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NATIONAL OUTPUT, EXPENDITURE AND INCOME

2.1 Overview

The Sri Lankan economy grew at a moderate pace of 3.1 per cent in 2017, compared to the growth of 4.5 per cent in 2016, amidst the challenges arising from both domestic and external fronts. Severe drought conditions that prevailed particularly in the major cultivation areas hindered the growth in agriculture activities, even though a rebound was observed during the last quarter of the year, benefitting from the recovery in paddy production during the 2017/18 Maha season. Meanwhile, Industry and Services activities contributed positively to economic growth even in the backdrop of spillover effects from subdued agriculture performance. The reinstatement of GSP+ boosted manufacturing activities, providing stimulus for Industry activities, amidst the moderation observed in construction activities. Services activities expanded largely supported by the growth in financial services, and wholesale and retail trade activities. Further, the rationalisation of government expenditure and the tight monetary policy stance also affected the economic growth in 2017. Moreover, the business surveys conducted by the Central Bank also indicated subdued business conditions during the year. Meanwhile, investment expenditure grew at a slower pace compared to the previous year whereas consumption expenditure, which witnessed some slowdown in the previous year, accelerated in 2017. Even though exports grew at a higher rate benefitting from the stronger recovery of some of the Sri Lanka's major export destinations such as the US and Europe, the substantial increase in imports resulted in a further deterioration of the net external demand. Meanwhile, the domestic savings grew at a slower rate while the net primary income from the rest of the world continued to contract during the year. Further, net current transfers from rest of the world moderated reflecting the slowdown in workers' remittances partly due to geopolitical tensions and uncertainties in some regions including the Middle East. Reflecting these developments, growth in national savings moderated during the year and the resources gap broadened due to the relatively high growth in investment.

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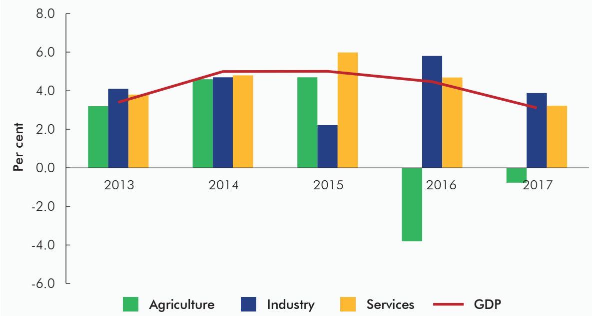
2.2 GDP, GDP Per Capita and Gross National Income (GNI)

During 2017, GDP as estimated by the Department of Census and Statistics (DCS), at constant prices recorded a moderate growth despite the higher growth observed in GDP at current market prices[1]. GDP at current market prices was estimated at Rs. 13,289.5 billion (US dollars 87.2 billion) in 2017, while it stood at Rs. 11,906.8 billion (US dollars 81.8 billion) in 2016. Accordingly, GDP recorded a 11.6 per cent growth at current market prices in 2017 compared to 8.7 per cent growth in 2016. This was reflected by the percentage change in GDP implicit deflator, which increased to 8.2 per cent in 2017, from 4.1 per cent in 2016. Meanwhile, GDP at constant market prices was estimated at Rs. 9,315.5 billion in 2017, compared to Rs. 9,034.3 billion in 2016.

1 DCS estimates GDP in production, expenditure and income approaches

Chart 2.1
Annual GDP Growth Rate (a)



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

Source : Department of Census and Statistics

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

Economic Activity	Rate of Change (%)		Contribution to Change (%)		As a Percentage of GDP (%)	
	2016 (b)	2017	2016 (b)	2017	2016 (b)	2017
Agriculture, Forestry and Fishing	**- 3.8**	**- 0.8**	**- 6.6**	**- 1.8**	**7.1**	**6.9**
Growing of cereals (except rice)	- 12.2	- 10.3	- 0.5	- 0.5	0.1	0.1
Growing of rice	- 31.3	- 4.0	- 6.2	- 0.8	0.6	0.5
Growing of vegetables	3.5	- 16.2	0.5	- 3.4	0.6	0.5
Growing of sugar cane, tobacco and other non-perennial crops	15.2	- 14.1	0.1	- 0.1	0.0	0.0
Growing of fruits	- 3.2	7.4	- 0.4	1.2	0.5	0.5
Growing of oleaginous fruits (coconut, king coconut, oil palm)	- 0.8	- 19.5	- 0.1	- 4.6	0.7	0.6
Growing of tea (green leaves)	- 11.2	4.8	- 2.1	1.1	0.7	0.7
Growing of other beverage crops (coffee, cocoa, etc.)	7.5	- 6.4	0.0	0.0	0.0	0.0
Growing of spices, aromatic, drug and pharmaceutical crops	2.3	0.5	0.4	0.1	0.7	0.7
Growing of rubber	- 10.7	4.9	- 0.7	0.4	0.3	0.3
Growing of other perennial crops	- 2.1	1.5	- 0.1	0.1	0.2	0.2
Animal production	7.3	3.9	1.0	0.8	0.6	0.6
Plant propagation and support activities to agriculture	- 2.0	0.4	- 0.1	0.0	0.1	0.1
Forestry and logging	8.9	22.0	1.1	4.1	0.6	0.7
Fishing	1.6	- 0.5	0.5	- 0.2	1.3	1.3
Industries	**5.8**	**3.9**	**34.0**	**33.1**	**26.6**	**26.8**
Mining and quarrying	14.4	5.9	7.1	4.6	2.4	2.5
Manufacturing	3.2	3.9	11.1	19.6	15.5	15.7
Electricity, gas, steam and air conditioning supply	8.4	2.7	1.8	0.9	1.0	1.0
Water collection, treatment and supply	7.9	4.6	0.2	0.2	0.1	0.1
Sewerage, waste treatment and disposal activities	17.8	7.9	1.0	0.7	0.3	0.3
Construction	8.3	3.1	12.7	7.0	7.1	7.1
Services	**4.7**	**3.2**	**59.3**	**58.8**	**56.7**	**56.8**
Wholesale and retail trade, transportation and storage, and accommodation and food service activities	4.0	2.5	20.8	18.8	23.1	22.9
Information and communication	8.0	10.2	1.0	1.9	0.6	0.6
Financial, insurance and real estate activities including ownership of dwellings	9.2	7.0	25.5	29.0	12.9	13.4
Professional services and other personal service activities	0.9	3.3	2.5	12.4	11.5	11.5
Public administration, defence, education, human health and social work activities	4.9	- 1.2	9.5	- 3.3	8.7	8.3
Equals Gross Value Added (GVA) at Basic Price	**4.3**	**3.1**	**86.8**	**90.1**	**90.4**	**90.4**
Taxes less subsidies on products	6.3	3.2	13.2	9.9	9.6	9.6
Equals Gross Domestic Product (GDP) at Market Price	**4.5**	**3.1**	**100.0**	**100.0**	**100.0**	**100.0**
Net primary income from rest of the world	- 11.4	- 5.3				
Gross National Income at Market Price	**4.3**	**3.1**				

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

Source : Department of Census and Statistics

Accordingly, at constant market prices, GDP growth moderated to 3.1 per cent in 2017, compared to 4.5 per cent growth in 2016.

GDP per capita was estimated at Rs. 619,729 in 2017, compared to Rs. 561,560 in 2016, recording an increase of 10.4 per cent in comparison to 7.5 per cent increase in 2016. This was driven by the growth of GDP at current market prices since the mid-year population growth rate was fairly stable. Moreover, the per capita GDP in US dollar terms increased to US dollars 4,065 in 2017, compared to US dollars 3,857 in 2016, recording a higher growth rate of 5.4 per cent, compared to the marginal growth of 0.4 per cent in 2016, mainly due to the higher growth of GDP at current market prices amidst the moderate depreciation of domestic currency against the US dollar.

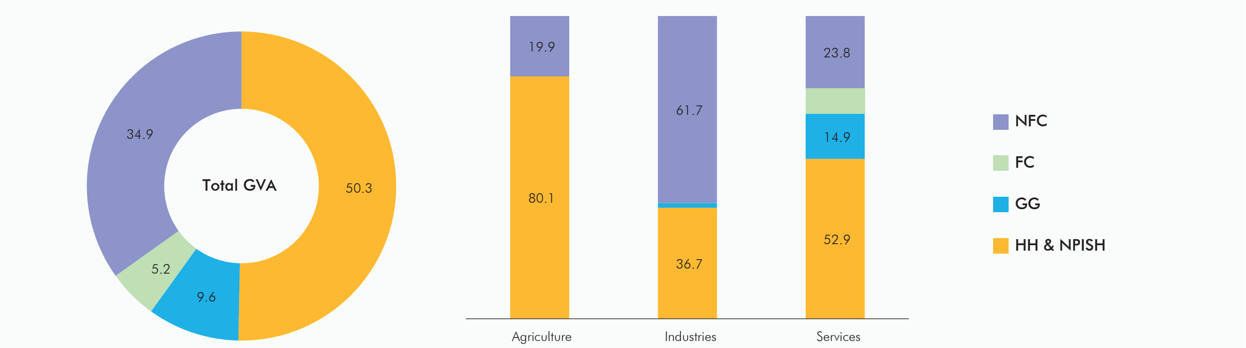
GNI, which is estimated by adjusting GDP for the net primary income from the rest of the world, increased to Rs. 12,933.2 billion at current market prices, recording a growth rate of 11.6 per cent in 2017, compared to 8.5 per cent growth in 2016. This growth in GNI was a combined outcome of the increase in the GDP growth at current market prices and the slowdown in the negative growth of net primary income in 2017, which recorded a contraction of 10.9 per cent during the year compared to 16.9 per cent contraction in 2016.

2.3 Contribution from Institutional Sectors

As per the gross value added estimates at current market prices, under the production approach, the largest contribution came from the Households and Non-Profit Institutions Serving Households (HH and NPISH) sector. HH and NPISH sector grew by 9.5 per cent at current market prices in 2017, compared to 6.8 per cent growth in 2016, accounting for 50.3 per cent of the total gross value added of the economy in 2017. Meanwhile, the Non Financial Corporations (NFC) sector recorded a growth of 11.6 per cent in 2017, compared to 9.4 per cent growth in 2016 and remained as the second largest sector of the economy, accounting for a 34.9 per cent share of the total gross value added in 2017. Further, General Government (GG) and Financial Corporations (FC) sectors, which accounted for 9.6 per cent and 5.2 per cent of the total gross value added of the economy, respectively in 2017, grew by 6.1 per cent and 21.9 per cent, respectively, in 2017 in comparison to 0.2 per cent and 17.1 per cent growth, respectively, in 2016.

