Chapter 2

NATIONAL OUTPUT AND EXPENDITURE

2.1 Overview

The Sri Lankan economy expanded in real terms by 6.0 per cent during 2008, compared to the 6.8 per cent growth recorded in 2007. This is the fourth consecutive year that the economy recorded a growth of 6 per cent or over. In the first nine months, the economy grew at an impressive rate of 6.5 per cent. However, the growth decelerated during the last quarter of the year, falling to 4.3 per cent, mainly due to the adverse impact of external sector developments.

During the first nine months, all three sectors contributed to the growth. The Agriculture sector recorded a significant growth of 8.5 per cent, mainly due to the recovery in tea and paddy production with the bumper harvest during the Yala season. The Industry sector grew by 6.2 per cent with the largest sub-sector, manufacturing, expanding by 4.8 per cent. The Services sector also expanded by 6.3 per cent with the wholesale and retail trade sub-sector which constitutes the highest share, increasing by 5.6 per cent during the first nine months of 2008.

The economy slowed down during the fourth quarter; with the Agriculture sector decelerating to 4.0 per cent particularly due to the contraction in tea and minor export crops. The Industry sector showed a deceleration of 5.2 per cent with the slowing down of all four sub-sectors, namely mining and quarrying, manufacturing, electricity, gas and water and, construction. The Services sector also decelerated in the fourth quarter of 2008 to a rate of 3.8 per cent with the wholesale and retail trade sub-sector slowing down to 2.0 per cent mainly due to the contraction in the export trade sub-sector to 0.9 per cent and the import trade sub-sector to 0.7 per cent.

All sectors positively contributed to a favourable annual growth in 2008. The Agriculture sector recorded the highest sectoral growth of 7.5 per cent with a record paddy harvest and a considerably high output in fish and tea. The expansion in both the Industry and Services sectors were at 5.9 per cent and 5.6 per cent, respectively, showing decelerations compared to 2007. The deceleration in the Industry sector was witnessed in all sub-sectors consisting of factory industry and construction sectors. The Services sector which constitutes the largest share in the economy showed a marginal decline compared to 2007. Most sub-sectors in the Services sector decelerated with a notable contraction in the hotels and restaurants sub-sector excluding the import trade and post and telecommunication sub-sectors which expanded at a higher rate during 2008 compared to that of 2007.

Table 2.1 **Sectoral Composition and Increase in Gross Domestic Product by Industrial Origin at Constant (2002) Prices**

Sector	Rate of Change (%)		Contribution to Change in GDP (%)		Share of GDP (%)	
	2007(a)	2008(b)	2007(a)	2008(b)	2007(a)	2008(b)
Agriculture	**3.4**	**7.5**	**6.1**	**15.1**	**11.9**	**12.1**
1. Agriculture, Livestock and Forestry	**2.3**	**7.3**	**3.8**	**13.2**	**10.8**	**10.9**
1.1 Tea	- 1.8	4.3	- 0.3	0.9	1.2	1.2
1.2 Rubber	4.2	10.3	0.1	0.4	0.2	0.2
1.3 Coconut	5.1	5.2	1.0	1.2	1.4	1.4
1.4 Minor Export Crops	5.1	- 2.1	0.4	- 0.2	0.5	0.4
1.5 Paddy	- 6.2	22.9	- 1.7	6.1	1.6	1.8
1.6 Livestock	7.9	5.6	1.0	0.8	0.9	0.9
1.7 Other Food Crops	4.4	4.7	2.5	3.0	3.8	3.8
1.8 Plantation Development	5.8	3.5	0.2	0.2	0.3	0.3
1.9 Firewood and Forestry	5.1	7.1	0.5	0.7	0.6	0.6
1.10 Other Agricultural Crops	0.7	2.7	0.0	0.2	0.4	0.4
2. Fishing	**15.6**	**9.9**	**2.3**	**1.8**	**1.1**	**1.1**
Industry	**7.6**	**5.9**	**31.6**	**28.3**	**28.5**	**28.4**
3. Mining and Quarrying	**19.2**	**12.8**	**4.8**	**4.1**	**1.9**	**2.0**
4. Manufacturing	**6.4**	**4.9**	**16.8**	**14.6**	**17.7**	**17.5**
4.1 Processing (Tea, Rubber and Coconut)	2.4	5.3	0.2	0.6	0.6	0.6
4.2 Factory Industry	6.7	5.0	15.7	13.3	15.9	15.8
4.3 Cottage Industry	5.6	4.5	0.9	0.8	1.1	1.1
5. Electricity, Gas and Water	**4.6**	**2.7**	**1.7**	**1.1**	**2.5**	**2.4**
5.1 Electricity	4.6	3.9	1.5	1.4	2.2	2.1
5.2 Gas	2.9	- 10.2	0.1	- 0.3	0.2	0.2
5.3 Water	7.1	3.6	0.1	0.1	0.1	0.1
6. Construction	**9.0**	**7.8**	**8.3**	**8.4**	**6.4**	**6.5**
Services	**7.1**	**5.6**	**62.3**	**56.6**	**59.6**	**59.5**
7. Wholesale and Retail Trade	**6.1**	**4.7**	**22.3**	**19.4**	**24.5**	**24.2**
7.1 Import Trade	3.3	4.7	4.5	7.2	9.1	9.0
7.2 Export Trade	8.8	0.9	5.9	0.7	4.7	4.4
7.3 Domestic Trade	7.6	6.4	11.8	11.5	10.7	10.8
8. Hotels and Restaurants	**- 2.3**	**- 5.0**	**- 0.1**	**- 0.3**	**0.4**	**0.4**
9. Transport and Communication	**10.5**	**8.1**	**19.2**	**17.5**	**12.8**	**13.1**
9.1 Transport	9.3	6.3	14.5	11.5	10.8	10.9
9.2 Cargo Handling-Ports and Civil Aviation	8.8	8.0	0.8	0.9	0.7	0.7
9.3 Post and Telecommunication	21.5	22.3	3.8	5.1	1.4	1.6
10. Banking, Insurance and Real Estate etc.	**8.7**	**6.6**	**10.9**	**9.5**	**8.7**	**8.7**
11. Ownership of Dwellings	**1.1**	**1.1**	**0.6**	**0.6**	**3.2**	**3.1**
12. Government Services	**6.0**	**5.7**	**6.8**	**7.4**	**7.7**	**7.7**
13 Private Services	**7.8**	**6.5**	**2.7**	**2.6**	**2.4**	**2.4**
Gross Domestic Product	**6.8**	**6.0**	**100.0**	**100.0**	**100.0**	**100.0**
Net Factor Income from Abroad	15.3	- 118.0				
Gross National Product	**7.1**	**4.7**				

(a) Revised
(b) Provisional

Source: Department of Census and Statistics

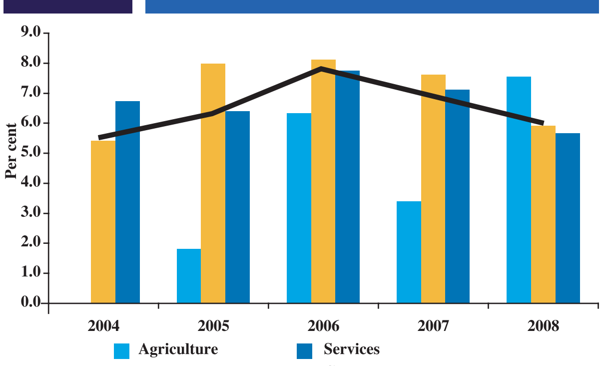
The domestic demand grew at 7.1 per cent, fuelled by consumption and investment demand. The excess in demand was met by the higher growth in the imports, which grew at 4.5 per cent compared to a slower export growth of 0.4 per cent. The deceleration in the total demand in the economy was mainly attributed to unfavourable developments in the external sector during the year. Amidst the slowdown in the global economy, the export sector recorded a sluggish performance, particularly during the latter part of the year.

Gross National Product (GNP) which is the Gross Domestic Product (GDP) adjusted for Net Factor Income from Abroad (NFIA), recorded a growth of 4.7 per cent in 2008. The contraction in factor income receipts by 93.8 per cent together with the deceleration in factor income payments by 14.4 per cent resulted in net factor income contracting by a significant 153.6 per cent during 2008 exerting a negative impact on GNP. This was particularly due to the decline in interest income during 2008 with the unfavourable reduction of interest rates in the global economy.

In terms of current market prices, GDP increased by 23.2 per cent during 2008 to Rs. 4,411 billion from Rs. 3,579 billion in 2007. This was the result of real expansion in economic activities together with an increase in price levels in the overall economy as indicated by an increase in the GDP deflator by 16.3 per cent, compared to the 14.0 per cent increase in 2007.

The mid-year population increased by 1.0 per cent to 20,217,000 during 2008 and GDP per capita income increased by 22.0 per cent to Rs. 218,161. This indicates an increase of 23.3 per cent in the per capita income from US$ 1,634 in 2007 to US$ 2,014 in 2008. The increase in real income levels during 2008 was 4.9 per cent compared to 6.1 per cent in the previous year.

Chart 2.1 Annual Growth Rates



Domestic savings contracted by 0.9 per cent to Rs. 623 billion during 2008 from Rs. 629 billion in 2007. As a percentage of GDP, it fell to 14.1 per cent compared to 17.6 per cent in 2007. The depletion in domestic savings could be attributed to the increased import bill and the deceleration in export earnings. Meanwhile, national savings declined even at a higher rate than domestic savings due to further deterioration of NFIA although the private remittances improved, albeit at a lower rate than in 2007.

2.2 Sectoral Output, Policies, Institutional Support and Issues

Agriculture

The Agriculture sector recorded the highest sectoral growth of 7.5 per cent in 2008 over the growth of 3.4 per cent recorded in 2007. The increased output in domestic agriculture, mainly the record paddy production during the Yala season and fish production contributed to the expansion in the sector. Export agriculture growth was led by tea and coconut production while rubber also contributed favourably. Nevertheless, the export agriculture sector was affected by the global economic downturn as reflected by the contraction in tea exports by 8.1 per cent during the last quarter of the year.

Export Agriculture

In the first half of 2008, the tea production increased by 19 per cent marking the best ever performance in any first half of a year in the history of the country's centuries long industry, and subsequently decelerated to 4.1 per cent by end 2008 due to lower external demand. This increased production was attributable to favourable weather conditions in all planting districts during this period, undisturbed operations of tea factories and good agriculture practices such as timely pruning, usage of fertiliser at recommended levels and applying pesticides, etc. However, the tea production declined marginally by 1.4 per cent in the third

Table 2.2 Agriculture Production Index (1997-2000 =100)

Item	2007(a)	2008(b)	Rate of Change (%) 2007/08
Agriculture and Fishing	113.0	124.4	10.1
1 Agriculture	114.0	125.7	10.2
1.1 Agriculture crops	111.0	122.9	10.7
Tea	106.3	110.6	4.1
Rubber	121.9	134.0	9.9
Coconut	103.3	104.8	1.4
Paddy	117.5	145.4	23.8
Other Crops	111.5	121.0	8.5
1.2 Livestock	140.6	150.1	6.7
2 Fishing	106.6	116.9	9.6

(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka

quarter and quite significantly by 19.4 per cent in the fourth quarter. This was to some extent, due to the measures taken by the authorities to minimise the supply of made tea at the Colombo Tea Auction (CTA) in the backdrop of declining prices at the CTA in the midst of the deepening global financial crisis. The global crisis caused Sri Lanka's trading partners, such as Middle East countries, Russia/CIS countries to delay their purchases expecting further declines in tea prices to replenish the stocks. In addition, restricting plucking only to top quality leaves, introduction of pruning to make use of the decline of tea prices at CTA, the drought that prevailed in the tea planting districts and a decline in fertiliser usage despite subsidy due to the drought condition, also attributed to the decline in production.

Tea prices also declined by 9.7 per cent during the second half of the year compared to the corresponding period of the previous year. However, average tea prices at CTA in the first and second quarter increased by 34 and 27 per cent in which highest average sale price increase was recorded for low grown tea, the sector which contributed 58 per cent in the total tea production of the year 2008. However, prices significantly declined after September 2008 in the face of slowing down of demand in the midst of global financial turbulence. Average sale prices at the CTA in the third and fourth quarter of 2008 declined by 14 and 30 per cent, respectively when compared with the corresponding periods of the previous year.

In an effort to stabilise prices and minimise the unsold quantities at the CTA in the fourth quarter, the government intervened through the Sri Lanka Tea Board (SLTB) by purchasing 917 metric tons during the period from July to December 2008. Additionally, SLTB temporarily restricted the private sales with a view to stabilise the sale prices at CTA and advised the producers/tea factories to implement better tea manufacturing practices, and thereby indirectly limit the supply at CTA. Government also introduced some measures to support the industry through Budget 2009 followed by the Economic Stimulus Package announced in December 2008. These measures included: providing mixed fertiliser at Rs. 1,000 per 50 kg bag for small tea holders until such time that the price of raw tea leaves reaches Rs. 40/- per kg; providing working capital for Tea factories through banks with an interest rate stimulus of 6 per cent through the Tea Stabilisation Fund, which was re-established by the government in the midst of the tea industry crisis, and the temporary suspension of the recovery of loans extended to tea factory modernisation under the Plantation Development Project for a period of one year in order to overcome any liquidity shortfalls. In addition, measures such as stipulating a Cess of Rs.4/- per kg of tea imported to discourage Sri Lanka tea being mixed with low quality imported tea, exempting tea packets and bags from export Cess, and exporting tea on short-term credit to tea importers in Sri Lanka's friendly countries on the strength of a Treasury guarantee, etc., were also introduced by the government to assure the sustainability of the industry.

