports highlight the areas of the economy, which hinder investor confidence and competitiveness. Based on the results, the followings could be highlighted as the key areas which require attention and timely redressal, not only to attract potential foreign investors, but also to facilitate domestic investments (Figure B 2.1).

Macroeconomic Stability

Maintaining macroeconomic stability, including low and stable inflation, is an important prerequisite for attracting investors. In a volatile environment, investors are unable to predict their future performance and profitability. During the past several years, with the support of prudent monetary policy, inflation has been maintained in mid-single digits levels, although maintaining macroeconomic stability in terms of the performance of the external and fiscal sectors has been challenging. The country was positioned at the 118th place in 2019 in terms of macroeconomic stability in the Global Competitiveness Index, mainly due to low scores on debt dynamics. Strong commitment towards strict fiscal discipline, as envisaged in the national policy agenda, is key to improving the country's standing on the global rankings.

Figure B 2.1
Key Areas to Improve Investor Attractiveness



Labour Market

Rigidities in the labour market is another concern of foreign investors due to mismatch of skillset, increasing cost of labour, unionisation and high compensation stemming from labour laws. Sri Lanka was ranked at the 118th position in terms of the labour market in the Global Competitiveness Index. This was driven by low scores on the ease of hiring foreign labour, internal labour mobility and redundancy costs. Investors face difficulties in terminating existing contracts under the prevailing labour laws. Further, labour mobility within the country is limited, thereby creating a lacuna in labour supply. While the protection of the workforce is essential, it must be understood that creating employment through attracting foreign investments and enhancing domestic investments is equally important. Ongoing government programmes for early identification of talent and promoting multiple vocational training programmes are expected to bear fruit in future, particularly as the country prepares for a high economic growth path. Labour market reforms will also support accruing benefits to the country with the establishment of the Colombo Port City and related development projects.

Government Policies

Economic and foreign policies of the Government have a direct bearing on foreign investor perception about the country. A stable and strong government with consistent policies will always be beneficial to establish a solid foundation for investor relations. Further, frequent reversals of the stance on existing or ongoing foreign investments

1 Ease of Doing Business Index is compiled by the World Bank. The latest report is available at https://www.doingbusiness.org/en/reports/global-reports/doing-business-2020

2 Global Competitiveness Index is compiled by the World Economic Forum. The latest report is available at https://www.weforum.org/reports/global-competitiveness-report-2019

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will tarnish the image of the country as an investment destination. In addition, one of the most common criticism of many governments around the world is corruption. Sri Lanka was ranked at the 94th position in the Corruption Perception Index[3] in 2020 among 180 countries, whereas Denmark and New Zealand jointly have been ranked the least corrupted nations. Therefore, in establishing an investor friendly environment, strengthening the ongoing efforts to curtail corruption too is a decisive factor.

Tax Structure

A simple and effective tax system will increase the country's attractiveness for doing business. Frequent changes in the tax structure of Sri Lanka have been a critical issue faced by investors in terms of long term planning. As per the Ease of Doing Business Index in 2020, the number of tax payments by a corporate per year in Sri Lanka was 36 and the average time spent on paying taxes has been 129 hours per annum placing the country at 142nd position under paying taxes. Tax system of Sri Lanka was recently updated with a more simplified structure and the Government is keen on maintaining the current tax policy for the medium term to support the businesses. Modernisation of return submission and other services with the use of technology will help simplifying the tax systems and in turn will motivate the taxpayers to honour the tax obligations without evading. Further, the ongoing efforts to increase the use of technology in paying taxes, which was enabled through the Revenue Administration Management Information System (RAMIS), will also be beneficial. While a considerable amount of work is left to be completed, authorities are on track to bring in necessary reforms to simplify the system and improve doing business indices.

Trade Openness

Complexity of the tariff structure, prevalence of non-tariff barriers and lack of border clearance efficiency have led to very low trade openness rank of 140th position out of 141 countries in the Global Competitiveness Index. Sri Lanka's lacklustre performance in relation to regional trade blocs has been disadvantageous in connecting to global supply chain networks. In line with Government policy, all the foreign trade agreements are being revisited and necessary adjustments are expected in order to improve the bilateral trade balances with Sri Lanka's key trading partners.

Information and Communication Technology (ICT) Adoption

Sri Lanka has continued to embrace the latest technologies related to communication. However, industrial ICT adoption is not at a commendable level. The state sector usage of ICT systems is not in par with the private sector, although there have been notable improvements during the pandemic. In the Global Competitiveness Index, the country was ranked at 107th position for ICT adoption, with comparatively low usage of broadband, fibre and internet technologies. Sri Lanka has produced world class IT professionals and firms that engage in global projects. Therefore, improving the ICT systems in-house would be feasible as well as rewarding for the local talent while also reducing brain drain. Designated IT industrial zones (IT Parks) and other targeted projects through Public-Private Partnerships have recently contributed to improve the overall level of IT adoption, and strengthening these efforts will be beneficial for investment.

Legal Processes

In terms of enforcing legal contracts, Sri Lanka was ranked at the 164th position in the Ease of Doing Business Index with an average time of 1,318 days for resolving a legal matter. Steps have been taken in the recent past to use technology for expediting the judicial processes. Preliminary work is underway to introduce e-courts and expedite the longstanding cases within a strict time frame. However, there is still a considerable progress required to improve legal processes. Releasing lands for various projects is also a tedious task for investors, due to rigidities in the land registration process and outdated laws related to land ownership. Therefore, the legal system needs to be restructured to facilitate investment. Establishment of an arbitration centre and additional Commercial Courts to resolve urgent business and investor cases would also be beneficial in improving the overall efficiency of the legal system.