During 2017, the gross value added of Agriculture and Services activities were mainly driven by HH and NPISH sector, while the gross

Chart 2.2
Percentage Share of Gross Value Added (GVA) by Institutional Sectors in 2017 (at Current Market Prices) (a)



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

Source : Department of Census and Statistics

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Table 2.2
Gross Value Added by Institutional Sectors at Current Market Prices (a)(c)

Item	As a Percentage of GVA (%)							
	2016 (b)				2017			
	Non-Financial Corporations	Financial Corporations	General Government	Households and Non-Profit Institutions Serving Households	Non-Financial Corporations	Financial Corporations	General Government	Households and Non-Profit Institutions Serving Households
Agriculture	18.8	-	-	81.2	19.9	-	-	80.1
Industries	61.2	-	2.2	36.6	61.7	-	1.5	36.7
Services	23.8	7.6	15.1	53.6	23.8	8.4	14.9	52.9
Gross Value Added at Basic Price	34.5	4.7	10.0	50.8	34.9	5.2	9.6	50.3

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

Source: Department of Census and Statistics

value added of Industry activities was primarily contributed by the NFC sector. Accordingly, 80.1 per cent of the gross value added of Agriculture activities were generated from the HH and NPISH sector in 2017, recording a growth of 13.4 per cent at current market prices, recovering from the 3.0 per cent contraction recorded in the previous year. Meanwhile, the NFC sector accounted for 61.7 per cent of the gross value added of the Industry activities, recording a growth rate of 12.3 per cent at current market prices during 2017, in comparison to 10.6 per cent growth in 2016. In the meantime, 52.9 per cent of the gross value added of Services activities was generated by the HH and NPISH sector in 2017, recording a growth of 8.0 per cent at current market prices, compared to 7.0 per cent growth in 2016.

2.4 Output, Policies, Institutional Support and Issues

Agriculture

Reflecting the impact of adverse weather conditions, the Agriculture, forestry and fishing activities contracted by 0.8 per cent in value added terms in 2017, compared to 3.8 per cent contraction observed in 2016. The Agriculture performance, which was negatively affected by the unfavourable weather conditions that prevailed, particularly during the first nine months of the year, witnessed a recovery during the last quarter of the year. The setback observed in the growing of oleaginous fruits (coconut, king coconut, oil palm), vegetables and rice hindered the growth in agricultural activities. Further, growing of cereals, fishing, sugar cane and other beverage crops (coffee, cocoa etc.) also contracted during the year. However, growing of tea rebounded during the year from the declining trend observed for the last three years. Further, forestry and logging, growing of fruits, animal production, growing of rubber, growing of spices, growing of other perennial crops, and plant propagation and support activities contributed positively to the growth of Agriculture activities.

Agriculture Production Index

The Agriculture Production Index, which measures the output of Agriculture and Fisheries sectors, recorded a decline of 10.9 per cent in 2017, compared to a reduction of 0.3 per cent in 2016. Within the index, the sub-indices of paddy, coconut and other crops (fruits, vegetables and other field crops) decreased, while tea and rubber sub-indices increased

Table 2.3
Agriculture Production Index (2007-2010 =100)

Item	2016 (a)	2017 (b)	Growth Rate (%) 2015/16 (a)	Growth Rate (%) 2016/17 (b)
Agriculture and Fisheries	127.2	113.3	-0.3	-10.9
1 Agriculture	120.7	103.9	-1.0	-13.9
1.1 Agriculture Crops	116.0	96.2	-2.3	-17.0
Paddy	118.2	63.7	-8.3	-46.1
Tea	93.9	98.8	-11.0	5.2
Rubber	59.0	61.9	-10.7	5.1
Coconut	106.3	86.5	-1.5	-18.7
Other Crops	150.2	134.9	6.7	-10.2
o/w Vegetables	141.2	123.4	3.7	-12.6
Fruits	145.8	164.0	-4.6	12.5
OFC	138.5	117.9	-4.2	-14.9
1.2 Livestock	158.2	164.8	7.5	4.1
2 Fisheries	159.1	159.2	2.1	0.1

(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka

in comparison to the previous year. Livestock activities also grew during the year, (as reflected by the index) while a marginal growth was recorded in fisheries activities.

Paddy

Adverse weather conditions that continued from 2016 severely affected paddy production during 2017. Paddy production fell by 46.1 per cent to 2.4 million metric tons during the year, recording the lowest paddy production over the last decade, highlighting the impact of adverse weather conditions. Paddy production declined in both the 2016/17 Maha season and the 2017 Yala season by 49.2 per cent and 40.1 per cent, to 1.47 million metric tons and 0.91 million metric tons, respectively. Although the Department of Meteorology projected normal rainfall for 2017 for all districts, the South West monsoon did not bring sufficient rain for water to be stored for agricultural purposes. Further, the North East monsoon that usually fills up the dry zone tanks towards the last quarter of the year also failed, leading to low water levels to grow rice in 2017. Continued drought conditions since 2016, led to the decline in the extent of land sown for paddy cultivation during both paddy growing seasons. The gross extent sown in the 2016/17 Maha season was 542,556 hectares, which was a decrease of 28.2 per cent when compared with the previous Maha season. Similarly, during the 2017 Yala season, the gross extent sown declined by 35.3 per cent to 249,123 hectares, compared to the previous Yala season. As a result, the total gross extent sown for 2017 declined by 28.9 per cent to 791,679 hectares. Meanwhile, inadequate water levels in major reservoirs and the crop damages due to the drought and floods in major paddy producing areas caused the net

Table 2.4
Paddy Sector Statistics

Item	Unit	2016 (a) Maha	2016 (a) Yala	2016 (a) Total	2017 (b) Maha	2017 (b) Yala	2017 (b) Total
Gross Extent Sown	hectares '000	756	385	1,114	543	249	792
Gross Extent Harvested	hectares '000	743	380	1,123	383	236	619
Net Extent Harvested	hectares '000	667	344	1,011	343	212	555
Production	mt '000	2,903	1,517	4,420	1,474	909	2,383
	bushels '000	139,114	72,722	211,836	70,626	43,575	114,201
Average Yield (c)	kg/ hectare	4,349	4,417	4,372	4,301	4,291	4,297
Credit Granted	Rs. mn	3,701	2,683	6,384	3,232	2,073	5,305
Rice Imports (d)	mt '000	n.a.	n.a.	30	n.a.	n.a.	748
Paddy Equivalent of Imported Rice (d)	mt '000	n.a.	n.a.	43	n.a.	n.a.	1,069

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

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

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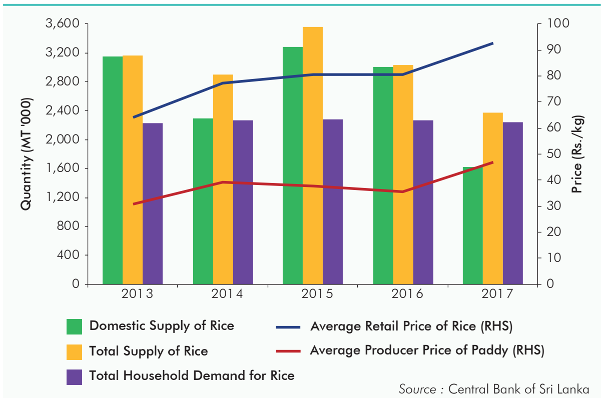
extent harvested to decline by 45.1 per cent to 554,582 hectares in 2017. Gross extent harvested in the 2016/17 Maha season declined by 48.5 per cent to 382,856 hectares, in comparison to the previous Maha season, and that of the 2017 Yala season decreased by 37.8 per cent to 236,479 hectares, when compared with the previous Yala season. As a result of low paddy production in both Maha and Yala seasons, paddy yield decreased by 1.7 per cent to 4,297 kilogrammes per hectare, in 2017. The decline in paddy yield during the 2016/17 Maha season was 1.1 per cent to 4,301 kilogrammes per hectare while the decline in the 2017 Yala season was 2.9 per cent to 4,291 kilogrammes per hectare.

The annual paddy production of both the 2016/17 Maha and 2017 Yala seasons, which was equivalent to 1.7 million metric tons of rice, was estimated to be adequate to meet the domestic demand for approximately eight months. The deficit, which amounted to around 800,000 metric tons was met through imports since the beginning of 2017. Under the recommendations of the government's Cost of Living Committee (CoLC), the Ministry of Industry and Commerce (MIC) made arrangements to import rice, while allowing the private sector to import rice directly as well. The aim of the CoLC was to support consumers with lower prices while ensuring uninterrupted rice supplies to the market. Accordingly, the MIC imported Samba, Nadu and white raw rice from countries such as India, Pakistan, Myanmar, Cambodia, Vietnam and Thailand. Consequently, 747,800 metric tons of rice have been imported into Sri Lanka during the year, at a total cost of US dollars 300.9 million, compared to 29,524 metric tons of rice imports during 2016. Further, Cabinet approval was granted to release stocks of paddy available with the Paddy Marketing

Chart 2.3
Rice : Supply and Demand



Source : Central Bank of Sri Lanka

Board (PMB) in a timely manner, to dampen price pressures in the market. Accordingly, the Lanka Sathosa network sold rice milled from paddy purchased from the PMB during 2017.

Open market paddy prices remained relatively high due to limited supplies entering the market, as a result of low production from all major paddy producing areas, given the adverse weather conditions. The average price of Samba paddy was Rs. 50.48 per kilogramme during 2017, which is an increase of 29.4 per cent in comparison to 2016. Meanwhile, the average price of Nadu paddy also increased significantly by 41.5 per cent to Rs. 49.57 per kilogramme in 2017, compared to the previous year. The shortage in the paddy supply caused an increase in the resultant retail rice prices, which prompted the government to take various measures to stabilise rice prices, including the introduction of a maximum retail price for locally produced rice and augmenting the supply through rice imports. On average, the retail price of Samba was Rs. 98.71 per kilogramme in 2017, recording an increase of 6.4 per cent, compared to 2016, while the average retail price of Nadu in 2017 was Rs. 90.97 per kilogramme, which was an increase of 14.4 per cent compared to the previous year.

The government took steps to reduce taxes for imported rice, with a view to preventing the escalation in prices, in addition to enforcing a maximum retail price for selected varieties of rice. The tax reduction was implemented by removing the existing taxes, which were effective since November 2016 and introducing a Special Commodity Levy (SCL) of Rs.15.00 per kilogramme for imported rice. The government further reduced the SCL on imported rice to Rs. 5.00, with effect from 27 January 2017. The SCL imposed on imported rice was further reduced to 25 cents per kilogramme, with effect from 27 July 2017 and this reduction of tax will be effective till 30 April 2018. Moreover, in order to address rising prices of all rice varieties in spite of higher imports, the government imposed a maximum retail price for local and imported rice varieties, with effect from 17 February 2017, which was subsequently removed on 16 August 2017 but reintroduced for Nadu on 26 December 2017.

Tea

Tea production recorded a positive growth in 2017, reversing the declining trend of the past four years. Accordingly, production recovered with a growth of 5.2 per cent, resulting in an output of 307.7 million kilogrammes in 2017, compared to 292.6 million kilogrammes in 2016. The reversal in the trend for tea production after the continuous decline in recent years was recorded amidst crop losses resulting from dry weather conditions that prevailed in major tea growing areas since 2015, restrictions on the application of selected weedicides such as glyphosate and labour constraints leading to high cost of production. However, tea production revived owing to most factories operating at increased capacity and favourable agro-climatic conditions in many tea planting districts, particularly during the second half of the year which were ideal for the rapid growth of tea leaves. The highest share of total tea production amounting to 64.3 per cent was from low grown tea, which increased by 7.5 per cent to 197.4 million kilogrammes in 2017. High grown tea, which accounted for around 21 per cent of the total tea production, witnessed a marginal growth of 0.3 per cent to record an output of 64.6 million kilogrammes. Production of medium grown tea increased marginally by 2.6 per cent to 45.7 million kilogrammes in 2017, compared to the previous year. Meanwhile, the tea smallholder sector contributed to 75.4 per cent of the total tea production in 2017.