Several strategies and extension services were undertaken by the Tea Research Institute of Sri Lanka and SLTB during the year to enhance the productivity of the tea sector and reduce the cost of production. In line with the development of energy conservation methods in the manufacturing process, proper energy efficient fans were developed to be installed in the tea factories to effectively reduce the electricity cost. In line with the development of value addition products to enhance the income, the production of Sri Lanka Instant Tea and Ready To Drink (RTD) green tea beverages were promoted with special emphasis on the higher

Table 2.3 Trends in Principal Agricultural Crops

Category	Unit	2007(a)	2008(b)
1. Tea			
1.1 Production (c)	kg mn	305.2	317.7
1.2 Total Extent	hectares '000	222	222
1.3 Extent bearing	hectares '000	193	193
1.4 Cost of Production (d)	Rs/kg	236.50	262.60
1.5 Average price			
- Colombo Auction	Rs/kg	279.10	301.63
- Export (f.o.b.)	Rs/kg	364.28	430.40
1.6 Replanting	hectares	1452	1389
1.7 New planting (e)	hectares	-	-
1.8 Value added as % of GDP (f)		1.6	1.6
2. Rubber			
2.1 Production	kg mn	117.6	129.2
2.2 Total extent (g)	hectares '000	120	122
2.3 Area under tapping (g)	hectares '000	94	96
2.4 Cost of Production	Rs/kg	112.69	114.00
2.5 Average price			
- Colombo Auction (RSS 1)	Rs/kg	234.22	269.51
- Export (f.o.b)	Rs/kg	234.48	278.20
2.6 Replanting (h)	hectares	5,192	1818
2.7 New planting (h)	hectares	2,034	2130
2.8 Value added as % of GDP (f)		0.7	0.8
3. Coconut			
3.1 Production	nuts mn	2,869	2,909
3.2 Total Extent	hectares '000	395	400
3.3 Cost of production	Rs/nut	10.25	12.47
3.4 Average price			
- Producer price	Rs/nut	16.87	22.71
- Export (f.o.b.) (i)	Rs/nut	16.50	21.41
3.5 Replanting / Under Planting (j)	hectares	2,528	1,712
3.6 New planting (j)	hectares	2,936	3,441
3.7 Value added as % of GDP (f)		1.4	1.8

(a) Revised.
(b) Provisional.
(c) Including green tea.
(d) Includes green leaf suppliers' profit margin.
(e) No new planting has been done under subsidy from authorities after 2007.
(f) In growing and processing only.
(g) Based on rubber land survey -2003 conducted by the Dept. of Census and Statistics & Rubber Development Department.
(h) Extents covered by cultivation assistance schemes of the Rubber Development Department.
(i) Three major coconut kernel products only.
(j) Extents covered by cultivation assistance schemes of the CCB.

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

amount of polyphenols contained in Sri Lanka green tea compared to Chinese and Japanese green tea. During the year, under the Tea factory modernisation programmes, 42 Tea factories obtained Hazard Analysis Critical Control Point (HACCP) Certification which gives value addition to their products. In the meantime, the Tea Small Holder Development Authority implemented land development assistance programmes as a strategy for development of tea small holders and completed an extent of 1,128 hectares of land preparation, 1,091 hectares of soil rehabilitation and 881 hectares of tea replanting.

The rubber production recorded a substantial increase of 10 per cent to reach 129 million kg in 2008. Though the production was continuously affected by the torrential rainfall that prevailed in the first half of the year, rubber production continued to increase in the midst of rise in demand for natural rubber due to escalating synthetic rubber prices and the extraordinary high prices that were recorded for natural rubber during this period. Accordingly, in June 2008, the prices of Ribbed Smoked Sheet (RSS) rubber was marked around Rs. 350 per kg which is considered to be the highest ever price recorded at the Colombo Rubber Auctions. However, rubber prices started to fall in the second half as the demand for natural rubber started to decline in the midst of the melt down of world demand for rubber due to the global financial crisis and with falling oil prices leading to the shift in demand towards synthetic rubber. Consequently, the increased average prices of RSS No. 1 and No. 2 by 33 per cent and 34 per cent, respectively in the first half, underwent a turnaround and recorded a drop of 19 per cent on both these varieties in the second half compared to first half of the year, thereby affecting the short to medium term sustainability of the industry.

The government took several measures to provide incentives to revitalise the rubber industry through Budget 2009 followed by the Economic Stimulus Package introduced in December 2008. These included the implementation of a support scheme to ensure that the rubber product manufacturers are able to purchase rubber latex from the growers at least at Rs. 150 per kg, increase of the Cess to Rs. 25 per kg on imported natural rubber latex and other rubber products, and increase of the Cess on imported synthetic rubber to Rs.35 per kg to enhance the demand for domestic rubber latex. Further, measures such as suspension of the export Cess collected from the domestic rubber manufacturing industries for a period of one year, the suspension of the 15 per cent surcharge on electricity, the reduction of the price of furnace oil by Rs. 10 per litre to reduce the cost of production, and the targeted provision of financial assistance to local industrialists to encourage the manufacturing of tyres for buses and other vehicles which are currently imported, were introduced.

The rubber industry requires further improvements in productivity in order to penetrate the international markets for natural rubber with quality improvements. The Rubber Development Department (RDD) has initiated several programs in 2008 to improve the productivity. The RDD, with the assistance of the International Fund for Agricultural Development (IFAD), implemented a special project to expand rubber cultivation in the Monaragala District. Further, during the year, RDD trained 2,640 rubber latex harvestors in Kalutara and Kegalle Districts with the assistance of the Rubber Research Institute (RRI) and the Vocational Training Authority (VTA). 30 bud grafters were also trained in the Kalutara District in augment the dearth of skilled latex harvestors and bud grafters in the industry. The RRI also unfolded their plans together with their findings towards the improvement of the rubber industry, which included a recommendation of introducing a “Mucuna Bracteata” cover crop to substitute the 50 per cent of Nitrogen fertiliser requirement for the 6 year immature period and thereby cut down Nitrogen fertiliser cost by Rs. 31,300 per hectare of rubber land and also the application of 2,500 metric tons of paddy straw for a hectare of rubber land during the 6 year immature period and thereby reduce Potassium fertiliser cost by Rs. 31,700 per hectare of rubber land.

The Coconut production recorded a marginal growth of 1.4 per cent to 2,909 million nuts in 2008, which was mainly due to the improved performance in the second half of the year benefiting from conducive weather conditions. However, coconut production declined by 19.6 per cent in the first half of the year, compared to the corresponding period of 2007. The severe drought that prevailed in 2007 and a new coconut disease known as “Weligama Coconut Leaf Wilt Disease (WCLWD)” that emerged in the Southern province were largely instrumental in the decline in production in the first half of the year. Nevertheless, the production in the second half of the year was on a continuous increasing path, which led to the growth of 4.6 per cent, when compared to the corresponding period of the previous year.

The prices of coconut and coconut-based products including coconut oil and desiccated coconuts (DC) at the Colombo Auction increased substantially during the first half of 2008, but started to decline in the second half of the year. The higher price for coconut and coconut-based products in the first half was attributable to the combined effect of high domestic demand with supply shortage, shortages of supply in international markets and the increase in world demand for coconut oil for bio-fuel production. However, increased production and decline of petroleum prices followed by reduced demand for bio-fuel, and the changes introduced in the duty structure of imported edible oils, contributed to the decline of prices of coconut and coconut-based products towards the end of the year.

The government took several measures to improve the performance of the coconut industry. With effect from July 2008, the duty waiver granted on importation of palm oil and coconut oil was reduced from 23 per cent to 13 per cent, and with effect from December 2008, duty waiver on palm oil and coconut oil was removed thereby applying 28 per cent duty on importation of palm oil and coconut oil. These were seen as measures towards increasing coconut production and as incentives to encourage the manufacture of coconut based high value added products for export.

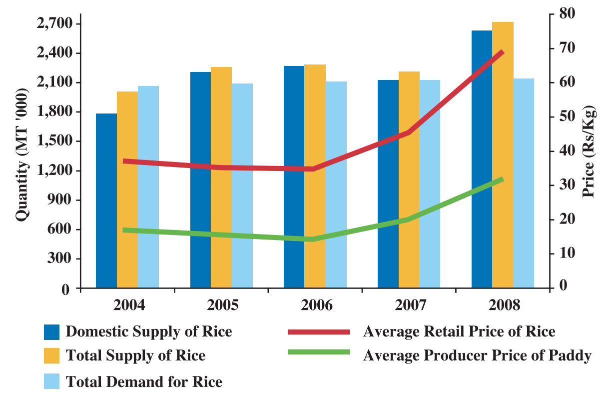
The Coconut Research Institute (CRI) continued its research activities to improve the productivity, crop conservation and the introduction of new coconut-based products. A study carried out by the CRI revealed a significant negative relationship between land size and productivity of coconut land for home gardens and smallholders. Further, this study revealed that the productivity of coconut estates increases as the land size increases from 21 acres onwards up to 40 acres. During the year, CRI contributed in controlling the spread of WCLWD by demarcating 3 km wide and 240 km long disease free boundary along Galle to Tangalle road and by prohibiting the transportation of coconut and other palm seedlings and their fresh parts out of the diseased areas. Further, improved hybrid varieties such as CRISL-98 and Kapruwana seedlings were issued to coconut growers by CRI during the year.

The production of other agricultural export crops such as cinnamon, cloves and pepper indicated mixed performances in 2008. The production of cocoa increased by 87 per cent, cloves by 169 per cent, arecanuts by 14 per cent and the coffee by 2 per cent. During the year, the production of betel declined by 7 per cent, cardamom by 21 per cent, pepper by 21 per cent and cinnamon by 3.5 per cent and cashew by 57 per cent. The decline of the production of cinnamon was attributed to the decline of world demand, especially in Mexico which purchases about 40 per cent of Sri Lankan cinnamon and other Latin American countries, in the face of the impact of the global financial crisis on these countries. Accordingly, cinnamon prices dropped in the range of 30 to 40 per cent per kg during the third quarter of the year. Apart from the reduced export demand, decline in production of pepper was affected by heavy and continuous rainfall in major pepper growing areas such as Kandy and Matale. The imposition of certain restrictions by India on the import of pepper from Sri Lanka under India Sri Lanka Free Trade Agreement (ISFTA) also contributed to the decline in exports of pepper, thereby reducing pepper production. Nevertheless, clove harvest showed an exceptional performance in 2008 owing to the reason that cloves production hits a boom harvest in every four years and the year 2004 had been its last boom harvest. To address the problems faced by the cinnamon producers, several measures were announced through the government's Economic Stimulus package that was introduced in December 2008. These included the granting of loans for working capital requirements of growers at competitive rates, and the introduction of a special incentive scheme under the SLEDB for cinnamon exporters who purchase cinnamon at guaranteed prices from the cinnamon cultivators.

Domestic Agriculture

Paddy production in 2008 increased by 24 per cent to a record level of 3.87 million metric tons, equivalent to 2.63 million metric tons of rice. Though the paddy production in the Maha season 2007/2008 increased only by 7.8 per cent to 2.125 million metric tons over the corresponding period of the last year, the paddy production in the Yala season in 2008 showed an extraordinary growth of 51 per cent yielding 1.75 million metric tons, recording the second highest growth in any season after Independence. This increase was all the more outstanding since it was recorded in the Yala season, which normally records a relatively lower production. This increase was largely attributable to the 62 per cent increase of the extent of land cultivated, when compared to the previous Yala season, arising mainly from the 24 per cent increase of government's minimum purchasing price of paddy from the producers as against previous minimum prices. This move was supplemented by factors such as the continuation of the government fertiliser support scheme, amidst the high fertiliser prices in the world, and the more favourable rainfall in 2008 in almost all parts of the country. The increase of lands under cultivation in the districts of Ampara, Baticaola and Trincomalee, which together contributed to 23 per cent of the total paddy production in the Yala season, also attributed to this trend. The higher prices of cereals, including wheat, that prevailed in the world market, especially in the first half of 2008, also served as an incentive for the increase in rice production. Further, the successful implementation of the government's agricultural program, viz., *"Api Wawamu - Rata Nagamu"* contributed to the increase of the extent and methodology of cultivation, thereby contributing to the increased production.

Chart 2.2 Rice : Supply and Demand



The sharp increase of prices of all varieties of rice that was recorded during the period June 2007 to June 2008, served to increase public dissatisfaction with the private sector, thereby leading to the speedy intervention by the government to control prices at reasonable levels.

Table 2.4 **Paddy Sector Statistics**

Item	Unit	2007(a)			2008(b)		
		Maha	Yala	Total	Maha	Yala	Total
Gross extent sown	hectares '000	525	291	816	582	471	1,053
Gross extent harvested	hectares '000	512	284	796	568	465	1033
Net extent harvested	hectares '000	459	255	714	508	417	925
Production	mt '000	1,973	1,158	3,131	2,125	1,750	3,875
	bushels '000	94,546	55,491	150,038	101,830	83,860	185,690
Yield (c)	kg./ hectare	4,299	4,543	4,389	4,175	4,195	4,184
Credit Granted	Rs.mn.	559	471	1030	749	691	1,440
Rice imports	mt '000	-	-	88	-	-	84
Paddy equivalent of imports	mt '000	-	-	129	-	-	124

(a) Revised.
(b) Provisional
(c) Yield per hectare for Maha and Yala are calculated using data from the Department of Census and Statistics which are based on crop cutting surveys while total yield is calculated by dividing total production by the net extent harvested.