Infrastructure Network

Infrastructure is one crucial element that holds together all other elements facilitating investment. A good road network and other modern commuter transport solutions, state-of-the-art seaports and airports and the provision of utilities without delays and interruptions are crucial to attract investment. During the past decade, Sri Lanka has accelerated improving the infrastructure network, hence positioning itself at the 61st place in the Global Competitiveness Index in terms of infrastructure. However, still there are concerns regarding road connectivity, efficiency of transport services and access to utilities. Addressing these concerns will contribute to attracting potential investors.

Way Forward

With unparalleled locational advantage, Sri Lanka's potential as an investment destination has been well recognised, as evidenced by the positive responses received from the global investor community, at various investor fora, roadshows and many other promotional activities carried out by Sri Lankan authorities to attract FDIs to the country. However, such positive responses have not resulted in sufficient investment inflows due to the weaknesses discussed above. The Government has already initiated a programme to improve the country's ease of doing business conditions, which will complement enhancing Sri Lanka's position in global rankings. Provision of 'One-Stop Shop' facilities for investors would support the Government's endeavours to entice investors. Meanwhile, the establishment of the Colombo Port City Commission is expected to provide a doing business environment that is in par with investment hotspots around the world, thereby raising the prospects to enhance the FDI inflows to new heights. While overcoming the complex challenges associated with the COVID-19 Pandemic, efforts must continue to address the identified weaknesses with a focussed approach, to establish the necessary steppingstones required for sustainable relationships with strategic investment partners.

3 Corruption Perception Index is compiled by Transparency International. The latest report is available at https://www.transparency.org/en/cpi/2020/media-kit

GCE at current prices grew by 9.8 per cent in 2020, at a higher rate compared to the growth of 8.1 per cent in 2019. A significant expansion of 17.8 per cent in 2020 on top of the higher growth of 28.0 per cent in 2019, was observed in the individual consumption expenditure of the Government, which includes the service categories such as health and education, contributing to the overall growth in GCE. Further, the collective consumption expenditure, the main GCE category that comprises the general Government's expenditure on services such as defence, public services and social protection, which benefit households collectively, grew by 5.8 per cent in 2020, compared to the marginal growth of 0.2 per cent in 2019. The Government's involvement in curtailing the COVID-19 pandemic contributed to the expansion in GCE, especially in the areas of health, public order and safety, and defence.

Investment

Investment expenditure at current prices further contracted by 6.2 per cent in 2020 compared to the contraction of 5.5 per cent in 2019, mainly affected by the uncertainty on the recovery timeline of the pandemic, locally as well as globally. This decline was driven by the noticeable contraction in gross fixed capital formation by 6.4 per cent in 2020 compared to the growth of 8.1 per cent in the previous year. Accordingly, the major categories of gross fixed capital formation, such as construction, transport equipment, and machinery and equipment, contracted in 2020 against the positive contributions recorded in 2019. Construction activities, the largest contributor to investment, experienced a setback due to pandemic-related disturbances severely affecting investment growth. However, investment expenditure on categories such as information and communication technology equipment and intellectual property products recorded a growth compared to the previous year. Moreover, changes in inventories depleted during the year.

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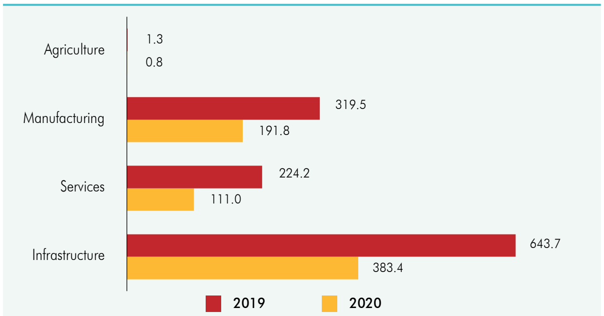
Foreign Direct Investments (FDIs) to BOI companies, including loans, decreased by 42.2 per cent to US dollars 687.0 million[5] in 2020, compared to US dollars 1,188.7 million recorded in 2019. The contraction in FDIs was witnessed across all the sectors. In the meantime, the total value of projects approved by the BOI in 2020, under Sections 16 and 17 of the Board of Investment (BOI) Act No. 4 of 1978, is estimated at Rs. 406.3 billion depicting a contraction of 91.4 per cent compared to 2019. The estimated investment value of projects that commenced commercial operations, under Sections 16 and 17 of the BOI Act, amounted to Rs. 1,547.0 billion and Rs. 34.5 billion, respectively, reflecting an overall decline of 13.0 per cent compared to the previous period.

5 This includes receipts, including loans, to companies registered with the BOI and differs from the estimates presented in Chapter 5, mainly due to the inclusion of FDIs to non-BOI companies in the latter. Accordingly, total FDIs amounted to US dollars 670 millions in 2020.

Figure 2.10
Foreign Direct Investment of BOI Enterprises (a) (US$ million)



(a) Including loans

Source: Board of Investment of Sri Lanka

Table 2.11
Investments and Employment in Enterprises Registered under Board of Investment of Sri Lanka (BOI) and Ministry of Industries

	No. of Projects		Estimated Investment (Rs. million)						Est. Employment (No.)	
	2019 (a)	2020 (b)	2019 (a)			2020 (b)			2019 (a)	2020 (b)
			Foreign	Local	Total	Foreign	Local	Total		
BOI (Under Act No. 4 of 1978)										
Projects Approved	160	155	4,586,993	145,675	4,732,667	283,800	122,527	406.327	32,654	14,221
Under Section 17 (c)	150	154	4,583,193	145,444	4,728,638	282,427	122,527	404,954	32,348	14,101
Under Section 16	10	1	3,800	230	4,030	1,373	-	1,373	306	120
Projects Contracted Under Section 17 (c)	107	122	4,518,594	118,278	4,636,872	131,342	165,858	297,201	24,485	15,856
Realised Investment Under Section 17 (d)(e)	2,004	1,979	2,223,472	1,608,440	3,831,912	2,224,159	1,738,639	3,962,798	521,428	n.a
Projects in Commercial Operations (d)	2,610	2,651	549,087	851,050	1,400,137	606,527	975,024	1,581,551	425,154	441,936
Under Section 17 (c)	2,061	2,116	523,067	842,023	1,365,090	580,734	966,286	1,547,021	395,760	413,280
Under Section 16	549	535	26,020	9,027	35,048	25,793	8,738	34,530	29,394	28,656
Ministry of Industries										
Companies Registered (d)	2,876	3,020	-	-	207,996	-	-	208,934	n.a.	n.a.