The average prices at the Colombo Tea Auction (CTA) witnessed a continuation of the upward momentum recorded since the last quarter of 2016, with increased demand from some of the major importers. Average price at the CTA for the year 2017 increased significantly by 31.1 per cent to Rs. 620.44 per kilogramme, compared to the previous year. The highest increase was recorded for high grown tea (35.6 per cent), followed by medium grown tea (32.2 per cent) and low grown tea (30.4 per cent). The average export price of tea (FOB), increased significantly by 26.2 per cent to Rs. 807.44 per kilogramme during 2017, from Rs. 639.88 per kilogramme recorded during 2016, supported by higher demand and the depreciation of the domestic currency. The volume of tea offered at the CTA recorded a marginal increase of 0.1 per cent in 2017, while export earnings grew by 20.5 per cent during the year when compared to 2016. The average price received by tea smallholders for green leaf increased to Rs. 90.69 per kilogramme in 2017, from Rs. 68.53 per kilogramme in 2016. The steady rise in global oil prices during 2017 had a favourable impact on the income levels of major tea importing countries, resulting in a higher demand for Sri Lankan tea. Meanwhile, Turkey has maintained its position as the leading importer of "Ceylon Tea". It is envisaged that this increasing trend in tea prices would encourage domestic tea producers to increase production during 2018 as well. However, the yield per hectare is low in Sri Lanka when compared with major tea producing countries in the world highlighting the need to encourage new planting and replanting.

Rubber

Rubber production grew by 5.1 per cent to 83.1 million kilogrammes in 2017, from 79.1 million kilogrammes recorded in 2016. This growth in natural rubber production was achieved amidst unfavourable weather conditions, particularly during the first half of the year, which resulted in severe floods in traditional rubber growing areas. Among the major categories of rubber produced, sheet rubber production, the largest component of total rubber production, increased by 4.4 per cent to 41.5 million kilogrammes, while crepe rubber production decreased considerably by 23.3 per cent to 11.5 million kilogrammes in 2017. Meanwhile, the production of unspecified category of rubber recorded a significant increase of 23.9 per cent to 30.1 million kilogrammes during 2017, when compared to the previous year. The average yield for rubber was 809 kilogrammes per hectare in 2017, which was a marginal increase of 1.1 per cent from the average yield recorded in 2016. The low yield in rubber was primarily driven by the decline in the number of tapping days, particularly in the smallholder sector, where key producers of Ribbed Smoked Sheet (RSS) slowed down tapping operations in response to adverse weather conditions. Nevertheless, the cost of production of rubber has been increasing over the years, and in 2017 it increased by 8.3 per cent to Rs. 195.00 per kilogramme, from Rs. 180.00 per kilogramme that was recorded in 2016, making rubber production less attractive for the smallholder sector. Domestic rubber consumption declined by 9.2 per cent in 2017 to 129 million kilogrammes, since industries depended on imported raw material for their value added products mainly due to the lower prices quoted for imported raw material. Natural rubber exports increased by 6.6 per cent to 17.2 million kilogrammes in 2017 compared to the previous year. With the increase in global rubber prices towards the end of 2017, the domestic market also witnessed an increasing trend in prices. The favourable global demand, particularly for natural rubber, improved local prices of latex crepe and RSS Number 1 (RSS1). The average price of RSS1 registered a significant increase of 40.7 per cent to record Rs. 336.72 per kilogramme, whilst the average price of latex crepe also witnessed an increase of 34.1 per cent, attracting Rs. 351.71 per kilogramme at the Colombo Rubber Auction during 2017. China, the largest rubber consuming economy in the world, increased its import volumes to replenish its gradually depleting buffer stocks. This indicates that the demand for domestic rubber is likely to increase in the medium term, which is an encouraging development for the local rubber manufacturing industry. However, to harness the full potential of the rubber sector, domestic backward and forward linkages need to be developed to promote higher domestic value addition and reduce the dependence on foreign demand.

Coconut

Coconut production, which recorded a marginal drop of 1.4 per cent to reach 3,011 million nuts in 2016, declined substantially by 18.7 per cent to 2,450 million nuts in 2017. The decline in coconut production was mainly attributed to the lagged effect of the prolonged

Table 2.5
Trends in Principal Agricultural Crops

Category	Unit	2016 (a)	2017 (b)	Change (%) 2015/16 (a)	Change (%) 2016/17 (b)
1. Tea					
1.1 Production (c)	kg mn	292.6	307.7	-11.0	5.2
1.2 Total Extent	hectares '000	202	203	-0.5	0.3
1.3 Extent Bearing	hectares '000	193	195	-0.1	-
1.4 Cost of Production (d)	Rs/kg	469.24	466.98	2.3	-0.5
1.5 Average Price					
- Colombo Auction	Rs/kg	473.15	620.44	17.9	31.1
- Export (F.O.B.)	Rs/kg	639.88	807.44	7.9	26.2
1.6 Replanting	hectares	1,044	748	-14.8	-28.4
1.7 New Planting	hectares	115	202	-76.8	-75.4
1.8 Value Added as % of GDP (e)		0.7	0.7	-12.5	-
2. Rubber					
2.1 Production	kg mn	79.1	83.1	-10.7	5.1
2.2 Total Extent	hectares '000	133	137	-3.1	2.9
2.3 Area under Tapping (f)	hectares '000	99	103	-8.4	3.8
2.4 Cost of Production	Rs/kg	180.00	195.00	5.9	8.3
2.5 Average Price					
- Colombo Auction (RSS 1)	Rs/kg	239.28	336.72	-3.6	40.7
- Export (F.O.B.)	Rs/kg	294.33	343.56	-13.9	16.7
2.6 Replanting (f)	hectares	591	847	-4.9	43.3
2.7 New Planting (f)	hectares	272	328	-64.6	20.5
2.8 Value Added as % of GDP (e)		0.3	0.3	-	-
3. Coconut					
3.1 Production	nuts mn	3,011	2,450	-1.4	-18.7
3.2 Total Extent	hectares '000	466	471	2.4	1.0
3.3 Cost of Production	Rs/nut	16.70	16.69	1.9	-0.1
3.4 Average Price					
- Producer Price	Rs/nut	32.13	62.71	-5.2	95.2
- Export (F.O.B.) (g)	Rs/nut	41.16	62.03	-24.5	50.7
3.5 Replanting / Under Planting (h)	hectares	5,000	8,824	9.0	64.6
3.6 New Planting (i)	hectares	10,996	15,121	32.7	63.6
3.7 Value Added as % of GDP (e)		0.7	0.6	-12.5	-14.3

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

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

drought conditions, which commenced in 2016 and continued into 2017 in the major coconut growing areas. The drought situation had a severe impact on major coconut growing areas, such as Kurunegala, Puttalam and Gampaha, which resulted in lower coconut production throughout the year. The decline in coconut production was particularly severe in the last quarter of 2017, where the production declined by 28.2 per cent to 539.4 million nuts, in comparison to the corresponding quarter of 2016. This contraction in nut production impacted adversely on coconut related industries as well. Accordingly, desiccated coconut production decreased by 42.2 per cent, to 29,557 metric tons in 2017 from 51,117 metric tons in 2016. Meanwhile, coconut oil production decreased substantially by 73.8 per cent from 48,805 metric tons to 12,784 metric tons and virgin coconut oil production decreased by 11.4 per cent from 16,067 metric tons to 14,233 metric tons. Despite the reduction in nut production, coconut cream, coconut milk powder and coconut milk production increased by 10.1 per cent to 46,941 metric tons in 2017, compared to 42,643 metric tons in 2016, owing to the increased export demand.

The decline in coconut production that created a severe shortage of nuts for consumption as well as for industrial usage resulted in coconut prices escalating to unprecedented levels in 2017. Accordingly, the average wholesale price of fresh nuts in the local market increased significantly by 95.2 per cent to Rs. 62.71 per nut. Consequently, the average retail price of fresh nuts increased by 47.1 per cent to Rs. 67.40 per nut during the year. The three major kernel product exports, namely desiccated coconut, copra and coconut oil, decreased by 39.0 per cent, with export earnings from these products recording a decrease of 8.1 per cent. Meanwhile, the average cost of production, which is estimated at Rs. 16.69 per nut remained unchanged in 2017 compared to 2016. The government took a number of measures to ease the supply shortfall and subsequent price pressures. Accordingly, the Coconut Development Authority (CDA) temporarily discontinued issuing approvals for fresh nut exports from June 2017. Meanwhile, coconut processors requested to liberalise coconut imports,

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considering the short supply of coconuts in the domestic market to fulfil regular export demands. Accordingly, a policy decision was taken to import coconut kernel required for industries, subject to the recommendations of the committee appointed to monitor the importation of coconut kernel. Meanwhile, considering the market situation, the government revised the SCL on palm oil products with the aim of reducing the demand for coconut towards coconut oil production.

Minor Export Crops

Production of minor export crops declined in 2017 compared to 2016. According to the Department of Export Agriculture, the production of minor export crops (MECs), which consist of 12 major types of crops, registered a decline of 5.9 per cent to 131,189 metric tons. While the production of some crops, such as cinnamon, pepper, cloves and nutmeg increased considerably, the production of crops such as cardamom, coffee, cocoa, arecanut, betel leaves, ginger, turmeric and citronella declined. The reduction in production was a result of multiple factors, such as dry weather and the unusual shift in rainfall patterns in MEC growing areas, increase in the cost of production and price fluctuations in export markets. The planted extent increased in 2017, especially for cinnamon, pepper and citronella. Meanwhile, the volume of MEC related exports increased by 31.7 per cent in 2017 to 57,703 metric tons, over 2016. Betel leaves recorded a notable increase in exports during 2017, compared to 2016. Meanwhile, import volumes of MECs in 2017 had also increased by 16.0 per cent compared to 2016, mainly due to the increase in the import of pepper, cocoa, turmeric and ginger. Pepper imports to Sri Lanka were banned by the government following concerns that low quality imports were being re-exported to other countries under the existing trade agreements.

Other Field Crops

Adverse weather conditions that prevailed during 2017 hampered the production of other field crops (OFCs). Accordingly, total OFC output during the year stood at 509,076 metric tons, which was a decline of 20.0 per cent compared to 2016, while the cultivation extent recorded a drop of 24.5 per cent. Most varieties of OFCs declined during 2017 with the exception of sorghum, meneri and soya beans. Production of potato, which increased steadily during the last five years, reported a decline of 23.4 per cent due to the reduction in the extent cultivated. Meanwhile, red onion and big onion production decreased by 9.3 per cent and 17.8 per cent, respectively. Reflecting the impact of the decline in the domestic output, potato and big onion imports increased by 2.3 per cent and 7.8 per cent, respectively. Production of green chillies declined significantly during the year by 28.3 per cent to 51,827 metric tons. Accordingly, average retail price of green chillies escalated significantly during the year owing to low market supply. Although the total extent under OFCs cultivation declined, the cultivation extent of less water intensive crops such as soya beans increased, resulting in a considerable production growth of 80.8 per cent. The impact of adverse weather conditions highlights the need to improve resilience of the sector through better water management, improved seed quality and efficient markets that would ensure better coordination between the supply and demand of OFC.