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

In order to do so, the government lifted the customs duty on rice imports and also stipulated the maximum retail prices for different grades of rice, so as to prevent an undue increase in the prices of rice.

The government paddy purchasing scheme continued to operate in 2008. Accordingly, in 2008 Yala season, the Sri Lanka Agricultural Products Marketing Authority (SLAPMA) purchased paddy long seeds (Nadu) at Rs. 28.00 per kg and small seeds (Samba) at Rs. 30.00 per kg. The government spent Rs. 172 million to purchase 5,747 metric tons of paddy in 2008 Yala season. During the year, the quantity of imports of rice amounted to 84,000 metric tons recording a decline of 4.5 per cent.

Various programmes, implemented by the Department of Agriculture (DOA), to increase productivity through best agriculture practices with new technology in the paddy sector continued in 2008. In this connection, several "Yaya" production programmes, "Saruketha yaya" programmes and re-cultivation of abandoned paddy lands were conducted during 2007/2008 Maha and 2008 Yala season. A total of 4,008 Yaya production programmes with 75,618 farmers covering 65,415 hectares and 560 new Saruketha yaya programmes with revolving funds were operated in 2008. During 2008/2009 Maha, 15,177 hectares of abandoned paddy lands were re-cultivated. About 4,513 hectares and 4,156 hectares were cultivated under certified seed paddy production programme in 2007/2008 Maha and 2008 Yala, respectively. About 116,491 bushels in 2007/2008 Maha and 57,464 bushels in 2008 Yala were produced under the self seed paddy production programme.

A number of programmes were implemented to increase the post harvesting technology of rice production and thereby increase the productivity in the paddy sector. Establishment of rice processing villages in major rice producing areas in the country was continued in 2008 to uplift the income of the rural farming sector producing high quality rice using technologies developed by the Institute of Post Harvest Technology (IPHT). During the year, 50 model rice processing villages were initiated in districts which recorded the highest harvests. The IPHT also continued the rice mill modernisation programme in 2008, and 292 rice millers in different parts of the country were trained. With the assistance of IPHT, under the programme of the development of rice flour processing industry and popularisation of rice based products in Sri Lanka, 70 new rice flour processing units were established in 2008 and 65 existing plants were modernised.

Both Pelwatta and Sevanagala factories together produced 37,988 metric tons of sugar in 2008 recording a 29 per cent increase compared to the previous year. The increase of the production in 2008 compared with decline in production in 2007, was due to the strategies implemented by the factories to increase the extent of plantation and Yield Per Hectares (YPH), by undertaking the field preparation for cultivation and providing fertiliser and technical advice. However, the production in 2008 was yet only sufficient to meet around 7 per cent of the total annual sugar consumption of the country. With the objective of producing 50 per cent of the sugar requirement of the country by 2015, the government is now planning to make available lands for private growers so that they could cultivate 90,000 acres of sugar cane in the areas of Kahatagasdigiliya, Uva Wellassa and Bibila. Meanwhile, the use of residue of sugar cane to generate electricity helped reduce the overheads of the above factories and the waste was used to manufacture bio fertiliser.

The Sugar Research Institute (SRI) developed a new Spaced Planting Technique and recommended it to the local sugar companies. A substantial reduction of the cost of planting materials i.e., around 70 per cent is expected to be achieved through the adoption of this new planting technique. During the year, SRI developed two new high yielding commercial sugar cane varieties which are superior to standard commercial varieties being used presently.

Forestry

In 2008, the Department of Forest continued several projects to develop the forestry sector with the assistance of government, foreign development partner agencies and the private sector. Accordingly, the Forest Resources Management Project (FRMP), among other projects, was implemented to promote the activities of forest maintenance and management, and reforestation. Accordingly, a new extent of 720 hectares was reforested and 2,332 hectares of young plantation was maintained while successfully completing the survey and demarcation of forest boundaries of 11,200 kilometres as targeted. Further, the department strengthened its activities on conservation of natural forests by ceasing all felling in forests such as Sinharaja, Nakals, Dediyagala, Nakiyadeniya and Kanneliya. It also encouraged the community participation in environmental protection by managing woodlots and developing home gardens of a total extent of 642 and 1,200 hectares, respectively. During the year, the number of private commercial forest plantations also increased by 3 per cent to 524 hectares.

Fishing

The annual fish production reached the highest ever level of 319 million kg in 2008 recording an increase of 10 per cent. About 8.7 of this increase was contributed by the marine sector and 15.9 per cent was from inland and aquaculture sector. Of the increase in the marine sub-sector, the most notable growth was recorded in off shore/deep sea fish production with a 6.6 per cent rise due to the encouragement of fishers on off shore fishing operations through providing of information on fishing grounds, and the increase of fishing operations in the East coast. The coastal production indicated a higher increase of 10.1 per cent due to favourable weather condition as well as increase of fishing in the East due to the quick resettlement of Internally Displaced Persons (IDPs). The inland water fish production showed an increase of around 23 per cent and seasonal tank production achieved a 10.9 per cent increase, mainly due to proper management of the water bodies with community participatory programmes and increasing fingerlings stockings. The increasing trend in the market prices of fish, which prevailed in the first half of 2008 mainly due to shortage in supply in the face of increasing cost due to high oil prices, started to decline in the second half of the year with the increased supply due to improved fishing operations in the Eastern Province. Meanwhile, the shrimp farming industry showed a 38 per cent decline in production mainly due to White Spot Disease. The high maintenance cost of water treatment with chlorine for disinfections and higher fuel cost also affected the prawn farming industry.

Table 2.5 **Fish Production**

Metric Tons '000

Sub-Sector	2007(a)	2008(b)
Marine (c)	253	275
Aquaculture and Inland Fisheries	38	44
Total	291	319

(a) Revised
(b) Provisional
(c) Coastal and deep sea sector

Source: Ministry of Fisheries and Aquatic Resources

NATIONAL OUTPUT AND EXPENDITURE 2

Several projects initiated to increase the fish production showed satisfactory progress in 2008. Accordingly, the construction of three new fishery harbours at Hambantota, Ambalangoda and Chilaw were completed. The preliminary work such as land acquisition, possession of the land, and signing of the financing agreement related to Dikkowita Fishery Harbour was completed. Once completed, the Dikkowita harbour will be the largest fully equipped harbour with landing, mooring and shore based facilities to cater to the needs of deep sea fishing vessels which can gain more access to foreign vessels, thereby leading to new opportunities for the growth of the tuna fishing industry. Construction of the fish market complex at Peliyagoda was commenced at the end of the year. This new market complex will facilitate the handling of 500 metric tons of fish per day, with adequate facilities for wholesale and retail trade and distribution of fish under modern standards. Under the ice plants and clod chain development program, 11 containerised ice plants with 10 metric tons of daily production capacity were established and production was commenced in 2008. In addition, 12 containerised cold rooms with the capacity of 10 metric tons were established. Further, a Satellite based fishery forecasting system was in progress, targeting to identify potential fishing zones for multi-day boats.

The Budget 2009 introduced a number of measures to enhance the production and productivity of the agriculture sector. Several measures were introduced to increase the production in the forthcoming Maha season, which included the introduction of a new Cess on certain imports, changes to existing Cess rates, and a 5 per cent Cess on wheat flour, and a 15 per cent Cess on other types of imported grains in order to encourage the use of rice and other grains throughout the country. The imposition of a 25 per cent Cess on imported maize was expected to encourage the local maize farmers. The increase of import duty on wheat grain to 10 per cent was also expected to encourage the consumption of rice and other grains. The Special Commodity Levy (SCL) on potatoes was increased from Rs. 15/- to Rs. 20/- per kg to encourage the local potatoes farmers. In line with the government plan to increase the current level of fruit production to one million tons by 2010 so as to meet domestic requirements and export demand, the existing Cess rates on selected categories of imported fruits were increased by substantially high rates.

The fertiliser support scheme was continued by the government in 2008 inorder to stimulate the agricultural renaissance in the country. This was continued despite worldwide fertiliser prices increasing to Rs. 6,000 per 50 kg bag during the year. All varieties of fertiliser were made for paddy cultivation at Rs. 350 per bag of 50 kg while smallholders owning less than 5 acres of tea, rubber lands were provided urea at a concessionary rate of Rs. 1,200 per 50 kg bag. The value of this incentive package amounted to Rs. 26 billion in 2008. Budget 2009 also allocated funds to provide fertilizer for farmers who use organic fertiliser and material such as hay, with three 50 kg bags of fertiliser per acre under a guarantee issued by farmers' societies, on the condition of the cultivators selling a part of their paddy to the government, so as to ensure the repayment of the fertiliser cost which is due from them. It is envisaged that this system would ensure that farmers, who need fertiliser for cultivation but are unable to purchase due to financial difficulties, will be able to carry out their cultivation processes, uninterrupted.

In line with the national agricultural policy launched in 2007, the Ministry of Agriculture Development and Agrarian Services (MADAS) took several measures in 2008 to increase agriculture productivity, assure sustainable agricultural development, ensure national food and nutrition security, popularise the improved technologies for agriculture and improve Agro based industries. In that regard, a National Seed Council was established in 2008 under the Seed Act No. 22 of 2003 and awareness programmes were conducted in the theme of "from village to village" and "from house to house", thereby promoting home gardening, while special projects for cultivating fallow paddy lands in wet zones and projects for promoting production and utilization of organic manure were also implemented. A project for conservation of soil at selected locations for planting was also in progress under the purview of the Department of Agriculture.

In the horticulture sector, several hybrid varieties were introduced during the year. For this purpose, DOA implemented a number of research and development projects, extension services, seed production and quality improvement programmes. For the purpose of improving quality and productivity of the horticultural crop sector, two new hybrid varieties of tomato, *'Bhathiyaa and Maheshi'*, and one variety, i.e. *KC-1* tolerant to high ambient temperature with a higher yield were released. To improve productivity of the other field crop sector, a high yielding chilli variety suitable for both green and dry chilli production, with a potential yield of 12-15 tons per hectare and 3 tons per hectare of green and dry chilli, respectively were released. A short-term (65-70 days) black gram variety *"Anuradha"* was also released for general cultivation.

The livestock sector which mainly consists of the dairy and poultry industries, recorded a moderate performance during the year. It has been estimated that total neat cattle milk production has grown by 1.6 per cent to 172.4 million litres in 2008, of which the production of National Livestock Development Board (NLDB) has shown a remarkable increase to 3.9 million litres compared to 1.8 million litres in the previous year. This improvement was achieved due to the better management practices and upgrading of animals in line with government's strenuous effort to increase the national milk production under the present policy framework which aims at the country to become self-sufficient in milk in the medium term. Moreover, during the year, a policy decision was taken to implement joint venture programmes in NLDB farms with the private sector, while International Dairy Products Ltd. in Polonnaruwa was taken over by MILCO. The penalty for illegal cattle slaughter and transport introduced by Budget 2008 was increased to Rs. 50,000 to promote milk production. In fact, the Budget 2009 also proposed to increase the Special Commodity Levy on imported milk powder from Rs. 5/- to Rs. 15/- per kg, and allocated funds to assist institutions which are dedicated to eradicating the slaughter of milking cows at rural levels. At present, the total production of milk is still only sufficient for 26 per cent of national milk requirement at the current per head consumption of 110 mili litres per day. This situation clearly indicates and confirms the importance of diverting resources to domestic milk production on a priority basis. Further, during the year, the price paid to the producers was increased by around 40 per cent, to Rs. 29.50 per litre thus encouraging the domestic dairy farmer to bring milk to the collection centres.

Table 2.6 **Livestock Sector Statistics**

Sub-Sector	2007(a)	2008(b)
1. National Herd (No.) (mn)	1.5	1.5
Neat Cattle	1.2	1.2
Buffalo	0.3	0.3
2. National Milk Production (mn litres)	202.0	208.1
Cow Milk	169.7	172.4
Buffalo Milk	32.3	35.7
3. Milk Products (mn litres)	12.1	13.5
4. Producer Price - Cow Milk (Rs./litre)	21.00	29.53
5. National Egg Production (No) (mn)	915.6	1039.8
6. National Poultry Meat Production (mt '000)	100.1	101.5

(a) Revised
(b) Provisional

Source: Ministry of Livestock Development

Several development programmes were implemented by the Department of Animal Production and Health (DAPH) in 2008 in line with the government policy on the quick development of the dairy sector in Sri Lanka. Under the Livestock (Dairy) Breeding Project, aimed at cattle population in the country, strengthening and maintenance of artificial insemination centres, and implementation of artificial insemination service, natural breeding programmes and pasture development were carried out. Under the Heifer Calf Rearing Project, 8,778 improved female heifer calves were distributed among farmers. In addition, new veterinary investigation centres (VICs) were established in Hambantota, Kegalle, Matale, Nuwara Eliya, Ampara, Trincomalee and Homagama with a view of ensuring institutional support for the livestock farming community.