(a) Revised
(b) Provisional
(c) Includes expanded projects
(d) Cumulative as at end of year
(e) Cumulative actual investment values are given

Sources: Board of Investment of Sri Lanka
Ministry of Industries

Note: Projects approved and contracted under Sec.17 of the BOI Act are exempted from customs and exchange control regulations subject to the fulfilment of the investment threshold or any other specified requirements.

Availability and Utilisation of Resources

The available resources of the economy at current prices contracted by 5.1 per cent in 2020 in comparison to the growth of 4.1 per cent recorded in 2019. In this regard, GDP, which is the domestic resources, as well as the imports representing the external resources contracted in 2020, compared to the previous year. Both domestic and external resources contracted during the year at constant prices as well. Considering the utilisation of the available resources at current prices, the most resources were utilised for consumption purposes, which accounted for 66.0 per cent of the total resource utilisation in 2020. However, a slight decline

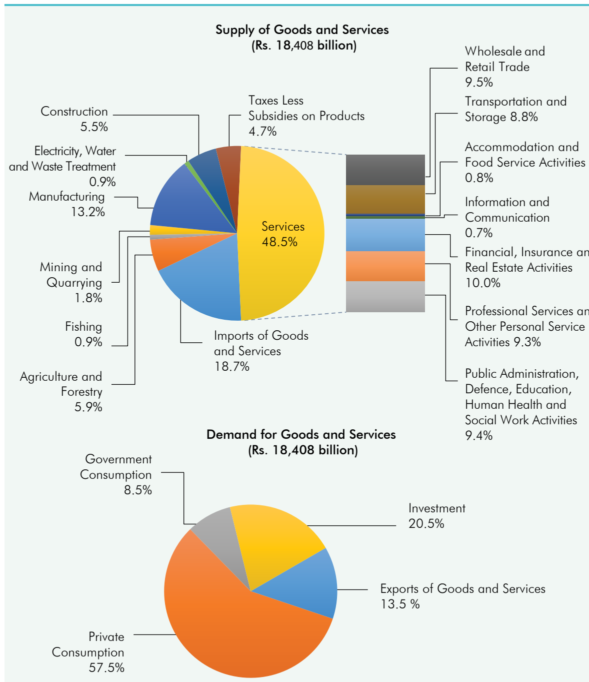
Table 2.12
Total Resources and Their Uses at Current Market Prices (a) (b)

Item	Percentage Share %		Growth %	
	2019 (c)	2020	2019 (c)	2020
A. Resources				
Gross Domestic Product	77.4	81.3	5.1	-0.3
Import of Goods and Services	22.6	18.7	0.9	-21.8
Total	**100.0**	**100.0**	**4.1**	**-5.1**
B. Utilisation				
Consumption	61.3	66.0	7.4	2.1
Gross Fixed Capital Formation	21.0	20.7	8.1	-6.4
Changes in Inventories and Acquisition less Disposals of Valuables	-0.2	-0.2	-108.0	-22.2
Export of Goods and Services	17.9	13.5	5.5	-28.5
Total	**100.0**	**100.0**	**4.1**	**-5.1**

(a) Based on the GDP estimates (base year 2010)
(b) Provisional
(c) Revised

Sources: Department of Census and Statistics
Central Bank of Sri Lanka

Figure 2.11
The Economy in 2020 (at Current Market Prices) (a)



(a)) Based on the GDP estimates (base year 2010)

Sources: Department of Census and Statistics
Central Bank of Sri Lanka

was recorded in the share of resources utilised for investment purposes which was 20.5 per cent in 2020. Further, the share of resources utilised for export purposes also declined. Meanwhile, the resource utilisation at constant prices contracted mainly due to the decline in consumption and investments during the year.

Savings

Both domestic and national savings of the economy at current prices further contracted in 2020. Domestic savings contracted by 9.1 per cent in 2020 contributed by a considerable surge in government dis-savings mainly due to the lower government revenue on account of the reduction in taxes and decline in economic activities due to the COVID-19 pandemic, and a slower growth in private savings. Consequently, domestic savings as a percentage of GDP decreased to 18.9 per cent in 2020 compared to 20.7 per cent in 2019. Meanwhile, even though net primary income as well as the net current transfers from rest of the world grew during the year in rupee terms, national savings contracted by 3.6 per cent in 2020, largely owing to the contraction in domestic savings. Consequently, national savings as a percentage of GDP decreased to 23.9 per cent in 2020. Further, despite the contraction in national savings, the national savings-investment gap narrowed to 1.4 per cent of GDP in 2020, from 2.1 per cent of GDP in 2019, due to the considerable decline in investment expenditure.

2.6 Income

Gross Operating Surplus (GOS) continued to be the largest income component of the economy during the year, followed by Compensation of Employees (CE) and taxes less subsidies on production. GOS grew marginally by 0.7 per cent at current prices in 2020, accounting for 63.4 per cent of GDP. This slower growth was mainly attributable to the slowdown in Net Operating Surplus (NOS) during the year. With respect to the other major sources of income, CE recorded a growth, while taxes less subsidies on production contracted during the year. When considering the institutional sector classification, the highest contribution to the income was generated by the HH and NPISH sector followed by NFC, GG and FC.