Vegetables

Vegetable production, which improved in 2016 amidst adverse weather conditions, recorded a decline in output during 2017. Vegetable production dropped by 9.1 per cent to 1.5 million metric tons in 2017. Production of both low-country and up-country vegetables decreased considerably due to the adverse weather conditions that prevailed throughout the year. As the onset of both monsoons delayed, the commencement of cultivation of both the Maha and Yala seasons, particularly in the up-country areas was delayed. Resultantly, the extent of vegetables cultivated decreased by 6.7 per cent during the year. This was the combined effect of a 7.6 per cent decrease of the cultivated extent during the 2016/17 Maha season and 5.5 per cent decrease in the cultivated extent during the 2017 Yala season. Responding to the lower production of vegetables, the prices remained high during the first half of the year and subsequently decreased during the third quarter of the year with the commencement of harvesting during the 2017 Yala season. However, prices escalated again during the fourth quarter of the year, with the onset of the off peak season for vegetables. However, vegetable production in Jaffna helped to curtail the price pressure in the market to some extent. On the other hand, the high percentage of post-harvest losses during handling contribute towards the escalation in prices, which needs to be reduced, particularly against the backdrop of adverse weather conditions, with a view to mitigating price pressures. Accordingly, the Agriculture sector would benefit from a well managed agriculture logistics network, particularly with respect to highly perishable crops. Meanwhile, 21,696.6 metric tons of vegetables valued at Rs. 4.3 billion were exported during the year. The shift towards commercial agricultural activities that has the potential for investment in better technology would support export earnings as well as enhance livelihoods of people who are engaged in these activities.

Fruits

Fruit production increased during 2017, recovering from the decline in production that was recorded in the previous year. There was an increase in overall fruit production by 9.5 per cent to 1,569,858 metric tons in 2017. The production of plantain, mango, papaw, melon, pineapple and guava increased, while the production of oranges, lime, passion fruit and avocado declined from the previous year. Despite the increased production, fruit prices remained elevated due to the high demand, particularly from the tourism sector. During 2017, Sri Lanka imported 76,139.3 metric tons of fruits valued at Rs. 12.9 billion, while exporting 31,320 metric tons valued at Rs. 6.3 billion. Even though a large variety of fruits are being exported, export oriented commercial cultivation is limited to a few crops such as plantains and pineapples, which are cultivated in an organised manner as an inter crop. Although Sri Lanka exports a considerable amount of fruits, the sector could be further developed through commercial cultivation methods such as investing in controlled environments using tissue cultured plants, which would increase the output as well as the quality of the produce.

Sugar

Sugar production declined in 2017 compared to 2016 mainly as a result of dry weather conditions in sugarcane growing areas, thus reversing the increasing trend recorded in the last two years. While cultivation of high yielding sugarcane varieties, access to proper irrigation systems and field maintenance, and the expansion in planting activities of out-growers contributed to increasing the sugar production in 2015 and 2016, the dry weather conditions that prevailed during most parts of Sri Lanka in 2017 negated the effect of growth enhancing policies. These adverse weather conditions increased the severity of moisture stress, which retarded crop growth and lowered the sucrose content in the cane, thus reducing the sugar recovery rate (the percentage of sugar produced out of the amount of sugarcane crushed).[2] The heavy rains

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

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that followed the dry period reduced sugar recovery as well. Meanwhile, the spread of the white leaf and smut diseases and sugarcane borers, and the inefficiency of plant and machinery that are more than two decades old aggravated the effect of the drought. Total sugar produced by Pelwatte, Sevanagala and Gal Oya (Hingurana) factories declined by 9.3 per cent to 55,552 metric tons in 2017, compared to 61,265 metric tons in 2016. The decline in production in 2017 was a combined outcome of the decline in the amount of sugarcane crushed and the decline in the sugar recovery rate. The extent harvested and the amount of cane harvested declined, resulting in the amount of sugarcane crushed in all three factories declining by 6.3 per cent to 747,662 metric tons in 2017. The total sugar recovery rate of all three factories declined to 7.4 per cent from 7.7 per cent in 2016. The amount of sugarcane supplied by private out-growers increased by 2.8 per cent in 2017. Meanwhile, Pelwatte, Sevanagala and Gal Oya factories accounted for 49.8 per cent, 27.4 per cent and 22.9 per cent, respectively, of the total sugar production in 2017. However, the Gal Oya factory, which recorded a poor performance during the first half of 2017, compared to the first half of 2016, rebounded and recorded a substantially larger production in the second half, resulting in a 29.1 per cent increase in 2017, compared to 2016. Meanwhile, Pelwatte and Sevanagala factories recorded negative growth rates of 19.1 per cent and 11.8 per cent, respectively, compared to 2016. Sugar production in 2017 was sufficient to meet about 10 per cent of the total sugar demand in the country. Sugar imports in 2017 was lower at 498,952 metric tons, compared to 651,181 metric tons in 2016. Sugar consumption by households depict a declining trend as per the recent Household Income and Expenditure Surveys of the DCS, indicating a possible moderation in domestic sugar consumption. Meanwhile, through the National Budget for 2017, the government afforded an increased priority to increase sugar production by calling for the establishment of new factories and encouraging out-growers, with the aim of improving the output in the medium to long-term.

Fisheries

During 2017, fish production remained almost unchanged compared to the level recorded in 2016. There was a marginal increase in the total fish production by 0.1 per cent to 531,310 metric tons in 2017. Marine fish production, which accounted for 84.6 per cent of the total fish production in 2017, declined by 1.7 per cent to 449,440 metric tons, while inland fish production increased by 10.7 per cent to 81,870 metric tons. The reduction in marine fish production was a result of the decline in coastal fish production by 5.3 per cent to 259,720 metric tons, whereas offshore fish production, which comprise the rest of marine fishing, increased by 3.8 per cent to 189,720 metric tons. Inland fish production increased mainly due to the growth in inland capture by 17.3 per cent to 68,510 metric tons, while inland aquaculture, and shrimp and prawn production, which account for the remainder of inland fish production, declined by 7.9 per cent and 23.4 per cent, respectively, to 8,740 metric tons and 4,620 metric tons. While policy support and the removal of the ban on fish exports to the EU helped sustain fish production, the adverse weather

Table 2.6
Fish Production

mt '000

Sub-Sector	2016	2017 (a)	Change (%)	
			2015/16	2016/17 (a)
Marine	457	449	0.9	-1.7
Coastal and Lagoon	274	260	1.9	-5.3
Off-shore	183	190	-0.6	3.8
Inland Fisheries	74	82	9.9	10.7
Capture	58	69	2.4	17.3
Aquaculture	9	9	201.3	-7.9
Shrimp Farms	6	5	-15.0	-23.4
Total	531	531	2.1	0.1

(a) Provisional

Source: Ministry of Fisheries and Aquatic Resources Development conditions that affected the Western and Southern coastal areas during May and November 2017, prolonged dry weather in the deep-sea and substantial post-harvest losses had an adverse impact on marine fishing. The National Aquatic Resources Research and Development Agency has estimated that 40 to 60 per cent of the fish catch is destroyed as unfit for both consumption and processing into dried fish. Meanwhile, the droughts that dried up inland water bodies and the "white spot disease" that spread among shrimp and prawns, affected inland fish production levels in 2017. Meanwhile, fish exports increased by 41.8 per cent in volume terms and 48.5 per cent in rupee terms, compared to 2016, following the removal of the ban on fish exports to the EU in 2016. Exports of fish to the EU accounted for 23.1 per cent of total fish exports in 2017, and grew by 125 per cent over 2016. Meanwhile, fish imports to Sri Lanka declined in 2017 by 8.4 per cent in volume terms and 3.4 per cent in rupee terms.

Livestock

The total national milk production grew by 3.2 per cent to 396.2 million litres in 2017, compared to 2016, due to policy actions such as distributing high-yielding cows and increasing the guaranteed price of milk to farmers, which saw a higher private sector investment into the dairy sector in 2017. Cow milk, which accounted for 82.7 per cent of the total milk production, increased by 3.1 per cent to 327.6 million litres, while buffalo milk production, which accounted for the rest, increased by 3.7 per cent to 68.6 million litres. Meanwhile, milk production at the National Livestock Development Board (NLDB) decreased to 15.0 million litres in 2017 from 17.9 million litres in 2016. The Department of Animal Production and Health (DAPH) estimates that domestic milk production was sufficient to meet 40 per cent of milk consumption of the country during 2017, while the rest was met through imported milk powder. However, 42 per cent of the domestic milk consumption was met with domestic sources in 2016, highlighting the need for continued efforts in improving domestic production to meet the government objective of increasing food security. Meanwhile, milk powder imports decreased by 0.9 per cent to 93,127 metric tons in 2017. The average cost of production of a litre of milk was Rs. 34.69, while the average farmgate price was Rs. 66.34 in 2017. Increase in the price of concentrate feed due to higher prices of coconut poonac and rice bran led to an increase in the cost of production in 2017. The DAPH observed that during 2017, a considerable number of entrepreneurs invested in dairy enterprises by establishing large-scale dairy farms using imported heifer cows and new technology.

Table 2.7
Livestock Sector Statistics

Sub-Sector	2016 (a)	2017 (b)	Change (%) 2015/16 (a)	Change (%) 2016/17 (b)
1. National Herd (No.) (million)	1.2	1.3	-14.1	6.0
Neat Cattle	0.9	1.0	-13.1	5.9
Buffalo	0.3	0.3	-17.4	6.3
2. National Milk Production (million litres)	384.0	396.2	2.6	3.2
Cow Milk	317.9	327.6	4.1	3.1
Buffalo Milk	66.1	68.6	-4.2	3.7
3. Milk Products (million litres) (c)	36.9	42.6	10.1	15.4
4. Producer Price - Cow Milk (Rs./litre)	64.03	66.34	8.7	3.6
5. National Egg Production (No.) (million)	2,059.7	2,072.9	8.5	0.6
6. National Poultry Meat Production (mt '000)	182.7	196.6	5.7	7.6

(a) Revised
(b) Provisional
(c) Includes products of National Livestock Development Board and MILCO (Pvt) Ltd. only.

Sources: Ministry of Rural Economy
Department of Census and Statistics
Department of Animal Production and Health
National Livestock Development Board
MILCO (Pvt) Ltd.

Production of eggs and most types of meat increased substantially in 2017. Production of eggs increased by 0.6 per cent to 2,072.9 million eggs in 2017, which is the highest level of production recorded in five years. Increased imports of layer parents supported this expansion in production during the year. However, the DAPH observed that the supply mechanism was not sufficiently organised to accommodate this large increase in production, which led to an instability in the distribution channels and prices during the latter part of 2017. The cost of production of a large scale egg increased to Rs. 12.81 per egg from Rs. 12.40 per egg in 2016.