In 2008, Poultry meat production registered a marginal increase of 1.4 per cent to 101,500 metric tons, mainly due to decreased demand as a result of the increased cost of production which was in the range of Rs. 197-225 per kg as against Rs. 172-190 during the last year as a result of the increased prices of animal feed ingredients, both imported and local.

Box 3

Dairy Development under the Agro-Livestock Development Loan Scheme

The development of the dairy sector on modern lines in Sri Lanka will increase the value added, generate income earning opportunities for the rural poor, diversify the domestic agriculture and spawn agro-based cottage industries. A pre-requisite for a developed dairy sector is the use of high bred milch cows, availability of nutritious cattle fodder and an effective markeing system for the sale of its output.

Although the consumption of dairy products has risen substantially with the increase in incomes, the domestic dairy industry had not grown in tandem with the rising demand. In general, about less than a quarter of the total milk requirements has been domestically sourced. On account of the paucity of widespread refrigeratio services, all imports of milk products have principally been in the form of dried milk powder.

Some recent surveys have identified the following constraints to dairy sector development in the country:

- Low milk yield of milch cows.
- Uneconomical farm gate price of milk, compared to high cost of production.
- Poor extension services and inadequate knowledge base of dairy farmers of animal health requirements.
- Absence of new investments in the dairy sector due to low net incomes.
- Poor marketing options available and inadequate milk processing facilities.
- Failure to update the technology including the development of a proper collection network.
- Unchanged consumer taste for milk powder and not for fresh milk and milk products.

As prices of powdered milk imported from abroad were kept at a relatively low level prior to 2007, there was no special incentive for investment in the domestic dairy sector in Sri Lanka. However, the commodity price inflation experienced in 2007 saw a rapid rise in the prices of imported milk powder in the domestic markets and provided a window of opportunity for dairy development making the domestic dairy industry competitive in terms of new prices. Yet, such investments could become sustainable only if the productivity of the sector improves, because, the normal tendency of commodity price bubbles is for the price increases during a certain cycle to reverse in the next cycle.

The Government, on the advice of the Central Bank, introduced a special credit package for the dairy sector in the Budget for 2008. This scheme was launched under the name of the Agro-Livestock Development Loan (ALDL) Scheme in April 2008. Under this scheme, Rs.5,000 million is to be disbursed by Participating Financial Institutions (PFIs) for small dairy projects and for milk and crop processing industries. PFIs disbursing such funds at concessionary interest rates become eligible for interest subsidy payments. The main features of the loan scheme are summarized in the Table B 3.1.

An important feature of this loan scheme is that it is not limited to addressing the credit constraint alone. The marketing problems and lack of liquid milk processing facilities too are addressed by financing along the whole value chain of the dairy industry; funding dairy processors as well as dairy farmers. The requirement imposed on processors to purchase the output of dairy farmers under Forward Sales Contracts (FSCs) further ensures a steady market to the dairy farmer. The provision of loan facilities for small dairies has been made conditional on the adoption of good animal husbandry practices as veterinary surgeons of the Ministry of Livestock Development are required to recommend each loan application.

The scheme also addresses the constraints relating to poor extension services. For this purpose, PFIs are required to organize awareness programmes for dairy farmers using the services of veterinary surgeons as resource persons. The topics to be discussed include, animal food and animal nutrition, animal diseases, artificial insemination, proper care of calves, production of good quality milk, dairy farm management, generation of bio-gas etc. The cost of resource persons is reimbursed by the Central Bank to PFIs under the project. Further, the payments to veterinary surgeons by PFIs for field inspections are also reimbursed. In order to improve the dairy stock and enhance the productivity of animals, Livestock Development Instructors (LDIs) of the Ministry of Livestock Development receive an incentive payment for artificial inseminations. LDIs are also paid for installation of bio-gas tanks and initiating the cultivation of fodder.

Table B 3.1 : Salient Features of the ALDL scheme

Eligible Activities	Maximum Loan Size Rs.	On-lending Interest	Interest Subsidy	Requirement for Eligibility	Maximum Repayment Period-Years
• Construction of cattle sheds • Purchase of cows • Purchase of concentrated feed, veterinary services & drugs etc. • Cultivation of animal fodder. • Purchase of vehicles for transportation of fodder to farm • Construction of bio-gas tanks • Any other requirements recommended by veterinary surgeons	400,000	12 per cent	8 per cent		5
Processing of liquid milk and production of milk based products	300 mn	14 per cent	5 per cent	Entry into Forward Sales Contracts (FSCs) to purchase the output of 1,000 to 10,000 dairy farmers	5
Agro-based and agro-related processing industries	300 mn	14 per cent	5 per cent	Entry into FSCs to purchase the output of 1,000 to 10,000 farmers	5
Enhancing storage facilities in the processing industry	300 mn	14 per cent	5 per cent	Entry into FSCs to purchase the 1,000 to output of 10,000 dairy farmers/ farmers	5

Despite the increased cost of production, the egg production increased substantially by 14 per cent in 2008.

During the year, a number of policy decisions were taken by the Department of Animal Production and Health to ensure that Sri Lanka is free of the highly pathogenic "Avian Influenza", the bird flu. The samples collected under the National Surveillance Programme, which was implemented during the year against the bird flu, found no evidence of the virus of Avian Influenza (i.e., H5 H7) in Sri Lanka. Most advanced diagnostic techniques, *Rapid Real Time PCR*, were established during the year at the Veterinary Research Institute (VRI) facilitating the quick laboratory diagnosis of *Highly Pathogenic Avian Influenza* (HPAI) within a short period of six hours. Further, a decision was taken to make payments of compensation for poultry owners in the event of *"Avian Influenza"* outbreaks in Sri Lanka.

In order to improve the productivity and increase the output in the agriculture sector, further emphasis is needed in a number of areas. Productivity can be enhanced through the promotion of improved water management technologies such as the introduction of drip irrigation and poly tunnels and also adopting advanced technologies such as usage of hybrid varieties and genetically modified crops while encouraging the extension services among the workforce to improve their skills. The higher labour participation in some sectors such as paddy and other grain agriculture has hindered the marginal labour productivity (MLP) in the country. Hence, MLP can be increased by switching excess labour to other sectors thereby managing human resources more effectively. For this purpose, it is a prerequisite to migrate from subsistence agricultural practices to commercial agricultural practices, by promoting combined farming and corporate sector farming. This could be done by strengthening the role of farmers' co-operatives/unions and also by intensifying mechanisation. Further, it is necessary to put in place, sufficient infrastructure such as a mechanism to maintain buffer stocks and also proper marketing systems in order to benefit from the productivity improvement. The popularisation of integrated farming (for example, coconut cultivation combined with rearing animals), inter-cropping (for example; pineapple, cocoa and cinnamon in coconut lands) are also important practices to adopt and implement. In order to do so, private sector investment may be encouraged to develop state owned farms and plantations through long-term management contracts to uplift the standards of the farms/estates and also to improve the post-harvest techniques by promoting value addition industries, such as food processing.

Industry

The value added of the Industry sector grew by 5.9 per cent compared with 7.6 per cent growth in the previous year. All four sub-sectors, mining and quarrying, manufacturing, electricity, gas and water and construction contributed positively towards this growth. The share of the Industry sector decreased marginally compared to the previous year from 28.5 per cent to 28.4 per cent of the GDP. This was mainly due to the decline in the share of the manufacturing sub-sector which composed of processing, factory industry and cottage industry, from 17.7 per cent to 17.5 per cent. The share of the electricity, gas and water sub-sector also decreased marginally from 2.5 per cent in 2007 to 2.4 per cent in 2008.

The factory industry which contributes around 55 per cent of the total industrial sector output grew by 5.0 per cent in 2008 compared to the 6.7 per cent growth in 2007. The growth is mainly attributed to the expansion in five major categories namely; food, beverages and tobacco products; textile, wearing apparel and leather products; chemical, petroleum, coal, rubber and plastic products; non-metallic mineral products and fabricated metal products, machinery; and transport equipment. The performance of the factory industry

Table 2.7 **Value Added in Industry (2002 Constant Prices)**

Category	Rs. million		Rate of Change %	
	2007	2008(a)	2007	2008(a)
1. Food, beverages and tobacco products	166,101	174,794	6.6	5.2
2. Textile, wearing apparel and leather products	84,603	87,215	7.3	3.1
3. Wood and wood products	1,061	1,085	3.4	2.3
4. Paper products, publishing and printing	1,503	1,565	8.5	4.1
5. Chemical, petroleum, rubber and plastic products	55,140	58,650	6.6	6.4
6. Non-metallic mineral products	14,547	15,306	6.3	5.2
7. Basic metal products	930	958	2.6	3.0
8. Fabricated metal products, machinery and transport equipment	30,011	31,702	5.8	5.6
9. Manufactured products not elsewhere specified	1,715	1,940	9.7	13.1
Total	355,611	373,215	6.7	5.0

(a) Provisional Source: Department of Census and Statistics

decelerated in 2008, mainly due to recessionary conditions in major export destinations, erosion of competitiveness due to the relatively high cost of production including wages, power, fuel and interest cost, as well as relatively slow domestic demand due to continued tight monetary policy.

Both export and domestic market oriented industries played a dominant role in achieving the factory industry output in 2008. The private sector factory industries, both the Board of Investment (BOI) and Non-BOI, accounted for 97 per cent of the factory industry output, while the balance was contributed by the public sector industries.

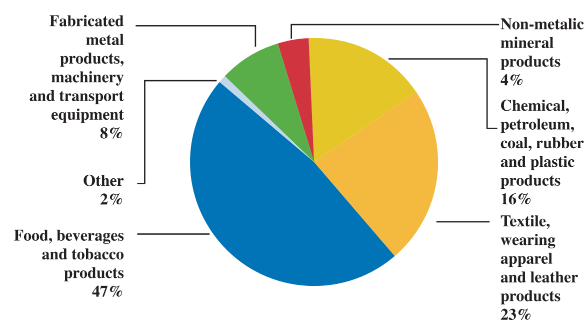
The performance of the export oriented industries weakened particularly towards the latter part of 2008 mainly due to the unfavourable global economic and market conditions and stiff competition from low cost manufacturing countries such as China, India, Bangladesh, Vietnam and Cambodia. However, export oriented industries continued to receive benefits under Free Trade Agreements (FTAs) and the Generalised System of Preferences (GSP+), which facilitated to alleviate the adverse impact on exports. Differentiating products by maintaining high quality and attractive designs, supplying products on time, focusing on different market segments, enhancing productivity and adopting cost reduction measures, were the major strategies used by industrialists to maintain their competitiveness in export markets. The government and respective institutions also supported to promote export oriented industries.

Among export oriented industries, the textile, wearing apparel and leather products category recorded a slower growth of 3.1 per cent in 2008 compared to the 7.3 per cent growth recorded in 2007. This slower growth was mainly due to the decelerated demand in export markets driven by economic downturns mainly in the USA and the EU, and high competition from low cost producing countries amidst domestic cost pressures. With the intensification of the global crisis, there have been requests for price reductions and major buyers have been cautious in confirming forward orders. In this environment, even the major players of the apparel industry have moved to merge their operations and reduce overtime costs and wage bills in order to remain competitive in the industry. The uncertainty in the EU market somewhat eased, owing to the retention of the GSP+ duty concession for a further three years from 2009.

The apparel manufacturers have taken several measures to face future challenges of the industry. The major players in the industry have introduced green eco-friendly manufacturing mechanisms in response to popular global market developments. These mechanisms consist of a global benchmark for low energy consumption, water conservation, solid waste management and low carbon emissions. The MAS Institute of Management Technologies (MIMT) was opened in the MAS Thulhiriya Textile Zone during the year with the aim of providing employment oriented training to rural youth on Information Technology (IT), textile processing and sewing machine operations. The pioneers of the apparel industry focus to expand their factories to neighbouring countries as well, and initially, an apparel manufacturing factory was established in India in 2008. Further, a major apparel manufacturer of the country received ''Platinum Rating" under the Leadership in Energy and Environmental Design (LEED) Green Building Rating System of the US Green Building Council (USGBC) in 2008 for green manufacturing. The "Garments without Guilt" global brand promotion campaign won the prestigious Asian Marketing Effectiveness Award, and under this brand promotion apparel manufacturers differentiate Sri Lankan apparel products as ethically manufactured products in the international market.

The growth of food, beverages and tobacco products category decelerated to 5.2 per cent in 2008 against 6.6 per cent growth recorded in 2007 which was reflected in the performance of all major sub-categories. This deceleration was mainly due to the high cost of production including escalated cost of power and fuel and increased cost of imported raw materials driven by international food crisis and decreased domestic demand. However, milk based industry has registered a healthy growth in 2008 due to the measures taken by the government to increase milk production by carrying out projects of grass cultivation, disseminating technical knowhow, importing milk cows, providing financial assistance and price control on imported milk powder and increased private sector investment in the dairy industry. Meanwhile, a major player in the processed food manufacturing industry took steps to open a factory in India in order to increase its exposure in overseas markets. Introducing new products and brands in line with consumer preferences and health, promoting value added products for all market segments, strengthening the distribution network, and widening the sales outlets were the major initiatives taken by the industries of this category during 2008.