Table 2.13
Consumption, Investment and Savings at Current Market Prices (a) (b)

Item	Rs. million		Growth (%)		As a per cent of GDP (%)	
	2019 (c)	2020	2019 (c)	2020	2019 (c)	2020
1. Gross Domestic Product at Market Price	15,012,953	14,972,995	5.1	-0.3	100.0	100.0
2. Consumption Expenditure	11,902,168	12,146,234	7.4	2.1	79.3	81.1
Private	10,485,180	10,589,745	7.3	1.0	69.8	70.7
Government	1,416,989	1,556,489	8.1	9.8	9.4	10.4
3. Investment	4,030,195	3,778,482	-5.5	-6.2	26.8	25.2
4. Domestic Savings	3,110,785	2,826,761	-2.9	-9.1	20.7	18.9
Private	3,001,308	3,238,268	18.2	7.9	20.0	21.6
Government (d)	-96,162	-169,740	-34.1	-76.5	-0.6	-1.1
5. Domestic Savings - Investment Gap	-919,410	-951,721	13.4	-3.5	-6.1	-6.4
6. Net Primary Income from Rest of the World (e)	-432,250	-405,184	-10.9	6.3	-2.9	-2.7
7. Net Current Transfers from Rest of the World (e)	1,030,690	1,154,429	3.1	12.0	6.9	7.7
8. National Savings	3,709,225	3,576,005	-2.7	-3.6	24.7	23.9

(a) Based on the GDP estimates (base year 2010)
(b) Provisional
(c) Revised
(d) Estimates on government revenue, expenditure and fiscal balances incorporate the adjustment for payment arrears, as per the data received from the Ministry of Finance
(e) The difference with the BOP estimates is due to the time lag in compilation.

Sources: Department of Census and Statistics
Central Bank of Sri Lanka
Ministry of Finance

Table 2.14
Income Components by Institutional Sector at Current Market Prices (a) (b)

Item	Percentage Share (%)							
	2019 (c)				2020			
	Non-Financial Corporations (NFC)	Financial Corporations (FC)	General Government (GG)	Households and Non-Profit Institutions Serving Households (HH and NPISH)	Non-Financial Corporations (NFC)	Financial Corporations (FC)	General Government (GG)	Households and Non-Profit Institutions Serving Households (HH and NPISH)
Compensation of Employees	**34.2**	**6.6**	**27.9**	**31.3**	**32.5**	**7.9**	**30.4**	**29.2**
Gross Operating Surplus	**35.5**	**4.9**	**1.9**	**57.6**	**34.7**	**5.7**	**1.5**	**58.1**
Net Operating Surplus	39.0	5.6	0.6	54.8	37.7	6.4	0.7	55.2
Mixed Income	-	-	-	100.0	-	-	-	100.0
Consumption of Fixed Capital	41.4	4.0	12.5	42.1	43.3	5.5	8.7	42.5
Other Taxes less Subsidies on Production	**83.7**	**15.8**	**-**	**0.4**	**85.5**	**14.2**	**-**	**0.3**
Gross Value Added at Basic Price	**35.3**	**5.5**	**10.2**	**48.9**	**34.1**	**6.4**	**10.9**	**48.6**

(a) Based on the GDP estimates (base year 2010)
(b) Provisional
(c) Revised

Source: Department of Census and Statistics

2.7 Population, Labour Force and Employment

Population

The mid-year population in Sri Lanka was estimated at 21.919 million in 2020 as per the mid-year population estimates compiled by the Registrar General's Department. Accordingly, the population growth rate moderated further to 0.5 per cent in 2020 from 0.6 per cent recorded in 2019. The highest contributions for the population growth were from Eastern and Western Provinces, respectively. The lowest contributions for the population growth were from Northern and North Central Provinces, respectively. Continuing the same trend observed, Western Province continued to account for the highest share of mid-year population of 28.1 per cent, followed by Central and Southern Provinces accounting for shares of 12.7 per cent and 12.2 per cent of the mid-year population, respectively, in 2020. Meanwhile, Northern Province continued to account for the lowest share of mid-year population of 5.3 per cent.

Table 2.15
Province-wise Population and Density (a)(b)

Province	2019		2020	
	Population '000 Persons	Density	Population '000 Persons	Density
Western	6,149	1,711	6,165	1,716
Central	2,766	496	2,781	499
Southern	2,654	493	2,669	496
Northern	1,143	138	1,152	139
Eastern	1,729	185	1,746	187
North Westen	2,551	340	2,563	341
North Central	1,377	141	1,386	142
Uva	1,376	165	1,387	166
Sabaragamuwa	2,058	418	2,070	421
Total	**21,803**	**348**	**21,919**	**350**

(a) Provisional
(b) The mid-year population data are based on the Census of Population and Housing - 2012.

Source: Registrar General's Department

Labour Force

The labour force, which is the economically active population,[6] declined to 8.467 million in 2020 from 8.592 million recorded in 2019. Accordingly, the economically inactive population increased to 8.273 million in 2020 from 7.832 million in 2019. The persons who lost employment suspending their availability to work and active job search steered this significant increase

6 This is the current economically active population, i.e. the number of persons (aged 15 years and above), who are employed or unemployed during the reference one-week period.