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The average price of an egg in 2017 was Rs. 14.08, compared to Rs. 16.10 in 2016, mainly due to the increase in production. Chicken production increased by 7.6 per cent to 196.6 metric tons in 2017. Import of broiler parents increased to 382,421 in 2017, from 333,424 in 2016, whereas the local production of broiler parents decreased to 1.1 million in 2017, from 1.3 million in 2016. The ceiling price imposed for broiler chicken, which was Rs. 420.00 per kilogramme, was removed with effect from 14 March 2017. Production of pork and mutton also increased by 8.4 per cent and 1.4 per cent, to 7,890 metric tons and 1,420 metric tons, respectively. Meanwhile, beef production declined by 4.5 per cent to 30,130 metric tons in 2017.

Agriculture Policies and Institutional Support

The government implemented several programmes targeting the UN Sustainable Development Goal (SDG) on zero hunger, to ensure food security and sustainable agriculture. In the context of this broad policy framework, the government's agricultural policy encouraged the sector through specific policies consistent with its key objective, while allowing a greater role to the private sector. Further, the government launched programmes to redesign policies, grant tax concessions on machinery and fertiliser, rehabilitate tanks, provide new technology and modernise agricultural research and training to encourage higher youth participation in agriculture. Emphasis has also been placed on the development of aquaculture and poultry sectors in view of export earnings and increasing potential for more employment in these two sectors. Even though the government paddy purchasing programme continued to operate in 2017, PMB was unable to purchase stocks of paddy during the year, as market prices were higher than the price paid by the government due to low paddy production. The Rice Research and Development Institute (RRDI) developed climate resilient rice varieties and assessed the strength of resistance at the field level. Although the evaluation of submergence tolerant rice varieties could not be completed due to damages in the flood prone areas, a drought tolerant rice variety, BG 251 was released after successful evaluation. Meanwhile, with a view of promoting the Blue - Green economic programme, the government provided various incentives in the National Budget 2018. These included tax concessions for implementing greenhouse technology that enables advanced technology in agriculture practices, de-silting small and medium tanks in a systematic manner for harvesting rainwater, new weather based insurance cover for farmers and a cost sharing scheme for the

Table 2.8
Food Balance Sheet of Major Food Commodities

Item	Unit	2010			2016			2017 (a)		
		Production	Imports	Per Capita Availability (kg per Year)	Production	Imports	Per Capita Availability (kg per Year)	Production	Imports	Per Capita Availability (kg per Year)
Rice (b)	mt'000	3,011	126	152	3,094	30	147	1,523	748	106
Maize	mt'000	162	16	9	244	51	14	196	191	18
Wheat	mt'000	-	1,051	51	-	948	46	-	1,250	58
Big Onion	mt'000	59	158	10	65	216	13	54	232	13
Sugar	mt'000	31	548	28	62	651	34	56	498	26
Potatoes	mt'000	52	130	9	96	148	12	73	151	10
Fresh Fish	mt'000	385	14	19	531	39	27	531	28	26
Cow Milk	mn litres	192	-	9	318	-	15	328	-	15
Coconut Oil	mt'000	65	3	3	49	3	2	13	10	1

(a) Provisional
(b) 1 mt of paddy = 0.7 mt of rice

Sources: Department of Census and Statistics
Sri Lanka Customs

fisheries sector. Steps have also been taken to improve research and product development in the plantation industry and to strengthen cinnamon and the pepper industries to increase production and value addition.

Tea industry in Sri Lanka celebrated its 150th Anniversary in 2017, with the Sri Lanka Tea Board (SLTB) organising several events locally and globally in collaboration with related institutions to celebrate this milestone while continuing with other development activities to promote the industry. Activities undertaken by the SLTB focused on brand promotion, trade mark protection of the Ceylon Tea lion logo, registration of Ceylon Tea under geographical indications and global promotional campaigns, which largely fell in line with the 150th anniversary celebrations. The SLTB continued to provide financial assistance to tea exporting companies to take part in international trade fairs operated by the SLTB, under the subsidy scheme for trade fair participation. Meanwhile, the SLTB continued its efforts on maintaining the "B Leaf 60" Programme aimed at upgrading average best leaf standards from 33.0 per cent to 60.0 per cent. The SLTB continued the tea replanting subsidy scheme, granting Rs. 32.5 million for 177.6 hectares and the tea factory modernisation scheme, providing subsidies amounting to Rs. 33.2 million for 60 tea factories. During 2017, 71 factories obtained the Hazard Analysis and Critical Control Point (HACCP) Certification, which is a systematic preventive approach to ensure food safety from biological, chemical, and physical hazards during the production processes, which can cause the finished product to be unsafe, and design measures to reduce these risks to an acceptable level. The Tea Research Institute (TRI) undertook research and development activities in the areas of crop improvement and management, land productivity improvement, climate change adaptation, mechanisation of field practices and improvement of the quality of made tea to address the needs of the tea industry as per the TRI Strategic Plan 2013 – 2017. New tea cultivars to improve productivity and quality under the TRI 5000 series were released as TRI 5001, 5002, 5003 and 5004, which are more suitable for up-country tea growing areas. Grafting technique was used for the development of suitable combination of traits for different tea growing regions, with respect to drought and blister blight tolerance, and some combinations revealed positive results. Evaluation of UV treated artificial mulching material in new land clearings for soil moisture conservation and weed control continued. Organically cultivated experimental blocks were evaluated based on crop, soil and pest incidences. A project developed by TRI for popularising mechanical harvesters and devices in the smallholdings continued in 2017. The Tea Small Holdings Development Authority (TSHDA) continued the implementation of tea replanting, new planting and crop rehabilitation subsidy programmes, while introducing an insurance scheme for tea smallholders. During the year, 748 hectares were replanted both in regional plantation companies and smallholdings at a cost of Rs. 454.7 million, while 202 hectares were newly planted at a cost of Rs. 60.2 million. The TSHDA, as the implementation agency of the Smallholder Tea and Rubber Revitalisation (STaRR) project, introduced an upfront payment of Rs. 150,000 per hectare as a replanting subsidy to improve the replanting rate. Financial relief amounting to Rs. 313 million was provided to tea smallholders for the damages caused to tea cultivations by the floods and landslides in May 2017.

With a strategy to increase annual rubber production to 200,000 metric tons by 2030 from the current level of 83,100 metric tons, the

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Rubber Development Department (RDD) and the Rubber Research Institute (RRI) continued their development activities. The 2017 annual action plan for achieving the above targets included productivity improvements and expansion of rubber cultivation to non-traditional areas as the main strategies. Meanwhile, coordination and progress reviewing of activities were carried out under the rubber cultivation programme in the Ampara district through the STaRR project. The master plan for the rubber industry was launched in May 2017 and steps have been taken to set up a Rubber Development Secretariat in collaboration with the public and private sectors to implement this plan. Under productivity improvements, 787.1 hectares were replanted in the rubber smallholder sector and 59.5 hectares were replanted in the corporate sector, while 208.8 hectares were newly planted in traditional rubber growing areas and 464.4 hectares were newly planted in non-traditional rubber growing areas with the aim of expanding the area under rubber cultivation. A committee was appointed to regularise extension services of the rubber sector, which expedited the process of restructuring RDD and commenced a research and extension dialogue between the RDD and the RRI. Measures were taken by the RRI to promote value addition of raw rubber production aimed at developing high-end rubber based products, promote methodologies such as low intensity harvesting to reduce the increasing cost of production and promote replanting high yielding clones in rubber lands. In addition, research activities were carried out in developing crepe rubber based toys, developing latex based compound for inner lining of tanks, developing vulcanising systems for latex based products and testing of organic and inorganic mulching for weed control, while carrying out their regular research activities. The rubber production sector suffers from lack of competitiveness, with low productivity levels resulting from poor adoption of required agro-management practices. Particularly in the smallholder sector, professional plantation management systems with a cluster approach would be beneficial to adopt proper agro-management practices to increase overall productivity of smallholdings. Further, the introduction of productivity based incentive systems for plantation management is required to motivate rubber growers to increase productivity.

The Coconut Research Institute (CRI), CDA and Coconut Cultivation Board (CCB) continued their developmental activities in the coconut sector in 2017. Ministry of Plantation Industries continued to maintain the buffer zone and the area affected by the Weligama Coconut Leaf Wilt disease from preventing the spread of the disease beyond the affected area. Under this programme, 4,081 diseased palms were marked and 3,033 diseased palms were removed. Meanwhile, approval was granted to import 259,900 oil palm seeds for five Regional Plantation Companies in the year 2017, under the supervision of the CRI, as a policy decision was taken to expand Sri Lanka's oil palm cultivation up to 20,000 hectares. Further, a scientific study on the environment impact of oil palm cultivation is being conducted with the collaboration of the Central Environmental Authority (CEA). During the year, the CCB took a policy decision to increase the amount of coconut seedlings distributed on cash basis to enhance the production capacity. In addition, subsidy programmes for soil conservation, organic fertiliser and dolomite application promotion, and drip irrigation systems were initiated to increase coconut production in the short-term. Under the fertiliser subsidy programme, the CCB distributed cash subsidies of Rs. 480 million, covering 170,855 beneficiaries. However, it is noted that productive coconut lands are getting fragmented in recent times, which has a considerable impact on coconut production. Meanwhile, Ministry of Plantation Industries organised the CRT (Coconut, Rubber and Tea) Trade Fair 2017 to provide a platform to the global partners in coconut, rubber and tea industries to meet, network and share knowledge and information on various aspects of industry operations.

The government enhanced its support for sugar production in 2017 with a set of well-placed strategies. As proposed in the National Budget for 2017, the Ministry of Industry and Commerce invited local and foreign investors to invest in sugar factories in Moneragala, Batticaloa, Killinochchi and Ampara Districts, with a minimum plant capacity to crush 2,000 metric tons of sugarcane per day. The government is to provide land to all factories to cultivate sugarcane under the out-grower system. Meanwhile, the Board of Investment entered into an agreement with a foreign investor to re-establish the Kantale sugar factory on a Public Private Partnership basis. The government also imposed a cess of 2 per cent for sugar imports and 5 per cent for ethanol imports to establish a sugar stabilisation fund that will protect sugarcane farmers from the adverse impact of price fluctuations, weather conditions, and pest and elephant attacks. In order to encourage local sugarcane farmers, a minimum price of Rs. 5,000 per metric ton of sugarcane, based on the ex-factory price formula, was established with effect from 01 January 2017. The Sugarcane Research Institute (SRI), which falls under the purview of the Ministry of Plantation Industries, initiated the process necessary to amend the Sugarcane Research Institute Act No. 75 of 1981 to reflect the new sugar sector policy of the government. Meanwhile, the SRI continued to support the industry with research and extension. The SRI was successful at identifying five sugarcane varieties for jaggery production and five more varieties for sugar production, which were released for commercial cultivation in 2017. Further, the SRI produced foundation seeds and maintained nurseries to provide seed cane to farmers. In order to fight pest attacks, the SRI conducted pest and disease surveys in selected Sri Lankan plantations with the help of an insect identification service in Pakistan, and identified two borer species that were not recorded before. Throughout 2017, the SRI carried out research into herbicide treatments, appropriate soil conditions, seedlings, cost and income estimates for different geographic areas as well. The SRI also conducted training programmes and field demonstrations, and educated the farmers on the correct application of fertiliser to increase the recovery rate. During the year, the Gal Oya Plantations (Pvt) Ltd completed the project to build an ethanol distillery. Providing irrigation facilities to the sugarcane cultivations will be a main method of increasing the recovery rate and overall production as well as managing the effects of adverse weather conditions. The Pelwatte plantation has already started building the "Gal Amuna" canal project. Further, since at least four Ministries are overseeing the different factories and sugar related research, maintaining a unified effort with clear consolidated strategic direction will be necessary to ensure the realisation of the government's commendable plan to improve the domestic sugar industry.