Chart 2.3 Composition of Value Added in Industry - 2008 (2002 Constant Prices)



The chemicals, petroleum, coal, rubber and plastic products category grew by 6.4 per cent in 2008 against the 6.6 per cent growth recorded in 2007. Tyres and gloves, which are the major industries in this category, supply a range of quality products to both international and domestic markets. The tyre industry was adversely affected by the decreased international demand as a result of poor performance of the automobile industry in the main industrial countries. However, the manufacturers in the tyre industry used modern manufacturing technologies and techniques to supply quality products and after sales services to the customers. Meanwhile, footwear manufacturers introduced a range of products with various styles focusing youth and kids. Plastic and paint industry also introduced a new range of products to fulfill customer preferences and expand the export market.

The growth of non-metallic mineral products slowed down to 5.2 per cent in 2008 compared with 6.3 per cent growth in 2007. The performance of the cement industry, a major industry in this category, was affected by the high cost of raw materials and the deceleration of private sector construction activities. Expected improvement in infrastructure facilities such as power generation, port, airport, roads and highways, and anticipated rehabilitation and reconstruction activities in the Northern and Eastern Provinces, are expected to enhance the production in cement and building material industries. The newly established cement plant in Trincomalee as well as the Kankesanthurai cement factory which is to be reopened are expected to support the cement demand in the Northern and Eastern Provinces. The output of the ceramic industry slowed down, mainly due to the high cost of production arising from increased raw material and energy costs; decreased demand for wall tiles from the construction sector and low demand of tableware from the EU and the USA. Major players of the tableware industry focused on the Indian market, especially hotels and restaurants, to offset possible losses arising from the reduction in orders from the EU and the US markets. The wall tile industry has introduced the “Wood Gasification” energy saving method to reduce the cost on fuel. Despite the global economic recession, the diamond processing industry recorded better performance in 2008 due to aggressive marketing campaigns. However, the gem and jewellery industry was adversely affected by the downturn in global demand from the EU and the US markets and the industry has focused on penetrating other markets such as China, India, Russia, Turkey and Middle East.

The fabricated metal products, machinery and transport equipment category registered 5.6 per cent growth in 2008 against 5.8 per cent growth in 2007. The growth of this category was mainly supported by ship building and repairing industry, electric and electronic products, cables and wires, automobile spare parts and assembling industries, switches and bulb manufacturing and aluminium industry. In particular, ship and boat building and repairing industry played a major role in the output of this sector, recording a remarkable performance during 2008 by supplying large and medium vessels and boats to both domestic and international markets. The Ministry of Fisheries and Aquatic Resources has also taken several initiatives to strengthen the boat building industry through Public Private Partnerships (PPP).

The growth of the public sector industries which is measured by the Public Sector Industrial Production Volume Index decreased by 1.4 per cent in 2008. The output of CPC which accounts for more than 90 per cent of the public sector industrial output declined by 1.3 per cent in 2008 due to the planned closure of the oil refinery for routine maintenance work in February 2008.

The average ex-factory profit ratio of the Non-BOI industries was affected by high cost of production and decelerated demand in both export and domestic markets. The ex-factory profit ratio decreased by 1.1 per cent in 2008 compared with 1.4 per cent increase in 2007. This decrease was reflected in all the major categories such as textile, wearing apparel and leather products; non-metallic mineral products; food, beverages and tobacco products and chemical, petroleum, coal, rubber and plastic products categories mainly due to increased cost of production with respect to power and fuel, increased raw material cost and

Table 2.8 **Ex - Factory Profit Ratios of Non - BOI Private Sector Industries (a)**

Category	Total Cost of Production (Rs. million)		Total Value of Production (Rs. million)		Factory Profit Ratio (percentage)	
	2007(b)	2008(c)	2007(b)	2008(c)	2007(b)	2008(c)
1 . Food, beverages and tobacco products	107,318	118,901	126,035	139,330	14.9	14.7
2 . Textile, wearing apparel and leather products	28,005	30,995	32,209	35,484	13.1	12.7
3 . Wood and wood products	2,103	2,372	2,392	2,695	12.1	12.0
4 . Paper products, publishing and printing	6,917	7,682	7,906	8,775	12.5	12.5
5 . Chemical, petroleum, coal, rubber and plastic products	52,232	60,573	61,850	71,640	15.6	15.4
6 . Non-metallic mineral products	31,515	36,904	37,012	43,212	14.9	14.6
7 . Basic metal products	3,453	3,854	4,013	4,485	14.0	14.1
8 . Fabricated metal products, machinery and transport equipment	19,974	23,107	23,240	26,941	14.1	14.2
9 . Manufactured products not elsewhere specified	4,209	4,732	4,788	5,378	12.1	12.0
Total	255,726	289,119	299,445	337,940	14.6	14.4

(a) Based on information received from 510 non-BOI private sector firms
(b) Revised
(c) Provisional

Source: Central Bank of Sri Lanka

interest cost. The profit ratio in the industrial sector was estimated on the basis of the excess of ex-factory value of production over the total cost of production of 510 non-BOI firms surveyed in 2008 by the Central Bank.

The share of wage bill as a percentage of total cost of production of the factory industry increased by 1.6 per cent in 2008, same as the increase recorded in 2007. Many industries increased their employees' salaries and wages by a fixed amount or on the basis of the increase in CCPI in 2008. Several measures were taken by firms to minimise the wage pressure by increasing labour productivity, introducing new technologies, outsourcing of possible support services, maintaining performance based payments, and redeploying the existing work force. In 2008, the share of power and fuel and raw material as a percentage of total cost of production of the factory industry, increased by 7.5 per cent and 1.2 per cent, respectively.

The industrial sector has benefited by several special programmes initiated by the government through the line Ministries and respective institutions, particularly those that have been designed to encourage regional industrialisation. Special programmes such as *"Nipayum Sri Lanka"*, *"Gamata Karmantha"* and *"Nagenahira Navodaya"* were initiated by the government to facilitate regional industrialisation. As at end 2008, under the *"Nipayum Sri Lanka"*, managed by the BOI, 57 new industries were established, 17 sick industries were revived, and 4 industries were expanded while approval was granted for 4 industries to relocate outside Colombo and Gampaha districts.

The government either imposed or increased Cesses on several imports from the Budget 2009 to facilitate and promote domestic industries. In order to encourage the utilisation of local raw rubber in rubber based manufacturing industries, a Cess of Rs. 25 / kg was imposed on imported latex rubber. To encourage local maize producers, a Cess of 25 per cent was imposed on imported maize and animal feed applicable to all importers including those in the BOI enterprises. Further, a 5 per cent Cess was imposed on paper imports to encourage domestic paper products by making commercially viable the products of two paper factories in Embilipitiya and Valaichenai which have been modernised. A 15 per cent Cess on furniture imports and a Cess of Rs. 200 / kg on imported leather products were also imposed in order to facilitate domestic industries. Further, to facilitate the ceramic-ware industry, confectionery industry and domestic electrical goods manufacturing industries such as fridges and fans, the Cess on such industrial imports was increased by 50 per cent. Meanwhile, initiatives have been taken to implement regulatory standards on confectionery items to ensure that they do not contain melamine. A Cess of Rs. 10/kg has been imposed on imported salt to promote local salt production to reach self-sufficiency.

Table 2.9 Domestic Cost Structure of Non - BOI Private Sector Industries (a) (As a percentage of total cost of production)

Category	Power & Fuel		Wage		Raw Material		Interest	
	2007	2008	2007	2008	2007	2008	2007	2008
1. Food, beverages and tobacco products	3.7	4.1	10.3	10.5	39.8	40.1	1.5	1.8
2. Textile, wearing apparel and leather products	4.9	5.4	15.3	15.4	13.2	13.6	2.6	3.0
3. Wood and wood products	9.5	10.0	16.2	16.5	33.0	33.3	4.4	4.8
4. Paper products, publishing and printing	4.4	4.8	13.1	13.2	19.6	19.8	3.6	3.9
5. Chemical, petroleum, coal, rubber and plastic products	6.9	7.5	13.5	13.8	30.7	31.2	3.8	4.2
6. Non-metallic mineral products	20.7	21.6	15.0	15.4	29.4	29.8	3.6	4.1
7. Basic metal products	10.2	10.6	11.2	11.3	36.0	36.5	2.6	2.8
8. Fabricated metal products, machinery and transport equipment	5.4	5.9	12.4	12.8	27.0	27.4	4.3	4.7
9. Manufactured products not elsewhere specified	5.5	5.9	12.1	12.3	34.5	34.8	1.6	1.9
Total	6.7	7.2	12.5	12.7	32.8	33.2	2.6	3.0

(a) Based on information received from 510 non-BOI private sector firms

Source: Cetral Bank of Sri Lanka

The Budget 2009 has provided further assistance to promote domestic industries especially Small and Medium Enterprises (SMEs). As a measure of encouraging the dairy industry, the Special Commodity Levy on imported milk powder was increased from Rs. 5/- to Rs. 15/- per kg. Further, in order to encourage the local sugar industry and sugar cane cultivation, the Special Commodity Levy on imported sugar was increased from Rs. 14/- to Rs. 16/- per kg. Raw materials such as copper and silver were also exempted from import duty and VAT to reduce the cost of production of local entrepreneurs. Meanwhile, initiatives have been taken to promote the concept of “One Village - One Crop” and “Agro Exporting Zones” with the aim of promoting regional industrialisation.

Table 2.10 Labour Productivity Index in the Non-BOI Private Sector Industries (a)

1995 =100

Category	2007	2008	Change (%)
1. Food, beverages and tobacco products	139.2	142.4	2.3
2. Textile, wearing apparel and leather products	121.9	125.7	3.1
3. Wood and wood products	108.3	111.0	2.5
4. Paper products, publishing and printing	108.9	111.4	2.3
5. Chemical, petroleum, coal, rubber and plastic products	150.2	155.4	3.5
6. Non-metallic mineral products	120.2	122.7	2.1
7. Basic metal products	107.5	109.6	2.0
8. Fabricated metal products, machinery and transport equipment	131.7	135.8	3.1
9. Manufactured products not elsewhere specified	117.0	120.3	2.8
Total	127.9	132.1	3.3

(a) Based on information received from 510 non-BOI private sector firms

Source: Central Bank of Sri Lanka

The Ministry of Industrial Development (MID) which is the implementation institution of the government’s industrial development policy, played a major role in developing the industrial sector. Under the *“Gamata Karmantha”* programme, the MID has already approved 119 industries as at end 2008 of which 35 industries are currently under commercial operation, and 17 industries have started construction work, 14 industries have started installation of machinery, and 17 industries have initiated their preliminary work. Under the *“Nagenahira Navodaya”* Eastern Province development programme initiated by the MID and the BOI, approvals have been given for 35 projects, agreements have been signed for 11 projects and 4 projects are in operation. The Regional Industrial Development Programme which is another project implemented by the MID, has helped to reduce the disparity of infrastructure facilities among regions with the development of 23 Industrial Estates throughout the country. Further, in 2008, the development work of the Puttlam Industrial Estate was completed while Buttala, Kappalthurei, Embilipitiya, Galigamuwa, Pallegodawatte, Madampe, Ulpane (Stage II) and Horana Industrial Estates continued to facilitate the industrial sector. Meanwhile, new sites have been identified to set up Industrial Estates at Kahatagasdigiliya and Ipalogama. The Sri Lanka Institute of Nano Technology (SLINTec) was established by the Ministry of Science and Technology with the participation of the private sector to conduct research to facilitate the industrial sector. As an extension of this project, preliminary steps have been taken to establish the first Nano Technology Park at Homagama.

The BOI and Export Development Board (EDB) which are the facilitating agencies for investment and export promotion, provided their assistance to attract investment from both foreign and domestic sources and promoted industries focusing on export markets. The BOI has identified four lands to be developed as new Investment Promotion Zones in Trincomalee, Puttalam, Hambantota and Ampara in line with the regional development policy of the government. Initial work of new zones has already commenced in Trincomalee and Puttalam. In addition, steps have been taken by the BOI to establish an Investment Zone for waste processing at Meepe on PPP basis to accommodate investors. Further, initial work has commenced to establish a Knowledge City at Henegama, and an IT Park at Malabe, adjoining the Sri Lanka Institute of Information Technology (SLIIT). Initiatives have also been taken by the government through the BOI to establish 12 Special Economic Zones and Textile Processing Zones and it has also organised Township Development Programmes with the purpose of developing rural areas. The EDB has carried out special programmes for promoting export oriented SMEs, by providing trade facilities and organising special regional development programmes. Further, provincial export development programmes were conducted by the EDB for skills and entrepreneurship development, product and quality upgrading, improving exposure in foreign and local markets, consultancy and counselling, provision of trade information and e-commerce services.

The Joint Apparel Association Forum (JAAF) and the National Gem and Jewellery Authority (NGJA) contributed to facilitate the industrial sector performance during 2008. The JAAF, which is a major apparel sector forum, carried out a brand promotion campaign under the theme of "Garments without Guilt" (GWG) in the international market. The JAAF moved to Phase III of this Global Marketing Campaign of GWG with the key objective of bringing the foreign-owned apparel manufacturing companies located in Sri Lanka to the GWG process through BOI and Free Trade Zones (FTZs). Local image building programmes have also been initiated by the JAAF aimed at female workers to create a stable workforce in the apparel industry. The NGJA made arrangements to establish the Gem Testing Laboratory with the participation of the Sri Lanka Gem and Jewellery Association.