Table 2.16
Household Population, Labour Force and Labour Force Participation (a)

Item	2019	2020 (b)				
		Q1	Q2	Q3	Q4	Annual (c)
Household Population '000 Persons	**16,424**	**16,690**	**16,793**	**16,562**	**16,913**	**16,739**
Labour Force '000 Persons	**8,592**	**8,504**	**8,435**	**8,454**	**8,473**	**8,467**
Employed	8,181	8,020	7,977	7,968	8,031	7,999
Unemployed	411	483	458	487	442	468
Labour Force Participation Rate (d)	**52.3**	**51.0**	**50.2**	**51.0**	**50.1**	**50.6**
Male	73.0	72.4	71.7	72.5	70.9	71.9
Female	34.5	32.5	31.6	32.4	31.7	32.1

(a) Household population aged 15 years and above
(b) Provisional
(c) Average of four quarters of 2020
(d) Labour force as a percentage of household population

Source: Department of Census and Statistics

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in inactivity. The lack of interest towards working was possibly due to the containment measures that restricted movement, discouragements with regard to lack of job openings and health risks, which prevailed amidst the spread of COVID-19 pandemic.

In line with the decline in labour force and increase in inactive population, the labour force participation rate (LFPR), which is the ratio of the labour force to the household population, decreased to 50.6 per cent in 2020 from 52.3 per cent in 2019. Accordingly, the male and female LFPRs decreased to 71.9 per cent and 32.1 per cent, respectively, in 2020 from 73.0 per cent and 34.5 per cent, respectively, in 2019. Meanwhile, the pandemic period intensified the deep-rooted gender inequalities in the labour force, soaring the gender gap in LFPR further to 39.8 per cent in 2020 from 38.5 per cent in 2019.

Employment

The employed population[7] decreased to 7.999 million in 2020 from 8.181 million in 2019. The decline in employment was caused by the declines observed, particularly in temporary and casual categories of employment, in Industry and Services. In contrast, employment in Agriculture recorded a growth, possibly due to the exemptions that existed in relation to Agriculture activities during the lockdown periods with a view to ensuring food security amidst import restrictions and pandemic related disruptions to global food supply chains. Accordingly, the share of employment in Agriculture increased to 27.1 per cent in 2020 from 25.3 per cent in 2019. Meanwhile, the shares of employment in Industry and Services, which was the foremost employment generator, declined to 26.9 per cent and 46.0 per cent, respectively, in 2020 from 27.6 per cent and 47.1 per cent, respectively, in 2019. Nevertheless, some new jobs, such as PPE makers and delivery workers, were also created with new demands that emerged during the pandemic. Meanwhile, the private sector continued to remain the main employment generator in Sri Lanka representing the largest share of 42.7 per cent followed by own account workers, which accounted for 33.2 per cent of the total employment during 2020.

As per the Public Sector Employment Survey conducted by the Central Bank, total public sector employment increased to 1.528 million at the end of 2020 compared to 1.467 million

Table 2.17
Public Sector Employment

Sector	2019 (a)	2020 (b)	Percentage Change
			2020/ 2019 (b)
Government (c)	1,221,735	1,290,370	5.6
Semi Government (d)	245,273	237,951	-3.0
Public Sector	**1,467,008**	**1,528,321**	**4.2**

(a) Revised
(b) Provisional
(c) Central Government, Local Government and Provincial Councils
(d) State Corporations, Statutory Boards and State Authorities

Source: Central Bank of Sri Lanka

7 Persons who worked at least one hour during the reference period, as paid employees, employers, own account workers or contributing family workers are said to be employed. This also includes persons with a job but not at work during the reference period.

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BOX 3
COVID-19 Instigated Paradigm Shift in Work Routines towards Work from Home

Introduction

The COVID-19 pandemic had an unprecedented impact on the labour market. Especially the pandemic affected the deep-rooted work routines and cultures due to the precautionary and containment measures taken to combat the spread of the pandemic, which restricted the performance of work in the usual working environment. Accordingly, work from home (WFH), flexible hours and roster systems were adopted on a broad basis. Even though WFH had already been adopted in some areas of industries and occupations, it was largely popularised during the pandemic as a temporary measure of business continuity. The pandemic has presented with an unprecedented opportunity to rethink the importance of presence, proximity and workspace planning to many entities. At the same time the WFH has challenges as well, where the success of broad based adoption of this strategy depends on many factors, including shared responsibility, commitment and mutual understanding between the employer and employee.

Advantages, Disadvantages and Challenges of Working from Home

WFH provides many benefits to employees as well as to employers. From the employee's point of view, reduced commuting time and related expenses, greater flexibility in terms of location and working time, less distractions and better work life balance are the key benefits. Reduced operational expenses related to utility costs and workspace, and staff expenses related to overtime and transport allowances, improved productivity, engagement and employee satisfaction, and reduced turnover are the key benefits of such arrangements, from the employer's point of view. In addition, WFH has been continuously highlighted as a measure to improve female labour force participation in Sri Lanka, which has been stagnating at a low level for a prolonged period. WFH is a mechanism to augment resource availability in the country, thereby promoting the economic growth in the long run. Positive impact on the environment through reduced carbon emissions and reduced traffic congestion and oil imports as a result of less vehicular movements, and reduced urbanisation are additional benefits of such arrangements at the national level.

Nevertheless, WFH arrangements come with some limitations and challenges in its practical implementation. At the outset, all industries, occupation types and job functions are not feasible under WFH arrangements. Even though email communication was formalised during the period, as all the paperwork and procedures are still not digitised, especially in the public sector, there would be omissions and inefficiencies in carrying out relevant tasks off work premises. For instance, the WFH implemented in the public sector of Sri Lanka, in order to prevent the spread of COVID-19 pandemic, was not fully successful due to the issues existed with related to Information and Communications Technology (ICT) infrastructure, ICT literacy as well as manual processes and procedures. In addition, most of the public sector job functions are less suitable to perform in WFH arrangements as the public services provided to the general public should be performed in person given the current status of digitalisation. Hence, there should be a clear identification and assessment of the industries, companies, occupation types and job functions that are feasible in WFH arrangements with proper legislations with regard to terms and conditions related to such arrangements. Further, ICT literacy level, required supervision level and the capacity to perform work outside the work premises in terms of the adequate availability and quality of physical and ICT infrastructure and equipment, living arrangements, and other responsibilities of the employees should be assessed on a case-by-case basis (International Labour Organization (ILO), 2020). In particular, low levels of computer and digital literacy in Sri Lanka, which stands at 30.8 per cent and 46.0 per cent, respectively (Department of Census and Statistics, 2020), and the increase in threats related to data security breaches are also key concerns. Hence, when continuing WFH arrangements in the long run, expanding the network coverage, and improving the computer and digital literacy would be essential. In addition, improving required network infrastructure and cyber security to support remote working arrangements and transitioning towards an online working environment through digitising paperwork and approval procedures are also important.