The Department of Agriculture (DOA) carried out several programmes aimed at supporting the agriculture sector during 2017. The DOA implemented various programmes to increase productivity in the agriculture sector. Under the Korea Project on International Agriculture (KOPIA), a rice processing centre was established in Rajanganaya and a big onion seed production programme was conducted in Anuradhapura and Mannar districts. The DOA continued with climate resilient agriculture related research activities and new varieties of OFCs and horticulture crops were released during the year. Under the contract growing programme, the DOA purchased 3,340.9 metric tons of certified seed paddy, 789.9 metric tons of registered and certified seeds of OFC and 3.9 metric tons of standard vegetable seeds. Initiatives were taken to improve livelihoods of farmer families, while 30 women organisations were registered in connection with the "Hela Bojun" sales outlets. Under the project on promoting Good Agricultural Practices (GAP), 146 farms have been certified and 22 GAP demonstration farms have been established, while developing a database on commercial farms to facilitate better availability of information to stakeholders. The fertiliser cash grant scheme continued during the year covering paddy, OFCs and smallholders of tea, coconut and rubber. During the year, the government expenditure on fertiliser subsidy programme amounted to around Rs. 30.4 billion. However, there was a fertiliser shortage during the 2017/18 Maha season, highlighting the need for a more efficient mechanism to provide fertiliser to farmers in the country. With a view to promoting organic agriculture, the Ministry of Agriculture continued the organic fertiliser production programme and the DOA took measures to set up 20 district level soil testing laboratories to re-evaluate fertiliser recommendations. Meanwhile, an exhibition was conducted at the Centre for Excellence in Organic Agriculture at Makandura to promote the use of organic fertiliser.

The government continued with measures aimed at improving the irrigation infrastructure of the country during 2017. The construction of the Moragahakanda reservoir, under the Moragahakanda-Kaluganga Development Project (MKDP) of the Mahaweli development plan, has already been completed and the construction of the Kaluganga reservoir is under way, which will be completed by mid-2018. Accordingly, under the Mahaweli Water Security Investment Programme (MWSIP), the Upper Elehera canal will be constructed to transfer water for agriculture and drinking purposes to the dry zone areas in the North and North Central Provinces, in the coming years. Accordingly, the project would help towards further uplifting the socio-economic welfare of the people in the Northern Province and providing safe drinking water to a large population that suffers from drought and lack of safe drinking water. Meanwhile, the Budget 2018 proposed to allocate Rs. 2.0 billion to support programmes and activities under rural irrigation development including drip irrigation, rain water harvesting, and integrated village development. The Department of Irrigation commenced the Polonnaruwa District Irrigation Development Project and Accelerated Irrigation Development project in the Moneragala district to improve access to irrigated water sources in the areas.

The government continued to support the dairy industry through policy measures and providing support services through the DAPH. The government increased the guaranteed price paid to dairy farmers to Rs. 70.00 per litre of milk from June 2017. This measure was a welcome incentive for dairy farmers and encouraged new investments into the sector. The government also took steps to import high yielding cattle during the year. Meanwhile, the National Livestock

Development Board (NLDB) finalised the plans to develop Dairy Development Zones through Public-Private Partnerships, using underutilised lands of the NLDB. In order to support the poultry industry, the government allowed maize imports to Sri Lanka in 2017. DAPH carried out numerous projects in line with the Livestock Sector Master Plan of the government. A new veterinary office was established in the Kegalle District, while another seven veterinary service offices are currently being established throughout the country. Through the Livestock (Dairy) Breeding Project that seeks to boost milk production by strengthening the artificial insemination centres, progeny testing of bull-calves for natural breeding and pasture development were carried out. Through the Heifer Calf Rearing Project, support was provided to farmers to feed and manage artificially born female calves. DAPH also carried out vaccination of animals and conducted a programme to control the Mastitis disease that prevails among dairy herd. Quarantine and surveillance on the Highly Pathogenic Avian Influenza continued.

The Ministry of Fisheries and Aquatic Resources Development (MFARD) took measures to increase fish production for both local consumption and export purposes, while providing for the welfare of the fishing community and ensuring compliance with international regulations. Ensuring the long-term availability of fish and securing access to export markets depend crucially on curbing over-fishing and harmful fishing practices. Therefore, the MFARD undertook numerous measures to implement safeguards and enforce rules and regulations to ensure the long-term viability of the fishing industry. The MFARD banned the use of the "light-course fishing method" (using a strong light underwater to attract fish) in December 2017 and conducted raids with the Sri Lanka Navy throughout the year to prevent using dynamite blasting methods to catch fish. The MFARD spent Rs. 78 million to distribute 2,328 e-logbooks to multi-day fishing vessels to record fishing details, enabling the monitoring of fishing activities, with the view to curb over-fishing. The MFARD plans to introduce fishing gear with special devices that will ensure dolphins are not caught into fishing nets, to comply with international laws. Meanwhile, preliminary work to establish an ornamental fish breeding centre in Puttalam was completed during the year, which aims to breed such fish for export purposes. The MFARD also undertook measures to amend the Fisheries (Regulation of Foreign Fisheries Boats) Act No. 59 of 1979 to increase penalties on foreign boats fishing in Sri Lankan waters illegally. The amendments when enacted, would curb foreign fishermen entering Sri Lankan seas illegally and using harmful practices such as bottom-trawling that damage breeding and feeding habitats of fish. The MFARD also ensured that 68 approved facilities and eight accredited testing laboratories that are engaged in processing fish for export purposes are functioning under the appropriate standards. The MFARD undertook a number of infrastructure development projects to support the fishing industry in Sri Lanka and uplift the living standards of fishing communities. Construction of fisheries harbours, upgrading of harbours and construction of an anchorage progressed in 2017. To reduce post-harvest losses, the MFARD conducted training and awareness building campaigns for fishermen and upgraded 100 multi-day fishing vessels with mechanical line hauling and better cold storage facilities under a subsidised scheme, while improving landing sites in fishing villages and providing free storage facilities. In order to uplift the welfare of the fishing communities and to assist those affected by adverse weather conditions, the MFARD undertook various initiatives which included the construction and renovation of houses, disbursing loans and provision of boats and fishing gear. The Northern Province Sustainable Fishery Development programme was carried out with Asian Development Bank funds. Meanwhile, under the "Wewak Samaga Gamak" programme that commenced in 2016, Rs. 251.8 million was released to the District Secretariats for 168 projects.

The NAQDA implemented various initiatives to support food security and nutrition levels of Sri Lankans, while protecting and developing Sri Lanka's aquaculture resources. Continuing with the efforts taken in 2016 to rehabilitate the shrimp and prawn industry, which has been affected by the 'white spots disease', the NAQDA undertook further measures in 2017, such as dredging of the Dutch Canal, introduction of a crop calendar and zoning, regulation of shrimp hatcheries, screening of post larvae of shrimp and broodstock, and provision of services to farmers through the Shrimp Disease Diagnosis and Health Management Laboratory in Battuluoya. Meanwhile, a freshwater prawn breeding centre was established in Kallar, Trincomalee in 2017 to increase the supply of freshwater prawn and provide higher income avenues to the rural community. The NAQDA undertook the planning work on the Aquaculture Industrial Park in Mannar as proposed in the Budget 2017 and establishing crab cities in Hambantota and Batticaloa. Two Aquaculture Development Centres set up by the NAQDA in Udawalawe and Muruthawela commenced operations in 2017, supplying fish seed for stocking in the reservoirs in the surrounding areas. Meanwhile, the construction of another similar centre in Sevanapitiya continued during 2017. Under the 'Food Production National Programme 2016-2018', the NAQDA renovated four Thilapia aquaculture development centres. Construction of a Freshwater Fish Genetic Development Center in Dambulla commenced in 2017 in order to develop new strains of indigenous species such as Lula and Walaya and to produce high quality broodstock. Further, the NAQDA commenced the establishment of an ornamental fish farm in Polonnaruwa where there are already about 650 ornamental fish farming ponds to provide quality seeds and parent stocks. Meanwhile, operations in the multi-species marine finfish hatchery in Batticaloa commenced. Since Sri Lanka is currently importing all fish bait necessary for tuna fishing, measures were taken to design a milk fish hatchery in Puttalam in 2017 that will grow bait fish required for tuna fishing. In order to support the production of fish specifically for the export market, the NAQDA commenced the construction of a sea cucumber hatchery and a sea bass breeding unit under public-private partnership and provided technical support to breed mud-crabs.

Industry

The value added of Industry activities grew by 3.9 per cent in 2017, compared to 5.8 per cent growth in 2016. The growth during 2017 was mainly driven by the expansion in manufacturing activities. Meanwhile, the growth in construction, and mining and quarrying activities witnessed a slowdown during the year, in comparison to the higher growth observed in the previous year. The other Industry activities, electricity related activities, sewerage, waste treatment and disposal activities, and water collection, treatment and supply activities continued to register positive growth during the year, compared to the previous year.

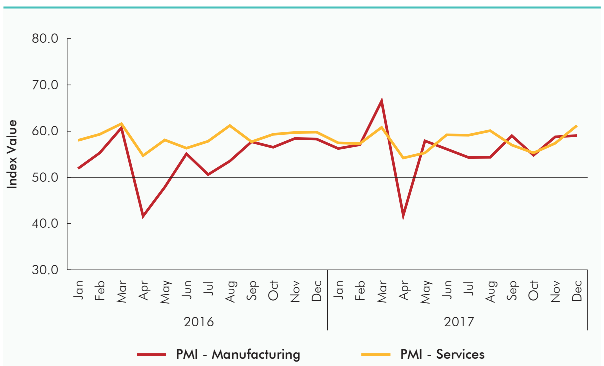
Mining and Quarrying

Mining and quarrying activities grew at a slower rate of 5.9 per cent in 2017, in value added terms, compared to 14.4 per cent growth in 2016. The moderation observed in construction activities adversely affected the growth in mining and quarrying activities to a certain extent during the year. Gem exports contracted in volume terms, while the production of phosphate and graphite also recorded a contraction in 2017 which had a negative impact towards the growth in mining and quarrying activities. However, the production of mineral sands grew significantly during the year with the contribution from the positive growth recorded in the production of ilmenite, rutile and zircon. This was also reflected in the change in the mineral exports volume index, which increased by 18.8 per cent in 2017, compared to the increase of 7.9 per cent in 2016.