The Sri Lanka Chamber of Small Industry (SLCSI) set up a business centre in Chennai to enable SMEs to gain market access under the Indo-Sri Lanka Free Trade Agreement (ISLFTA). A loan scheme for SMEs in the gem and jewellery industry was introduced by the Ministry of Enterprise Development as a joint programme with Lankaputhra Development Bank, National Enterprise Development Authority (NEDA) and NGJA. Meanwhile, special emphasis has been given by the government to promote structured financing, supplying necessary equipment, providing business and market information, training and human resource development with respect to the development of the SME sector. The Ministry of Enterprise Development and Investment Promotion initiated Small and Micro Industries Leader and Entrepreneur Promotion Project III (SMILE III) and Environmentally Friendly Solution Fund II (E-Friend II) with the aim of promoting SMEs in the country.

The major economic impediments such as the global financial crisis, soaring oil prices and high cost of production slowed down the growth momentum of the industrial sector in 2008. High fuel prices directly affected the cost of production of the factory industry and lowered profit margins affecting new investments, and leading to postponement of expansion plans. The export market oriented industries such as apparel, rubber based products, diamond processing and gem and jewellery were adversely affected by the global economic recession due to the decline in demand. Further, increased cost of production driven by high oil prices and increased wages affected export oriented industries, especially the apparel industry which faces stiff competition in the international market. To mitigate these impediments, manufacturing companies in the apparel industry are revisiting their production lines to increase output, by taking all possible measures to improve efficiency, productivity and reducing cost through freezing the headcount, and promoting ethically manufactured and greener products among the buyers and traders. Despite the slowdown in demand in the international market, the subdued inflationary pressures, decline in oil prices and the constant striving for higher productivity are expected to support the continuation of performance in the industrial sector in 2009.

The processing sub-sector, which is based on plantation crops, grew by 5.3 per cent in 2008, compared to the growth of 2.4 per cent in 2007, supported by a positive impact from increased annual production of tea, rubber and coconut. The marginal contraction in rubber production during the second quarter of the year together with the reduction in tea production in the latter part of 2008 limited the expansion of the processing sub-sector.

The growth in the cottage industry sub-sector was 4.5 per cent in 2008, as against the growth of 5.6 per cent in 2007. The slowdown in construction activities contributed to the decline in construction of small scale buildings. Also, handloom and tailoring indicated a deceleration with the decline in the demand by the garment sector. However, increased demand for paddy milling activities emanating from increased paddy production, added a positive impact to the cottage industry sub-sector.

The electricity, gas and water sector recorded a growth of 2.7 per cent in 2008 compared to 4.6 per cent recorded in 2007, with the deceleration in all three sub-sectors. Electricity, which is the largest sub-sector, grew by 3.9 per cent compared to 4.6 per cent in the previous year with generation slowing down to a growth of 0.9 per cent, when compared to a growth of 4.5 per cent in 2007. Hydro power generation increased by 4.6 per cent accounting for a share of 42 per cent of total generation, while thermal power generation contracted by 1.7 per cent. The slowdown in power generation is reflected in the deceleration of demand from domestic and industrial sectors. The commissioning of the Kerawalapitiya power plant during the latter part of 2008 augurs well for the future growth prospects of the sector with increased generation capacity. The value addition in the gas sub-sector contracted by 10.2 per cent against the growth of 2.9 per cent in 2007. This was due to the contraction of 12 per cent in total gas sales with the drop of demand from domestic, industrial and auto gas sectors amidst price pressure which subsided to some extent from November 2008. The water sub-sector grew by 3.6 per cent compared to 7.1 per cent in the previous year with the implementation of new water supply projects and improvements to the existing projects to provide pipe-borne water to a wider network of consumers.

Mining and quarrying sector which recorded a 19.2 per cent growth in 2007 grew by a further 12.8 per cent in 2008. Expansion in both gem mining and other mining decelerated to 8.7 per cent and 14.5 per cent, respectively from previous year's growth rates of 13.0 per cent and 21.9 per cent, respectively. During 2008, gem exports contracted by 1.6 per cent in volume terms compared to the growth of 5.3 per cent in 2007. The expansion in other mining activities were sustained with the demand from the construction sector whilst exports of other minerals increased by 5.9 per cent.

During the first half 2008, the value added contribution of the construction sector expanded by 9.2 per cent, but the growth momentum recorded a lesser figure of 6.6 per cent, during the second half of the year. Hence, the sector grew by 7.8 per cent in 2008 compared to the growth of 9.0 per cent in the previous year. The slowdown in the sector is reflected in the marginal growth of building material imports by 0.1 per cent and deceleration in domestic building material production by 5.5 per cent. Furthermore, cement available for construction activities also contracted by 4.8 per cent during 2008. Public sector investment activities contributed to the growth which included expansion of infrastructure development projects including road development activities with the construction of several flyovers. However, the private sector contribution to the growth of this sub-sector was low due to the increased input prices of construction. The level of bank credit granted for housing purposes also witnessed a contraction of 1.4 per cent compared with

24.7 per cent growth in the previous year. The price indices published by the Institute for Construction Training and Development (ICTAD) indicated a 13.8 per cent increase in overall building material price levels during 2008.

Services

The Services sector which accounts for a share of 59.5 per cent of GDP, grew by 5.6 per cent during 2008 compared to the growth of 7.1 per cent in the previous year. Further, the contribution of the Services sector to the overall growth in GDP also fell by about 6 percentage points to 56.6 per cent. This slowdown mainly stemmed from the deceleration in export trade, transport and financial services activities, particularly in the second half of the year with the onset of the global economic slowdown.

The wholesale and retail trade sector grew by 4.7 per cent, compared to the expansion of 6.1 per cent in the previous year. All three sub-sectors, i.e., import, export and domestic trade, contributed positively to this growth, although the export and domestic trade sub-sectors expanded at a slower rate than in 2007.

Within the import trade sub-sector, the volume growth of investment goods contracted by 3.3 per cent. This was mainly due to the slower growth of imports in the transport equipment category, machinery and equipment category and other investment goods. There was a 4.6 per cent growth in intermediate goods imports in volume terms. Fertiliser imports contributed remarkably to this growth, recording a 35.7 per cent growth. Crude oil imports recorded a contraction of 4.2 per cent whilst import volumes of other petroleum increased by 7.9 per cent. The drop in thermal power generation together with the deceleration in transport activities and relatively high fuel prices are some of the factors which contributed towards this deceleration. Meanwhile, the imports of consumer goods accounted for a share of 15.5 per cent of total imports, and grew by 16.8 per cent accompanied by a growth of 34.6 per cent of imports of the food and drink category both, in volume terms.

The export trade sub-sector recorded a marginal growth rate of 0.9 per cent, compared to the growth of 8.8 per cent in 2007. Industrial exports contracted by 0.4 per cent in volume terms with textile and garment exports recording a growth of 2.5 per cent while other industrial products contracted by 5.4 per cent. This was in sharp contrast to the growth rates of 6.8 per cent and 11.8 per cent recorded by textiles and garments, and other industrial products respectively in 2007. Agricultural exports grew by 3.5 per cent due to the favourable performance during the first eight months of the year. Tea exports which generated foreign earnings over 1.3 billion US dollars, increased in volume terms to 319.7 million kilograms despite the market set-back faced by the industry particularly from September 2008. Mineral exports recorded a contraction of 0.6 per cent during the year mainly due to the drop in gem exports. The volume of rubber exports declined as a result of the decline in global demand.

Domestic trade sub-sector grew by 6.4 per cent compared to the 7.6 per cent growth in 2007. The increased agricultural and industrial output contributed positively to this growth. The remarkable increase of paddy production coupled with the higher production of fish, highland crops, vegetables and fruits made a positive contribution. Trade activities related to domestic market oriented industries such as food, beverages and cottage industry which expanded by over 4 per cent during the year, also contributed to the growth.

Hotels and restaurants sector contracted by 5.0 per cent during the year, over the decline of 2.3 per cent in 2007. This contraction was a direct result of the drop in tourist arrivals by 11.2 per cent due to security conditions that prevailed in the country and the worldwide contraction of travel and leisure activities since September 2008, consequent to the global economic crisis. As a result, tourist arrivals from Western Europe and the Asian region, which usually accounts for around 78 per cent, fell by around 14.0 per cent. A decline in domestic tourism activities was also witnessed.

Transport and communication sector recorded a growth of 8.1 per cent, compared to 10.5 per cent in the previous year. As in the previous year, this sub-sector achieved the highest growth in the Services sector with positive contributions from all three sub-sectors, namely, transport, cargo handling, ports and civil aviation, and post and telecommunication.

The transport sub-sector grew by 6.3 per cent over the growth of 9.3 per cent in the previous year. The slowdown was reflected in railway, and passenger and goods transport sectors recording lower growth rates of 4.7 per cent and 6.4 per cent, respectively, compared to 5.8 per cent and 9.4 per cent in 2007. The slowdown in the transport sector was reflected in the drop of fuel consumption associated with high fuel prices that prevailed during the year and the drop in the registration of motor vehicles with the contraction in the category of vehicles for personal use (motor cars and dual purpose vehicles). Although passenger kilometres operated by the cluster bus companies increased by 2.3 per cent, passenger kilometres operated by Sri Lanka Railways contracted by 2.1 per cent due to the suspension of services to Vavuniya based on security conditions. Rail transport activities were expanded in 2008 with the addition of 15 Diesel Multiple Units. Further, the air travel sub-sector contracted with the total passenger kilometres flown by Sri Lankan Airlines recording a contraction of 6.8 per cent.

The cargo handling, ports and civil aviation sub-sector recorded a growth of 8.0 per cent, compared with the growth of 8.8 per cent in 2007. The slower growth was mainly due to the contraction of international trade activities. The Colombo port, including the South Asia Gateway Terminal (SAGT), handled a volume of 3.69 million Twenty-foot Equivalent Units (TEUs) and recorded a growth of 9.1 per cent. Transshipment volume increased by 11.5 per cent as against the 10.6 per cent increase in the previous year. Improvements in efficiency at terminals contributed towards the growth despite the slowdown of international trade activities during the latter part of the year. During the year, air cargo volumes contracted by 10.6 per cent.

Post and telecommunication sector expanded further by 22.3 per cent in value added terms during 2008 sustaining the growth momentum over 20 per cent for the sixth consecutive year. The fixed access subscriber-base which includes CDMA connections increased by 25.7 per cent to 3.4 million connections during the year. The mobile subscriber-base grew at a higher rate compared to fixed access connections to reach 11.1 million connections, in an environment of price competition amongst the mobile service providers benefiting the customers. But a slowdown in mobile connections was shown with a growth of 38.8 per cent compared to 47.5 per cent in 2007. Consequently, the telephone density, the number of connections per 100 persons, was estimated at 71.9 connections in 2008. Meanwhile, the internet and e-mail usage subscriber-base increased to 234,000 users with a growth of 15.6 per cent.

The banking, insurance and real estate sub-sector expanded by 6.6 per cent over the growth of 8.7 per cent in 2007. It was a challenging year for the financial sector throughout the world with a large number of financial institutions reporting operating losses. The domestic financial sector also recorded lower growths as reflected by the weaker performances of the banking sector. The growth rate of interest income declined with the growth of income from advances and investments in securities falling. Non-interest income also declined, albeit marginally. Further, a slowdown in other financial services was indicated, with the decline in the growth of insurance and leasing activities. Meanwhile, the real estate sector also reported a decline in activities during the year.

Government services sub-sector grew by 5.7 per cent compared to the growth of 6.0 per cent in 2007. Recruitments made to the armed forces mainly contributed to the growth in the government services.

The private services sub-sector recorded a 6.5 per cent growth, compared to the growth of 7.8 per cent in the previous year. The growth in this sector was sustained with the contribution of private health and education services together with other private services. But the growth momentum in the sector slowed down during the second half of the year.

Box 4

Prosperity Index of Sri Lanka - Towards Achieving Balanced Regional Development

The Central Bank of Sri Lanka (CBSL) launched the Prosperity Index of Sri Lanka (SLPI) on the 08th of September 2008. The objective of constructing this index was to measure the level of prosperity achieved by provinces on a comparative basis. Hence, it is a relative measure.

The phrase 'Prosperity of a Nation' connotes the *enhancement of the quality of life of people through sustainable wealth creation coupled with the inclusion of all segments of the society in enjoying the benefits of development*. In this perspective, the ultimate objective of all national policies is to enrich the lives of the people thereby increasing the prosperity of the entire nation.

Sri Lanka established the Finance Commission (FC) as per the requirements of the 13th Amendment to the Constitution, to make recommendations to the President on providing or allocating funds to the Provincial Councils, from the Annual Government Budget to achieve Balanced Regional Development. In allocating such funds, the FC is required to take into account the population of each province, per capita income of each province, social and economic disparities, and differences in the per capita income of provinces.

The FC was in need of a measure that enables it to gain a comprehensive insight into the level of socio-economic progress at provincial level, and make rankings among provinces in terms of socio-economic progress. To facilitate this a measure of relative prosperity of provinces was necessary.

In broad terms, the well-being of people and socio-economic infrastructure facilities that are available for the people, are key components for measuring prosperity of a province or its people. Recognizing this need of measuring comparative provincial standings in relation to some broad measures of prosperity, the CBSL in consultation with the FC developed the Prosperity Index for Sri Lanka.