Specific and targeted training with regard to the use of technology in performing duties, communicating and interacting is important for smooth functioning of such arrangements. Most importantly, changes in the terms and conditions of employment contract or clear guidelines of company policies with regard to the place of rendering service and WFH schedule (total or partial) and term (indefinite or fixed term) should be established at the initial stage (Carey, 2020). Further, the responsible party for the setup and related expenses of physical and ICT infrastructure, designated communication channels, and provision on working hours and resting periods that are in line with national legislation should also be established through terms and conditions of employment contract or guidelines of company policies to minimise conflict of interest and achieve an optimal level of productivity (ILO, 2020).

Lack of focus, motivation and productivity due to distractions in home working environment, conflicts in work and household responsibilities, poor infrastructure and network facilities, and absence of face-to-face monitoring are the disadvantages of WFH arrangements. Accordingly, with a drastic change in the employer-employee relationship, new methods of engaging, managing, controlling and measuring performance of employees should also be established in order to maintain the motivation levels and performance of the employees. This includes, moving away from traditional command and control style of management towards results-based management (ILO, 2020) and frequent communication and checks. In addition, new methods of communicating and interacting should be in place to maintain company culture and team cohesiveness, and to minimise the mental strain of employees. Meanwhile, maintaining clear demarcations of working hours should be a priority in the permanent adoption of WFH arrangement in order to prevent overworking related long term effects on the physical and mental health of the employees, work-family conflicts and maintain an optimal level of productivity in the long run.

Employees should also have clear demarcations between work and household responsibilities through proper arrangements for dependent care and household responsibilities to minimise disturbances from living arrangement in delivering an optimal level of productivity. In addition, maintaining mental and physical health by regular communication and interaction with the team, and using proper physical infrastructure are important in achieving an optimal level of productivity in WFH arrangements in the long run.

Way Forward

Given the opportunity to check the feasibility of WFH arrangements on a large scale during pandemic period, benefits of this paradigm shift can be reaped even in the aftermath of the COVID-19 pandemic to achieve higher economic growth of the country in medium to long term via increased labour force participation and savings. However, addressing the practical difficulties, challenges and downsides is vital for its smooth functioning and in reaping the desired benefits from such arrangements. In addition, the large public sector should also undergo a drastic change technologically in being work from home ready in terms of ICT infrastructure, digital systems and ICT literacy. Embracing a permanent adoption of the COVID-19 pandemic driven digital transformation of work, which was previously less convincing for employers would be a way of propelling the economy to a higher growth path and enhancing living standards of the people, while simultaneously improving the work-life balance and satisfaction of the workforce in the country.

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in 2019. This includes employees in ministries, departments, district secretariats, divisional secretariats, provincial councils and semi-government institutions. The increase observed in public sector employment was due to the Government programme to provide jobs for 60,000 unemployed graduates and 100,000 persons in the lowest strata of income earners.

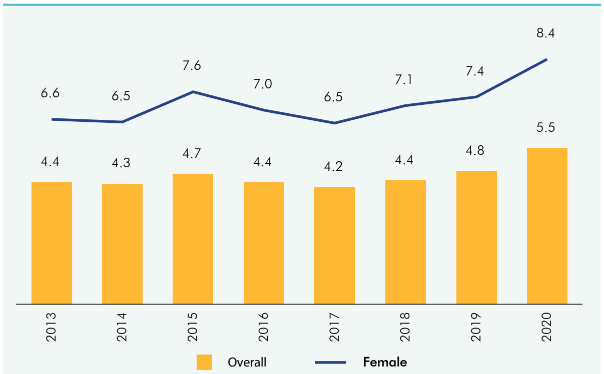
Exposing the deep-rooted vulnerabilities, informal employment was severely affected by the COVID-19 pandemic. Amidst the containment measures taken to curb the spread of the COVID-19 pandemic, the informal sector was severely affected due to the disruptions to their capacity to earn a living. As the informal sector employment is not covered by any social protection scheme, they remain the most susceptible category in the labour force to fall below the poverty line in distress situations needing temporary income support. As such, social protection measures targeted towards the large informal employment of the country are key in improving the wellbeing of people in the sector.

Unemployment

The unemployment rate increased to 5.5 per cent in 2020 from 4.8 per cent recorded in 2019 primarily due to the adverse impact of COVID-19 pandemic. Accordingly, the unemployed population[8] increased to

8 Persons available and/or looking for work, and who did not work and took steps to find a job during the last four weeks and are ready to accept a job given a work opportunity within next two weeks are said to be unemployed.