Manufacturing

Manufacturing activities grew by 3.9 per cent, in value added terms, in 2017, compared to 3.2 per cent growth in 2016. The expansion in the manufacture of textiles, wearing apparel and leather related products, which grew by 5.7 per cent in 2017 compared to 1.8 per cent growth in 2016, mainly contributed to this growth. The favourable impact of the reinstatement of GSP+ stimulated the expansion in the manufacture of textiles, wearing apparel and leather related products, particularly during the second half of the year. Further, the manufacture of food, beverages and tobacco products, which grew by 1.5 per cent in 2017, recovering from 0.2 per cent contraction recorded in the previous year, also supported the growth in this segment. Moreover, all the other manufacturing categories, except for the manufacture of coke and refined petroleum products, and manufacture of wood and of products of wood and cork except furniture, contributed positively to the overall growth in manufacturing activities. Meanwhile, the Index of Industrial Production (IIP, 2015=100) compiled by the DCS was also increased indicating an expansion in manufacturing activities. Further, the Purchasing Managers' Index (PMI) for manufacturing activities compiled on a monthly basis by the CBSL also indicated an expansion in manufacturing activities during the year.

Chart 2.4
Purchasing Managers' Index (a)



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

Source : Central Bank of Sri Lanka

Index of Industrial Production

Index of Industrial Production[3] (IIP) recorded an increase of 2.5 per cent during 2017, a slightly lower growth than the 3.3 per cent recorded in 2016. The favourable performance of export oriented products, such as wearing apparel, textiles, rubber and plastic products and electrical equipment was supported by improved global demand and gradual recovery of global commodity prices, amidst natural disasters and geopolitical tensions in some countries. Food,

3 Index of Industrial Production (IIP) compiled by the Department of Census and Statistics measures the output of the manufacturing sector of the country. It is based on International Standard Industrial Classification - Rev. 4 with the base year 2015. Accordingly, the analysis of the manufacturing sector from 2017 onwards is based on the IIP instead of the Factory Industry Production Index, which was compiled by the Central Bank of Sri Lanka.

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Table 2.9
Index of Industrial Production (IIP)
2015=100

Division	2016	2017 (a)	Change (%) 2015/16	Change (%) 2016/17 (a)
1. Manufacture of Food Products (35.2%)	101.7	105.0	1.7	3.3
2. Manufacture of Beverages (3.8%)	103.6	91.5	3.6	-11.7
3. Manufacture of Tobacco Products (1.7%)	105.1	106.3	5.1	1.2
4. Manufacture of Textiles (3.3%)	104.0	106.4	4.0	2.3
5. Manufacture of Wearing Apparel (19.8%)	105.7	110.7	5.7	4.7
6. Manufacture of Leather and Related Products (0.3%)	106.0	111.9	6.0	5.6
7. Manufacture of Wood and Products of Wood and Cork, Except Furniture; Manufacture of Articles of Straw and Plaiting Material (0.2%)	99.1	93.7	-0.9	-5.5
8. Manufacture of Paper and Paper Products (1.7%)	111.0	108.4	11.0	-2.3
9. Printing and Reproduction of Recorded Media (1.4%)	103.6	106.9	3.6	3.2
10. Manufacture of Coke and Refined Petroleum Products (7.4%)	99.1	94.3	-0.9	-4.8
11. Manufacture of Chemicals and Chemical Products (4.1%)	104.2	96.6	4.2	-7.2
12. Manufacture of Basic Pharmaceutical Products and Pharmaceutical Preparations (0.1%)	109.1	111.1	9.1	1.8
13. Manufacture of Rubber and Plastic Products (5.7%)	103.7	108.0	3.7	4.2
14. Manufacture of Other Non-metallic Mineral Products (7.8%)	104.7	111.5	4.7	6.5
15. Manufacture of Basic Metals (2.4%)	108.1	120.8	8.1	11.7
16. Manufacture of Fabricated Metal Products (Except Machinery and Equipment) (1.3%)	99.3	115.8	-0.7	16.7
17. Manufacture of Electrical Equipment (2.0%)	98.2	99.9	-1.8	1.7
18. Manufacture of Machinery and Equipment n.e.c. (0.7%)	106.7	112.4	6.7	5.4
19. Manufacture of Furniture (0.8%)	108.8	105.2	8.8	-3.3
20. Other Manufacturing (0.3%)	102.0	98.4	2.0	-3.4
Index of Industrial Production	**103.3**	**105.8**	**3.3**	**2.5**

(a) Revised *Source:* Department of Census and Statistics

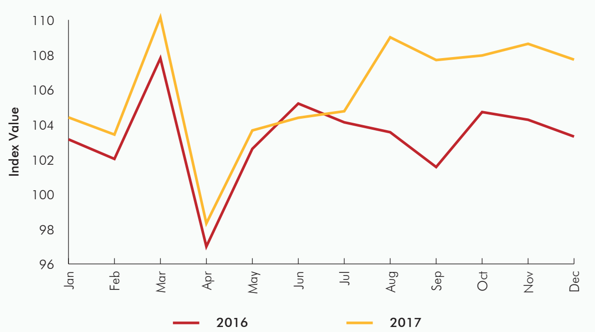
Note: IIP is compiled by the Department of Census and Statistics with the base year 2015 and classified in accordance with the International Standard Industrial Classification (ISIC) Revision 4.

other non-metallic mineral products, basic metals and fabricated metal products, which are largely focused on meeting the domestic demand, also facilitated the growth in the IIP despite supply side disturbances triggered by adverse weather conditions during the year. Nevertheless, output of beverages, coke and refined petroleum products, and chemical and chemical products declined during the period.

Manufacturing of food products, which has the largest share in the IIP registered an increase of 3.3 per cent during 2017, compared with the 1.7 per cent expansion recorded in 2016. Increase in the production of wheat flour, biscuits, ice cream and milk powder, driven by increased consumer demand was the key factor behind this performance. Production of milk powder increased largely due to the increase in capacity by a key producer in the industry. The manufacturing of beverages, which recorded a growth of 3.6 per cent in 2016, declined by 11.7 per cent in 2017, driven by the drop in arrack production. The production of beverages is expected to be further affected by the excise duty imposed on sweetened beverages and liquor in the Budget 2018. The food processing and beverages industry is an important sector in the Sri Lankan economy, being a major contributor for uplifting the agricultural sector with its direct and indirect links, generating employment as well as promoting the health of the nation. The food and beverages sector offers significant growth opportunities, with the increased preference globally and locally for healthy food products with less sugar, fat and salt and more natural ingredients, and organic food. Sri Lanka possesses many traditional and herbal food/beverage varieties and agricultural cultivation practices that could cater to this growing market. Thus, local manufactures should strive to capitalise on these strengths, whilst complying with global quality standards in the food processing and beverage industry, in order to fully harness the emerging and evolving opportunities in the industry.

Based on the IIP, the manufacturing of wearing apparel grew by 4.7 per cent in 2017, against the 5.7 per cent growth of the previous year. Increased exports to the European Union (EU), following the restoration of the EU GSP+ facility in May 2017, as well as to the USA, Canada and other non-traditional markets facilitated this

Chart 2.5
Index of Industrial Production (IIP) (2015=100)



Source : Department of Census and Statistics

growth. Production of textiles on the other hand, reflected a growth of 2.3 per cent in 2017, lower than the 4.0 per cent growth reported in 2016. This growth was mainly driven by the enhanced production of finished fabrics and printed fabrics, particularly during the second half of 2017. Meanwhile, a healthy demand for local textiles from the USA, Kenya, Turkey and Vietnam supported this expansion. Apparel and textile manufacturing is a fast moving dynamic industry. With a variety of factors affecting the success of the industry, productivity enhancement to face price competition, market intelligence for fast responsiveness to rapidly changing customer preferences, product and design development are some of the decisive factors that can contribute towards the growth in the sector. Growing popularity of online sales platforms and increasing demand for ‘fast fashion’ are challenging the entire supply chain in terms of speed and flexibility. At the same time, sustainable manufacturing is gaining prominence in supply chains, from sourcing to product distribution, to make the global value chain more eco-friendly. However, increasing labour costs, amidst the scarcity of labour has become a challenge for local industry. Thus, investing in technology, automation and robotics will support the industry to remain competitive in the global market.

Production of other non-metallic mineral products recorded a considerable expansion of 6.5 per cent in 2017, further to the 4.7 per cent growth in the previous year. Increased production of construction materials, such as cement, roofing tiles, wall tiles and floor tiles during the first half of the year, fuelled by growth in construction activities in recent times supported this positive performance. At the same time, there was a higher domestic as well as export demand, mainly from India, the USA and Australia, for glass and glassware during the year. However, lower production of cement, roofing tiles, wall tiles and floor tiles during the last quarter of 2017 led to a negative growth in the manufacturing of other non-metallic mineral products during the second half of 2017. The trend towards replacing metals and plastic with glass and ceramic will create a high demand for cost effective high quality glass and ceramic based products. Sri Lanka, as a producer of high quality glass and ceramic products, has the potential to further expand in the global market. But Sri Lanka’s competitiveness is challenged by high energy costs and therefore, to remain competitive in the international market, it is necessary to adopt energy efficient and environmental friendly technologies. At the same time, the industry can also focus on a niche market with consumer oriented unique products and designs.

Manufacturing of coke and refined petroleum products declined by 4.8 per cent during 2017 in comparison to the drop of 0.9 per cent in 2016. Refinery activities of Ceylon Petroleum Corporation was disrupted by several operational constraints, leading to a temporary shutdown of the refinery. However, improved refinery efficiency due to renovations resulted in a higher output during the last quarter of 2017.

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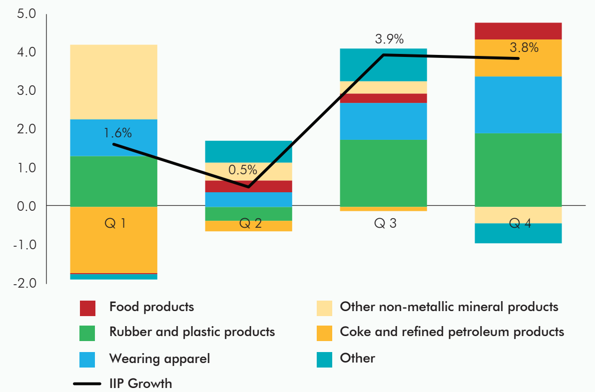
Chart 2.6
Contribution to Year-on-year Change by Major Divisions of IIP



Source : Department of Census and Statistics

Manufacturing of rubber and plastic products increased by 4.2 per cent in 2017, over the growth of 3.7 per cent in 2016. A considerable increase in the production of rubber tyres was witnessed during the period, largely supported by improved exports to the USA, Canada, Brazil and European markets as well as the local market. In addition, the expansion in the production of rubber gloves during 2017 can be attributed to higher export demand, particularly from the USA, Brazil, India and Canada. Sri Lankan rubber products have earned a reputation for high quality and reliability in the global market and has the potential to make further contributions towards the generation of foreign exchange revenue and employment opportunities in the country. Currently, the sector faces several challenges such as higher cost of labour, lack of skilled labour and low productivity. Thus, to remain competitive in the global market in a sustainable manner, it is necessary to take measures to progress towards the high-end of the value chain whilst complying with global standards. To this end, it is vital to invest considerably on new technology and research and development, while improving productivity and value addition, with the aim of building a global brand for Sri Lankan rubber based products.