After having several rounds of discussions and consultations with expert groups and taking into consideration the internationally accepted norms in constructing indices of this nature, the CBSL constructed the Prosperity Index for Sri Lanka incorporating 20 variables. Those variables represent various facets of the lives of the people and were chosen on the basis of availability of data timely and consistently.

Table B 4.1
The Structure of SLPI

Sub-Indices and their contribution to SLPI		Variable
Economy and Business Climate 30%	Economy 20%	1. Per Capita GDP 2. Employment Rate 3. Informal Sector Real Wages 4. People Above Poverty
	Business Climate 10%	5. Per Capita Business Turnover Tax 6. Industrial Density
Well-being of the People 45%	Health 20%	7. Hospital Beds per '000 8. Medical Officers per '00,000 9. Infant Survival per '000 10. Maternal Survival per '00,000
	Education 20%	11. Schools per sq. km 12. Pupil Teacher Ratio 13. Continuation of Secondary Education 14. Pass Rates of GCE O/L and A/L Examinations
	Wealth 5%	15. Ownership of Vehicles
Socio - Economic Infrastructure 25%		16. Per Capita Electricity Usage 17. Telephone Density 18. Banking Density 19. Road Density 20. Law and Order

2

NATIONAL OUTPUT AND EXPENDITURE

The variables incorporated in the index fall into three main sub-indices. These sub-indices, their contribution and the variables in those sub-indices are shown in Table B 4.1. In line with the similar indices in use such as Human Development Index of the United Nations Development Programme (UNDP), all variables in the SLPI have been allocated equal weights in its construction.

The rankings obtained using SLPI enable the policy makers to find out lagging areas of the provinces in a comprehensive context so that more resources could be allocated to address the specific issues that surface thereby preventing unfair distribution and misallocation of resources.

The SLPI rankings can be used for setting up of province-wise targets to be achieved by authorities in those provinces by making comparisons among provinces.

The SLPI can also be used to measure the effectiveness of socio-economic policies, in improving prosperity.

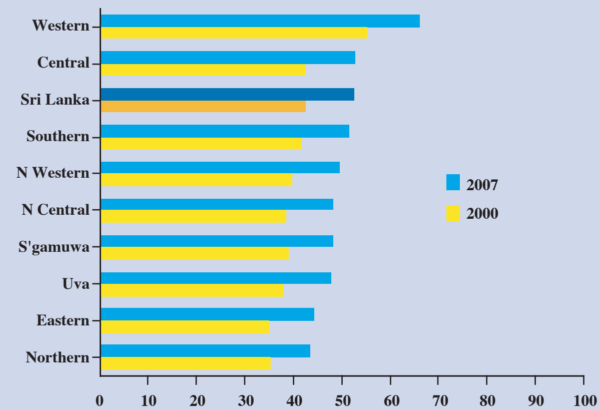
The standings of SLPI by provinces for the period 2000 – 2007 are given in Table B 4.2.

Table B 4.2

Values of SLPI by Provinces 2000 – 2007

Province	2000	2001	2002	2003	2004	2005	2006	2007
Western	55.3	55.5	56.8	57.5	58.3	60.3	63.2	66.1
Central	42.4	44.2	46.2	46.5	47.0	47.8	50.5	52.9
Southern	41.7	42.9	45.1	45.2	44.4	47.5	48.8	51.5
Northern	35.4	37.5	38.1	39.1	39.8	41.8	43.3	43.6
Eastern	35.1	36.5	37.1	37.6	39.3	40.5	41.9	44.2
N Western	39.8	41.2	42.7	43.6	43.9	45.7	47.5	49.4
N Central	38.5	39.5	41.2	42.2	42.0	44.1	45.6	48.4
Uva	38.0	40.3	41.4	41.4	42.9	42.3	45.3	47.8
S'gamuwa	39.1	40.7	41.3	41.7	42.4	43.9	46.1	48.2
Sri Lanka	**42.4**	**43.9**	**45.3**	**45.9**	**46.4**	**48.1**	**50.3**	**52.7**

Chart B 4.1 **Movement of SLPI 2000 & 2007**



The SLPI for 2007 shows that only two provinces have achieved a level of prosperity above the national average. The Northern and the Eastern provinces have scored the lowest, mainly due to the under-performance shown by these two provinces in the Economy and the Business Climate sub-index. Welfare measures widely introduced by the government particularly in the areas of health and education, have reduced the disparities among provinces in the sub-index Well-being of the People. In these areas, it is well known that the achievements of Sri Lanka are well comparable among its peers. What is important in using the index scores is comprehensive analysis of the results of all the sub-indices and the composite index to identify necessary policy interventions and priorities and take appropriate measures relevant to each province to further their prosperity in relation to their previous vertical as well as horizontal positions in the SLPI.

2.3 Expenditure

Gross Domestic Expenditure (GDE) or the aggregate domestic demand in the economy is measured as the private sector and the public sector consumption and investment. In 2008, GDE was estimated at Rs. 5,002 billion in terms of current market prices; indicating a higher nominal growth of 26.6 per cent compared with an expansion of 21.1 per cent in 2007. The increased growth in GDE is attributed to the increase in price levels by 18.2 per cent and growth in real GDE of 7.1 per cent during 2008 as against the price level increase of 14.9 per cent and the real GDE growth of 5.4 per cent during 2007. Both the consumption and investment expenditure contributed to this growth. However, consumption expenditure increased at a higher rate than the growth in investment expenditure. GDP which is the sum of GDE and net exports of goods and services, increased by 23.2 per cent to Rs. 4,411 billion in terms of current market prices.

Consumption

In 2008 total consumption expenditure, consisting of private and public consumption, was estimated at Rs. 3,787 billion at current market prices, recording an increase of 28.4 per cent compared to the expansion of 20.9 per cent in the previous year. Private consumption grew by 27.9 per cent while public consumption grew

Table 2.11 Aggregate Demand

Item	Current Market Prices (Rs.mn)			Constant (2002) Prices (Rs.mn)		
	2006	2007(a)	2008(b)	2006	2007(a)	2008(b)
A. Domestic demand						
Consumption	2,439,816	2,949,712	3,787,438	1,704,633	1,781,906	1,924,807
(% Change)	21.2	20.9	28.4	7.1	4.5	8.0
Gross domestic capital formation	822,240	1,000,320	1,214,808	583,986	630,882	659,850
(% Change)	25.0	21.7	21.4	13.4	8.0	4.6
Total domestic demand	3,262,056	3,950,032	5,002,246	2,288,619	2,412,788	2,584,657
(% change)	22.1	21.1	26.6	8.6	5.4	7.1
B. External demand						
Exports of goods and services	885,381	1,041,935	1,098,376	704,408	756,022	758,972
(% Change)	11.6	17.7	5.4	3.8	7.3	0.4
Imports of goods and services	1,208,757	1,413,278	1,690,056	902,463	936,154	978,129
(% Change)	19.4	16.9	19.6	6.9	3.7	4.5
Net external demand	**-323,376**	**-371,344**	**-591,680**	**-198,055**	**-180,132**	**-219,157**
C. Total demand	**2,938,680**	**3,578,688**	**4,410,567**	**2,090,564**	**2,232,656**	**2,365,500**
(% Change)	19.8	21.8	23.2	7.7	6.8	6.0

(a) Revised
(b) Provisional

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

at a higher rate of 30.6 per cent. The consumption growth was a combined result of the 8.0 per cent expansion in real consumption and 18.9 per cent increase in price levels. The trend of declining Private Consumption Expenditure (PCE) witnessed during the past four years reversed during 2008 with its share as a percentage of GDP increasing to 69.7 per cent from 67.2 per cent in 2007, while the share of government consumption increased from 15.3 per cent to 16.2 per cent in 2008.

The share of expenditure of PCE on food, beverages and tobacco declined to 37.8 per cent in 2008 compared to 41.0 per cent that prevailed in 2007, with a declining growth rate of 18.0 per cent compared to 20.0 per cent in 2007. This decline could be due to the slowing down of the inflationary pressures witnessed during the second half of the year. Expenditure on clothing and footwear grew by 13.7 per cent compared to 2.0 per cent in 2007 in nominal terms. However, the share of this sector continued to decline from 6.4 per cent in 2007 to 5.7 per cent in 2008.

Expenditure on housing, water, electricity, gas and other fuels continued to grow at a higher rate of 46.8 per cent. This was due to the rapid increase in crude oil prices and consequent upward revisions of the electricity tariff rates during the first nine months, despite the fact that price declines of fuels took place during the latter part

Table 2.12 Composition of Private Consumption Expenditure at Current Market Prices

Item	Share of Total PCE (%)			Rate of Change (%)	
	2006	2007(a)	2008(b)	07/06	08/07
1. Food, Beverages and Tobacco	41.3	41.0	37.8	20.0	18.0
2. Clothing and Footwear	7.6	6.4	5.7	2.0	13.7
3. Housing, Water, Electricity, Gas and other Fuels	10.2	11.1	12.7	30.7	46.8
4. Furnishings,Household Equipment and Routine Maintenance of the House	6.6	6.2	5.8	12.9	19.5
5. Health	1.5	1.7	1.8	32.4	40.3
6. Transport	18.9	19.2	21.8	22.6	45.3
7. Leisure, Entertainment and Culture	3.0	3.6	3.6	43.6	28.9
8. Education	0.1	0.1	0.1	12.4	13.7
9. Hotels, Cafes and Restaurants	1.8	1.6	1.5	7.9	17.4
10. Miscellaneous Goods and Services	3.8	4.2	4.9	33.5	48.2
11. Expenditure Abroad of Residents	9.2	8.9	7.7	17.2	10.5
12. Less: Expenditure of Non - Residents	4.0	3.8	3.3	14.9	9.9
Total Private Consumption Expenditure	**100.0**	**100.0**	**100.0**	**20.9**	**27.9**

(a) Revised
(b) Provisional

Source: Department of Census and Statistics of the year. The share of this sector also continued to increase from 11.1 per cent in 2007 to 12.7 per cent in 2008.

Spending on furnishing, household equipment and routine maintenance activities grew by 19.5 per cent from 12.9 per cent in the previous year in nominal terms, mainly reflecting the effect of increase in overall building material prices. However, the share of total PCE on this sector declined further to 5.8 per cent from 6.2 per cent in 2007.

During 2008, the share of PCE on health services increased to 1.8 per cent with a higher growth rate of 40.3 per cent, while the share of education expenditure remained unchanged at 0.1 per cent as in the previous year. The shares of these two sectors on total expenditure still remain at lower levels depicting the impact of free health care and education facilities provided by the government to the general public.

Expenditure on transport grew at a high rate of 45.3 per cent consequent to the upward price revisions of petrol and diesel prices leading to increases in bus and rail fares during the first half of the year. However, the downward price revisions of fuel and bus fares introduced during the last quarter of the year have not made a significant impact on easing the expenditure on these sectors.

The estimated share of expenditure of the residents abroad continued to decline from 8.9 per cent in 2007 to 7.7 per cent with a growth of 10.5 per cent in 2008, compared to 17.2 per cent in 2007.

Public sector consumption expenditure increased at a higher rate of 30.6 per cent in 2008 when compared to the growth of 21.1 per cent during 2007. This increase stemmed from the increase in other recurrent expenditure on goods and services of the government as the expenditure on government wage bill has decelerated in 2008.

Investment

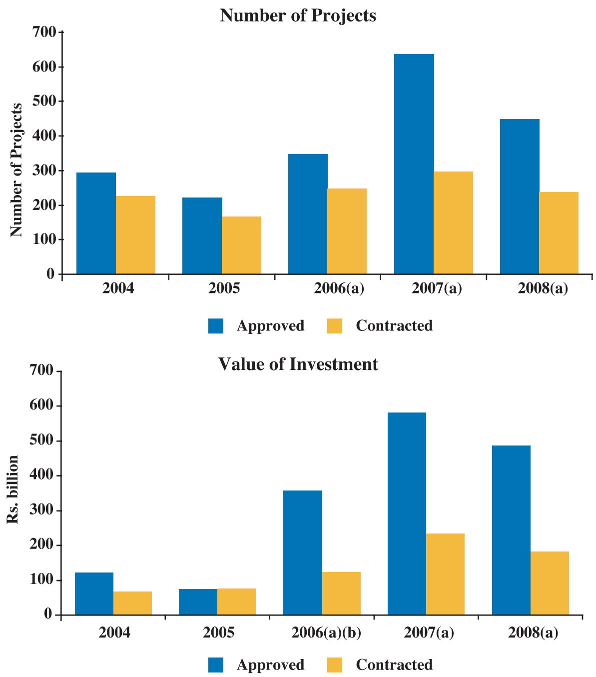
Gross Domestic Capital Formation or expenditure on investment activities expanded by 21.4 per cent in nominal terms during 2008 over a growth of 21.7 per cent in the previous year, from Rs. 1,000 to Rs. 1,215 billion. Further, in real terms, investment activities expanded by 4.6 per cent compared to 8.0 per cent in the previous year. Import of investment goods was estimated at Rs. 323 billion during 2008. However, investment to GDP ratio marginally decreased to 27.5 per cent from 28.0 per cent in 2007.

Private sector investment expenditure grew by 15.0 per cent in nominal terms during 2008; which included investment activities of public corporations and boards as well. The marginally higher growth in investment activities compared with a growth of 14.8 per cent in 2007 was mainly due to the increased price levels of both investment goods imports and related wage rates during the year. Meanwhile, the share of private sector investment accounted for 76.5 per cent of total investment expenditure.