Figure 2.12
Unemployment Rate (Per cent)



Source: Department of Census and Statistics

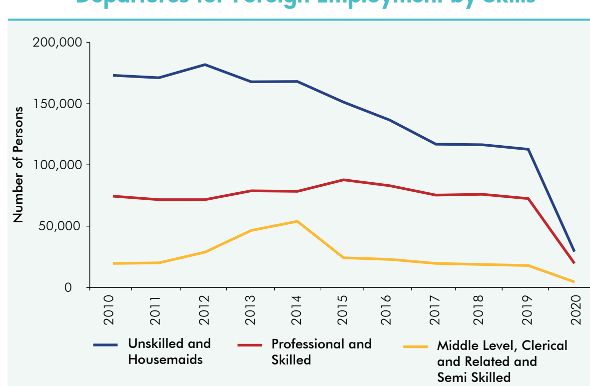
0.468 million in 2020 from 0.411 million recorded in 2019. The anticipated significant increase in the unemployment rate during the pandemic period reduced as the decline in the employed population not being completely translated into the increase in the unemployed population. This was because the job losers temporarily or permanently halted searching and accepting new jobs due to the situation prevailed. However, underemployment increased significantly during 2020 due to the underutilisation of the productive capacity of the labour force as reflected by the significant decrease in the labour hours.

Aggravating the inequalities further, the unemployment rates amongst females, youth and educationally qualified persons increased considerably in 2020. Accordingly, the unemployment rate of females increased significantly to 8.4 per cent in 2020 from 7.4 per cent in 2019. Meanwhile, the unemployment rate of males also increased to 4.0 per cent in 2020 from 3.3 per cent in 2019. The persistent issues with the employability skills of females and gender related mismatches have kept the unemployment rate of females more than two times higher than their counterparts.

Foreign Employment

Departures for foreign employment declined sharply by 73.6 per cent to 53,713 in 2020, from 203,087 in 2019 with the spread of COVID-19 pandemic. This sharp decline was attributable to the temporary ban imposed by Sri Lanka Bureau of Foreign Employment (SLBFE) on departures of migrant workers registered with them, travel restrictions at labour receiving countries, suspension of recruitment of foreign workers, and reduced demand for migrant labour. Both male and female departures for foreign employment declined by 73.5 per cent and 73.7 per cent, respectively, in 2020 compared to 2019. In line with the decline in total departures for foreign employment, departures for foreign employment under all skill categories, namely, professional, middle level, clerical and related, skilled, semi-skilled, unskilled and housemaid, declined drastically in 2020 compared to the previous year. Meanwhile, the Middle East region continued to remain the main foreign employment destination in 2020 as well, accounting for 82.0 per cent of the total departures for foreign employment. However, the departures for foreign employment to the Middle East region declined by 74.5 per cent, compared to 2019.

Figure 2.13
Departures for Foreign Employment by Skills



Source : Sri Lanka Bureau of Foreign Employment

Table 2.18
Departures for Foreign Employment

Employment	2018 (a)		2019 (a)		2020 (b)	
	Number	Per cent	Number	Per cent	Number	Per cent
Total Placement	**211,211**	**100.0**	**203,087**	**100.0**	**53,713**	**100.0**
By Source						
Licensed Agents	66,703	31.6	69,278	34.1	18,304	34.1
Other	144,508	68.4	133,809	65.9	35,409	65.9
By Gender						
Male	129,712	61.4	122,257	60.2	32,453	60.4
Female	81,499	38.6	80,830	39.8	21,260	39.6
By Manpower Category						
Professional	9,005	4.3	9,861	4.9	2,929	5.5
Middle Level	6,530	3.1	5,725	2.8	1,480	2.8
Clerical & Related	9,434	4.5	9,163	4.5	2,484	4.6
Skilled Labour	67,013	31.7	62,711	30.9	16,690	31.1
Semi Skilled Labour	2,769	1.3	2,950	1.5	748	1.4
Unskilled Labour	51,703	24.5	51,188	25.2	13,994	26.1
Housemaid	64,757	30.7	61,489	30.3	15,388	28.6

(a) Revised
(b) Provisional

Source: Sri Lanka Bureau of Foreign Employment

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Sri Lankan migrant workers were severely affected by the spread of the COVID-19 pandemic in the labour receiving countries. With the spread of the first wave of the COVID-19 pandemic in the European region, a large number of Sri Lankan migrant workers returned to the country in panic in the beginning of 2020 from Italy, South Korea and other European countries. Since the closure of the airports to incoming commercial flights in order to prevent the transmission of COVID-19 into Sri Lanka, a considerable number of migrant workers looked forward to being repatriated. The need for repatriation amplified amidst the panic with regard to health risks, and contract expirations, job losses and pay cuts resulted from the economic downturn caused by the pandemic. As the domestic labour market is already in a turmoil with the negative impact of COVID-19, appropriate measures have to be introduced to facilitate the reemployment of migrant workers who were repatriated due to job losses as well as persons who missed the anticipated foreign employment opportunities due to the halt in departures in foreign destinations by continuously exploring opportunities. Meanwhile, the establishment of appropriate social security measures are imperative to face future distresses in the international labour market.

Labour Relations and Labour Market Reforms

The number of man days lost due to strikes decreased during 2020 possibly with the restrictions prevailed to curb the spread of COVID-19 pandemic. Accordingly, the total number of man days lost due to strikes declined significantly by 59.7 per cent in 2020 compared to 2019 with the significant declines observed in the number of man days lost due to strikes in both plantation sector and other private institutions. Further, the number of workers involved in strikes also declined by 19.5 per cent in 2020 compared to 2019 mainly with the decline in number of workers involved in strikes in other private institutions. However, the number of strikes increased during 2020 compared to 2019 due to the increase in the number of strikes in the plantation sector.