Foreign Direct Investment (FDI) inflows increased by 21 per cent in 2008 with the investment commitment of US dollar 888.9 million compared with US dollar 734.4 million in 2007. The BOI continued to play a major role in attracting FDIs to the country in 2008. The telecommunication sector accounted for around 62 per cent of total FDI inflows, while manufacturing and power generation sectors absorbed around 21 per cent and 10 per cent, respectively.

Under Sections 17 and 16 of the BOI Act, 462 new projects were approved with investment commitments of Rs. 460.5 billion in 2008 compared with 604 projects that were approved with investment commitments of Rs. 489.6 billion in 2007. Of this, 126 new projects were foreign owned, 99 were joint ventures and the rest owned by Sri Lankans. The services sector continued to be the major recipient of these approved projects in 2008 attracting investments for 308 projects with the investment commitment of Rs. 413.7 billion. Under the services sector, housing and property development, hotels, restaurant services and entertainment, educational and training institutions, power generation plants, trading houses, computer software development, call centres and Business Process Outsourcings (BPOs) were the major contributors of the approved investment. Meanwhile, the factory industry accounted for 154 approved

Chart 2.4 Investment in Approved and Contracted BOI Projects



(a) Including expanded projects
(b) Excluding local investment on Mihin Lanka (Pvt) Ltd.

new projects with investment commitments of Rs. 46.7 billion in 2008 of which, the non-metallic mineral products category accounted for the highest approved investment of Rs. 12.5 billion. In 2008, under Section 17 of the BOI Act, 34 projects were approved for expansion against 73 projects approved in 2007. The realised investment in the BOI industries amounted to Rs. 100.7 billion in 2008 reaching a cumulative investment of Rs. 701.8 billion as at end 2008.

In 2008, under Section 17 of the BOI Act, 213 new projects were contracted with investment commitments amounting to Rs. 120.1 billion, as against 254 new projects that were contracted in 2007 with investment commitments of Rs. 181.1 billion. Of these contracted projects, 131 projects were in the services sector with 82 per cent of total investment commitments, while the balance projects were in the factory industry. The major recipients of contracted investment in the services sector were housing and property development, computer software development and data entry operations, hotels, restaurant services and entertainment, educational and training institutions, and research organisations, trading houses, call centres, BPOs, power generation, regional operating headquarters and IT related services. Meanwhile, the BOI contracted 25 new projects for expansion with Rs. 62 billion investment in 2008.

The number of enterprises that commenced commercial operations during 2008 were 2,485 compared with 2,502 projects which commenced commercial operations during 2007 under Sections 17 and 16 of the BOI Act. The share of foreign investment commitments from these projects was 49.1 per cent of the total investment. Of these operating projects, 1,240 were in the services sector while 475 were in the textile wearing apparel and leather products; 180 were in the food, beverages and tobacco products; 155 were in the chemical, petroleum, coal, rubber and plastic products; 99 were in the fabricated metal products, machinery

Table 2.13 Investment and Employment in the Enterprises Registered Under Board of Investment of Sri Lanka (BOI) and Ministry of Industrial Development (MID)

	No. of projects		Envisaged and Actual Investment (Rs.million)						Employment (No.)	
	2007(a)	2008(b)	2007(a)			2008(b)			2007(a)	2008(b)
			Foreign	Local	Total	Foreign	Local	Total		
BOI										
Projects Approved	677	496	285,440	300,712	586,152	346,516	144,873	491,389	123,131	60,644
Under Section 17 (d)	637	448	282,986	300,000	582,986	342,835	143,858	486,693	120,519	57,328
Under Section 16	40	48	2,454	712	3,166	3,681	1,015	4,696	2,612	3,316
Projects Contracted Under Section 17 (d)	298	238	122,590	111,387	233,977	73,938	108,226	182,164	60,843	29,119
Realised Investment Under Section 17 (c)	1,977	1,989	364,244	236,849	601,093	440,408	261,416	701,824	451,934	458,165
Commercial Operations (c)	2,612	2,595	198,679	207,284	405,963	197,766	213,522	411,288	385,491	378,272
Under Section 17 (c) (d)	1,823	1,805	180,995	197,245	378,240	180,057	203,483	383,540	350,870	343,607
Under Section 16 (c)	789	790	17,684	10,039	27,723	17,709	10,039	27,748	34,621	34,665
MID										
Projects Registered (c)	1,667	1,751	n.a	n.a	121,456	n.a	n.a	130,357	275,883	282,706

(a) Revised
(b) Provisional
(c) Cumulative as at end of year
(d) Includes expanded projects

Sources: Board of Investment of Sri Lanka
Ministry of Industrial Development

and transport equipment and 88 were in the non-metallic mineral products categories within the factory industry.

The total number of enterprises registered under the Ministry of Industrial Development as at end 2008 was 1,751 with investment commitments of Rs. 130.4 billion. Colombo and Gampaha districts accounted for around 82 per cent of registered enterprises with 93 per cent of the total investment commitments. Of this, 421 enterprises were in the textile, wearing apparel and leather products followed by chemical, petroleum, coal, rubber and plastic products, fabricated metal products, machinery and transport equipment, food, beverages and tobacco products and non-metallic mineral products categories. Further, the Industrial Development Board of Ceylon (IDBC) assisted in the commencement of 331 new enterprises, facilitated 600 existing enterprises and promoted 1,087 self-employment units in the provincial levels during 2008.

The growth in government sector investment activities decelerated to 48.3 per cent from an exceptionally high nominal growth of 61.9 per cent during 2007. The government continued to engage in investment activities mainly in the infrastructure development programs particularly road development, water distribution, and electricity expansion. These included the Upper Kotmale hydro power project, Kerawalapitiya Combined Cycle Power Plant project and the Southern Highway construction project. Development partner funded rehabilitation projects for developing the areas affected by the conflict also continued in 2008.

Availability and Utilisation of Resources

The total resource availability of the economy indicated by GDP and imports of goods and services, increased by 22.2 per cent from Rs. 4,992 billion in 2007 to Rs. 6,101 billion in 2008. The comparable growth was 20.4 per cent in 2007. The availability of foreign resources increased at a lower rate of 19.6 per cent during 2008 when compared to the growth of 23.2 per cent in domestic resources. Domestic resources contributed 72 per cent to total resource availability while external resources provided the remaining 28 per cent. Resource availability in real terms increased by 5.5 per cent in 2008 compared with the growth of 5.9 per cent in 2007.

The total resource utilisation in 2008 comprised of Rs. 3,787 billion of consumption, Rs. 1,215 billion of capital formation and Rs. 1,098 billion of exports of goods and services. Consumption which constituted the highest share of 59 per cent during 2007 further increased to 62 per cent, recording the highest growth of 28.4 per cent. Consequently, the share of fixed capital formation increased marginally to 18.3 per cent from a share of 17.7 per cent in the previous year. Meanwhile, exports recorded a relatively low growth rate of 5.4 per cent compared to the growth of 17.7 per cent in 2007. Hence, the share of export of goods and services within resource utilisation declined to 18.0 per cent from a share of 20.9 per cent in the previous year.

During 2008, the supply of domestic resources increased at a higher rate than that of the supply of foreign resources. But the share of domestic and foreign resources remained almost unchanged at 72 per cent and 28 per cent, respectively when compared to 2007. Of the share of 72 per cent of domestic goods and services, agricultural goods and industrial goods accounted for 10 per cent and 21 per cent, respectively while domestic services accounted for 41 per cent. These shares were at 8 per cent, 21 per cent and 42 per cent, respectively in 2007. The share of imported goods and services remained at 25 per cent and 3 per cent, respectively as in 2007.

With the nominal increase of 23.2 per cent in aggregate demand during 2008, the composition of consumption, investment and exports changed in favour of consumption compared to the structure of aggregate demand that prevailed during 2007.

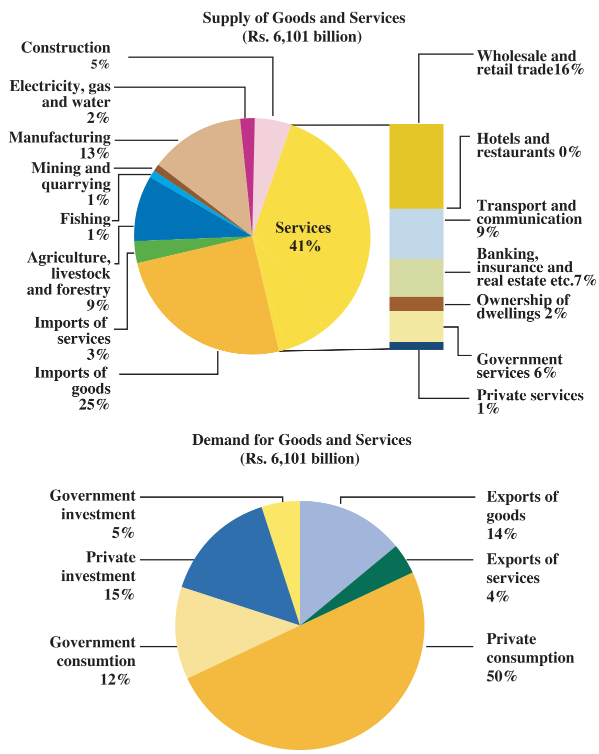
Table 2.14 Total Resources and Their Uses at Current Market Prices

Item	Percentage Share		Percentage Growth	
	2007(a)	2008(b)	2007(a)	2008(b)
A. Resources				
Gross domestic product	71.7	72.3	21.8	23.2
Imports of goods and services	28.3	27.7	16.9	19.6
Total	**100.0**	**100.0**	**20.4**	**22.2**
B. Utilisation				
Consumption	59.1	62.1	20.9	28.4
Gross domestic fixed capital formation	17.7	18.3	21.0	26.1
Private	14.3	14.0	14.3	19.4
Government	3.4	4.3	61.0	53.9
Change in stocks	2.3	1.6	26.6	-14.0
Export of goods and services	20.9	18.0	17.7	5.4
Total	**100.0**	**100.0**	**20.4**	**22.2**

(a) Revised
(b) Provisional

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

Chart 2.5 The Economy in 2008 (at current prices)



The increased share of consumption was attributed to the higher growth in private sector consumption which increased its share from 48 per cent in 2007 to 50 per cent in 2008. The share of private sector and public sector investment was 15 per cent and 5 per cent in 2008. A decline in export of goods and services was witnessed in 2008 with the share of exports of goods declining from 17 per cent to 14 per cent and export of services remaining at 4 per cent.

Savings

During 2008, both domestic savings and national savings contracted particularly due to the prevalence of high food and oil prices in the international markets during the first nine months of the year. This led to an increase in the resource gap, the difference between domestic savings and investment. As a percentage of GDP, the resource gap increased to 13.4 per cent in 2008 from 10.4 per cent in 2007.

Domestic savings recorded a drop of 0.9 per cent compared to the growth of 26.1 per cent in 2007. The deceleration in domestic savings could be attributed to the continued deterioration of net external demand with increased growth in imports and the slowdown in export earnings during 2008. The estimated value of domestic savings was at Rs. 623 billion or 14.1 per cent of GDP in 2008, a decline from 17.6 per cent in the previous year. Of the total domestic savings, government dis-savings deteriorated by Rs. 88 billion while private sector savings grew by 3.6 per cent to Rs. 712 billion in 2008.

National savings expressed as the sum of domestic savings, Net Factor Income from Abroad (NFIA) and net private transfers were estimated at Rs. 802 billion; a decrease of 4.0 per cent over the previous year. During 2008, net private transfers at Rs. 278 billion continued to increase but at a lower rate of 13.3 per cent when compared to the growth of 23.8 per cent in 2007. However, NFIA continued to deteriorate further during 2008 due to unfavourable developments of the external sector. The combined result of these developments was that the national savings as a percentage of GDP declined to 18.2 per cent from 23.3 per cent in the previous year.

Table 2.15 Consumption, Investment and Savings at Current Market Prices

Item	Rs. Million		% Change		Per cent of GDP	
	2007(a)	2008(b)	2007(a)	2008(b)	2007(a)	2008(b)
1. Gross domestic product at market prices	3,578,688	4,410,567	21.8	23.2	100.0	100.0
2. Consumption expenditure	2,949,712	3,787,438	20.9	28.4	82.4	85.9
Private	2,403,167	3,073,651	20.9	27.9	67.2	69.7
Government	546,545	713,788	21.1	30.6	15.3	16.2
3. Investment	1,000,320	1,214,808	21.7	21.4	28.0	27.5
Private	807,417	928,779	14.8	15.0	22.6	21.1
Government	192,903	286,029	61.9	48.3	5.4	6.5
4. Domestic savings	628,976	623,128	26.1	-0.9	17.6	14.1
Private	686,683	711,579	20.7	3.6	19.2	16.1
Government	-57,707	-88,451	17.7	-53.3	-1.6	-2.0
5. Domestic savings - investment gap	-371,344	-591,680	-14.8	-59.3	-10.4	-13.4
6. Net factor income from abroad	-39,054	-99,040	3.4	-153.6	-1.1	-2.2
7. Net private current transfers from abroad	245,006	277,712	23.8	13.3	6.8	6.3
8. National savings	834,928	801,800	27.2	-4.0	23.3	18.2

(a) Revised
(b) Provisional

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