Table 2.19
Strikes in Private Sector Industries

Year	Plantation			Other (a)			Total		
	No. of Strikes	Workers Involved	Man Days Lost	No. of Strikes	Workers Involved	Man Days Lost	No. of Strikes	Workers Involved	Man Days Lost
2017	12	1,885	5,643	21	9,027	54,436	33	10,912	60,079
2018	29	6,545	33,212	22	5,610	16,406	51	12,155	49,618
2019 (b)	**9**	**1,981**	**28,363**	**16**	**5,630**	**27,689**	**25**	**7,611**	**56,052**
1st Quarter	4	807	2,521	9	4,748	26,197	13	5,555	28,718
2nd Quarter	2	939	24,393	3	218	420	5	1,157	24,813
3rd Quarter	2	206	1,304	2	151	302	4	357	1,606
4th Quarter	1	29	145	2	513	770	3	542	915
2020 (c)	**13**	**1,936**	**9,375**	**15**	**4,189**	**13,215**	**28**	**6,125**	**22,590**
1st Quarter	1	298	596	4	189	884	5	487	1,480
2nd Quarter	7	862	3,174	3	899	899	10	1,761	4,073
3rd Quarter	4	682	5,323	7	3,052	11,236	11	3,734	16,559
4th Quarter	1	94	282	1	49	196	2	143	478

(a) Includes semi government institutions and other private institutions
(b) Revised
(c) Provisional

Source: Department of Labour

Several measures were taken by the Ministry of Labour[9] during 2020 to improve industrial harmony. Accordingly, a task force consisting of trade unions and employers was established by the Ministry of Labour to handle labour issues during the pandemic period. Thereby, consensus was arrived at regarding the retention of employees in institutions, where work was suspended due to the COVID-19 pandemic, and implementing a roster system or any other suitable mechanism to ensure that all employees were given monthly work proportionately in situations, where all employees could not be called for work. Further, consensus was arrived at paying 50 per cent of the last paid basic salary or Rs. 14,500 per month, whichever was more favourable to the employee, in situations, where employees were required to stay at home due to lack of work in the months of May and June 2020. Consequently, this agreement was extended up to 30 September 2020 and further extended up to 31 December 2020, where all sectors except the tourism sector needed to obtain the approval from the Commissioner General of Labour. Meanwhile, in line with the increase in compulsory age of education, the minimum age of employment was increased from 14 to 16 in the Minimum Wages (Indian Labour) (Amendment) Act No. 27 of 1927, Shop and Office Employees Act (Regulation of Employment and Remuneration) (Amendment) Act No. 19 of 1954, Factories (Amendment) Act No. 45 of 1942, and Employment of Women, Young Persons and Children Act No. 47 of 1956. Further, approval of the Cabinet ministers was granted to introduce a Special Provisions Act to delegate concurrent judicial powers to Magistrate's Courts and Labour Tribunals to expedite disposing of about 16,000 cases being tried under labour legislations. Furthermore, approval of the Cabinet ministers was obtained to make amendments to several acts. Accordingly, amendments are to be introduced to the Industrial Disputes Act No. 43 of 1950: to empower the Labour Tribunal enforcing orders; to authorise a representative to appear for a worker who makes an application regarding the termination of employment; and to enable a lawyer to appear before the Commissioner General of Labour in inquiries on behalf of parties. Further, amendments are to be introduced to the National Minimum Wage of Workers Act No. 03 of

9 The name of the Ministry of Skills Development, Employment and Labour Relations was changed as Ministry of Labour with effect from 09 August 2020.

2016 to increase the national minimum wage to Rs. 12,500.00 per month from Rs. 10,000.00 per month, and Employees' Provident Fund Act No. 15 of 1958 to make it mandatory to inform to the Department of Labour within specific period of time about new employee recruitments. Furthermore, the Employment of Women, Young Persons and Children Act No. 47 of 1956 is to be amended to update the hazardous occupations list for young persons below 18 years of age. In addition, the Termination of Employment of Workmen (Special Provisions) Act No. 45 of 1971 is due to be amended to provide for increasing the maximum limit of compensation of the compensation formula from Rs. 1.25 million to Rs. 2.5 million, and the Workmen's Compensation Ordinance No. 19 of 1934 to provide for increasing compensation for workers up to Rs. 2.0 million from Rs. 0.5 million.

Labour Productivity

Labour productivity, measured in terms of Gross Value Added (GVA) (in 2010 prices) per hour worked increased by 12.5 per cent to Rs. 577.17 per hour worked in 2020 from Rs. 513.17 per hour worked in 2019. This considerable increase in overall labour productivity was underpinned by the increase in labour productivity in Industry and Services activities by 13.2 per cent and 22.4 per cent, respectively. Accordingly, labour productivity in Industry and Services activities increased to Rs. 611.89 per hour worked and Rs. 764.29 per hour worked, respectively, in 2020 from Rs. 540.70 per hour worked and Rs. 624.33 per hour worked, respectively, in 2019. This was mainly due to the significant reduction in hours worked amidst the restrictions that prevailed to contain the spread of the COVID-19 pandemic, regardless of the comparatively small drop in GVA. In contrast, reversing the gradual increasing trend, labour productivity in Agriculture activities declined by 7.8 per cent to Rs. 177.54 per hour worked in 2020 from Rs. 192.46 per hour worked in 2019 owing to the increase in hours worked amidst the employment shift towards Agriculture activities and the decline in GVA. Accordingly, in terms of the level of productivity, Services activities continued to exhibit the most efficient use of labour resource, recording the highest labour productivity level, followed by Industry activities, while Agriculture activities recorded the lowest.

Table 2.20
Labour Productivity by Major Economic Sectors

	2019 (a)	2020 (b)
Gross Value Added at Constant (2010) Prices, Rs.million	**8,973,108**	**8,693,114**
Agriculture	686,412	669,802
Industry	2,608,211	2,427,844
Services	5,678,485	5,595,469
Labour Productivity, Rs. per Hour Worked	**513.17**	**577.17 (c)**
Agriculture	192.46	177.54 (c)
Industry	540.70	611.89 (c)
Services	624.33	764.29 (c)

(a) Revised
(b) Provisional
(c) Annual Labour hours are based on the sum of four quarters of 2020

Sources: Department of Census and Statistics
Central Bank of Sri Lanka

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