Production of chemicals and chemical products contracted by 7.2 per cent, compared to the growth of 4.2 per cent in 2016. This was largely due to the significant decline in fertiliser processing that may be linked to lower demand for fertiliser, owing to lower agriculture activity due to adverse weather conditions that prevailed during the year. At the same time, manufacturing of paints too reported a large drop, dampening the growth in the manufacturing of chemicals and chemical products. Hence, the domestic demand for paints was largely met through imports.

Manufacturing of basic metals witnessed a growth of 11.7 per cent in 2017, compared to the expansion of 8.1 per cent reported during the previous year. Increased production of lead, aluminium extruded products, aluminium bars and steel bars fuelled this enhanced output. Furthermore, fabricated metal products too showed a higher output, with a growth of 16.7 per cent, compared to the negative growth of 0.7 per cent in 2016. Higher demand from construction activities provided impetus for this improved performance.

Production of electrical equipment recovered from its weak performance in 2016, recording a growth of 1.7 per cent, against the negative growth of 1.8 per cent in the previous year. An increase in the production of electric panel boards, transformers and transformer related components was observed during the period, which was facilitated by a considerable increase in the exports of machinery and mechanical appliances to India, Germany, the UK and the USA during the year. However, the growth decelerated during the last quarter of 2017, largely due to a decrease in the manufacturing of coil devices, transformers and heavy cables.

Manufacturing of tobacco products increased by 1.2 per cent compared to the slightly higher growth of 5.1 per cent in 2016. Production of cigarettes experienced a considerable setback during the first half of the year, which could be attributed to lower consumer demand, led by increased cigarette prices due to higher taxes since 2016. However, increased production of tobacco based products, largely to the export market, during the second half of 2017 generated a growth in the manufacturing of tobacco products.

Industrial Policies and Institutional Support

The government implemented diverse initiatives targeting the development of physical and regulatory infrastructure, funding sources, market access and technical know-how to support manufacturing industries. The Budget for 2017 contained measures to build competencies of micro, small and medium enterprises (MSMEs), attract foreign direct investment, develop export focused industries and support research and development. Further, the Budget 2018 placed prominence on manufacturing industries by choosing "Enterprise Sri Lanka" as one of the themes. Importantly, it was announced that entrepreneurship and skill building must start from the primary school level and a host of measures were introduced to gear Sri Lanka's education policy towards promoting well-balanced, innovative and productive citizens who can support high-quality manufacturing industries and drive economic growth in the long-term. While various Ministries and institutions under their purview strived to implement most of the policies introduced through the Budget 2017, some vital proposals to ensure long-term viability of the industry sector remained unimplemented, which highlights the need for strong governance and accountability mechanisms on operationalising the important policy actions announced to the public by the government.

The Ministry of Industry and Commerce (MIC) together with the institutions under its purview implemented policy measures to support industries and promote manufactured exports. Initiatives aimed at improving manufacturing capacity included the commencement of the development of a 200-acre Techno Super Zone in Raigama, which will be dedicated to consumer and technological products. The Ministry also planned to establish industrial estates (IEs) in Welioya, Batticoloa and Musali to provide incentives for private sector investors to invest in rural areas which were affected by war. Meanwhile, the Industrial Development Board (IDB) under the MIC implemented measures to upgrade the infrastructure facilities in the 29 existing IEs. Having identified the importance of supporting the food and beverage industry, which is the largest manufacturing industry in Sri Lanka with proper regulations, the MIC completed the Accredited Food Laboratory and supported small industries in the food sector to obtain the Good Manufacturing Practices (GMP) certification. The Budget 2017 allocated Rs. 500 million to revitalise the textile and handloom industry by providing infrastructure through the IDB. Under the "Economic Empowerment of Women through the Mini-Factories" project, establishing 150 mini apparel factories were completed in selected districts during 2017. Meanwhile, the Sri Lanka Institute of Textile and Apparel conducted research into innovative products such as the banana-yarn industry.

The Board of Investment (BOI), which functions under the Ministry of Development Strategies and International Trade (MODSIT), continued to play an important role in facilitating foreign and local investment for manufacturing industries. The "single window investment facilitation taskforce" provided necessary linkages to the relevant line agencies to expedite the project approving process, through a function based virtual platform. During 2017, the BOI identified target sectors for attracting FDIs and to generate export revenue through a study conducted in collaboration with the Harvard University's Centre for International Development and the World Bank. Based on the study, high value added and technologically intensive goods such as automotive components, medical devices, pharmaceuticals, solar panels, fabricated metal parts, value added minerals, smart textiles, niche apparels, processed fish, sea-food, fruits, vegetables and dairy products have been identified as potential industries from the manufacturing sector. Meanwhile, the BOI designed plans to develop export processing zones in Bingiriya, Matara and Milleniya in 2017.

The government carried out targeted policy measures to support the Micro, Small and Medium Industries through improving access to finance, training and development, provision of market intelligence and product development. The National Enterprise Development Authority (NEDA), which is under the MIC, commenced compiling a database on MSMEs, while implementing a number of programmes to enhance productivity, market access, and technical skills of MSMEs. Further, the National Craft Council registered handicraft manufacturers and provided training and development on technical aspects as well as market access and entrepreneurial skills to uplift the sector. Meanwhile, the Ministry of Finance and Mass Media together with the Asian Development Bank (ADB) took initial steps towards implementing a 'National Credit Guarantee Scheme' to provide guarantees for loans obtained by SMEs and a Venture Capital Fund to improve equity funding for SMEs, with the objective of enhancing access to finance. Further, an Environmental Clearance Policy for SME lending through refinance loan schemes to promote environmental friendly products and energy conservation was introduced while coordinating 12 other loan schemes proposed in the Budget 2017 to increase the availability of low cost finance for SMEs. Meanwhile, the National Productivity Secretariat implemented training programmes that build awareness on methods to increase efficiency in business processes to support MSMEs.

The government took measures to equip the labour force with necessary knowledge and skills to work in the manufacturing sector. The Ministry of Skills Development and Vocational Training (MSDVT) took various measures to improve technical and vocational training activities and to address the acute labour shortage issue in manufacturing and construction industries. The MSDVT implemented a linked employment programme, with the private sector as proposed in the Budget 2017, to provide a monthly stipend of Rs. 10,000 for three months to train students in private sector manufacturing firms, while granting other scholarships to students enrolled in vocational training institutions.

The government took initiatives to invest in research and development projects by partnering with the private sector to promote research and development activities in the manufacturing sector. The Ministry of Science, Technology and Research (MSTR) together with the

Coordinating Secretariat for Science, Technology and Innovation (COSTI), carried out the "Innovating Sri Lanka" programme launched in 2016. Further, the MSTR and the COSTI engaged in the planning process to establish the "Biotechnology Innovation Park", which was proposed in the Budget 2017. The Sri Lanka Institute of Biotechnology Research will be a state of the art one stop shop for companies in the medical field, agriculture sector, the manufacturing sector and bio-energy generation. The MSTR and the COSTI carried out plans to establish the Centre of Excellence in Robotics Applications, which is to operate under the IDB. Under the Mechatronics Enabled Economic Development Initiative, the government approved the establishment of a 'Product Design Engineering and Manufacturing Park' in 2017, which will include a 'Standard Prototyping and Testing Facility' to be managed by the National Engineering Research and Development Centre for use by the private sector. The Sri Lanka Institute of Nanotechnology (SLINTEC), carried out the activities to set up the 'Technology Transfer Unit' to commercialise some of the research findings during 2017. As per the Memorandum of Understanding signed between the SLINTEC and the Export Development Board (EDB), a SLINTEC Satellite Unit was set up in the EDB premises and "science clinics" were conducted for exporters. The SLINTEC also established the "Academy of the Sri Lanka Institute of Nanotechnology" in 2017 as a private non-profit postgraduate institute, with the aim of increasing the research output through the research undertaken as a part of postgraduate study programmes, while making greater use of the sophisticated laboratory equipment at SLINTEC. Some of the research projects of SLINTEC for 2017 included hybrid fertiliser that uses locally produced compost, wound dressing material that uses honey, nano-fertiliser for paddy fields with specific soil types and extraction of titanium from ilmenite. Further, the MSTR finalised the operational framework to implement the "Innovation Accelerator Fund" proposed in the Budget 2017.

The National Science Foundation (NSF) and the Industrial Technology Institute (ITI) engaged in new product development and process innovations, and supported MSMEs with technological enhancements. The NSF prepared technical reports on solid waste management and indigenous scientific knowledge and granted financial support for researchers working in the fields of small and medium sized boat building, Sri Lankan cinnamon, food security, impact of natural disasters, etc. Two patents were granted in 2017 for research funded by the NSF. Meanwhile, collaborative research programmes were initiated in 2017 with Pakistan, China and Japan and joint calls for research proposals were issued on Sri Lanka's vital research issues. The ITI embarked on an Indo-Sri Lanka Joint Research Programme on spices while signing an agreement to establish a joint laboratory on biotechnology to conduct research with a Chinese Science and Technology institution. The ITI also undertook new product development in 2017 in numerous areas such as digital humidity and temperature monitoring, Sri Lankan flora, the dengue virus, contaminated wastewater, tea, rubber, graphite, paper, pesticides, instant food products, rabies vaccine for animals, equipment for cereal dehydration, and red-clay based products, and carried out joint research with private sector enterprises in these fields.

The National Gem and Jewellery Authority (NGJA) strived to improve the quality standards of the gem and jewellery industry. The NGJA introduced compulsory jewellery hallmarking and built awareness among the industry players on computer aided designing and computer aided manufacturing while training lapidaries. The NGJA also improved the gem testing and certification laboratory and introduced a mobile laboratory that visits various geographical areas where gem transactions are common, to assist customers to identify genuine gems and issue gem certificates. Since the government allowed the importation of gems to Sri Lanka for value addition and export, the NGJA took part in developing necessary diplomatic strategies.

Trade and Industry Chambers and Associations continued to support and facilitate the industry sector by being a collective voice in lobbying with the government, conducting training programmes, building awareness on new developments and regulations, organising trade exhibitions and facilitating trade delegations. The Ceylon Chamber of Commerce and the National Chamber of Commerce conducted the "meet the Ambassador" programme for industrialists to explore trade opportunities with foreign countries. These chambers undertook training programmes, organised exhibitions, provided policy suggestions to the government and facilitated large companies to link up with smaller companies that can provide inputs. The Sri Lanka Food Processors' Association held the annual international food, beverage and agricultural packaging exhibition called "Pro Food Pro Pack" in Sri Lanka in 2017 and organised a seminar on "Export Food Trade" with the Institute of Food Science and Technology. The Association also supported training programmes for testing and laboratory officers of the Sri Lankan Standards Institute for testing of food, to ensure compliance with ISO certifications. The Sri Lanka Chamber of Small and Medium Industries (SLCSMI) conducted a project with the assistance of the ADB, aimed at building the capacity of SMEs for strengthening the export value chains through cluster development and cluster financing. The SLCSMI took measures to convey concerns faced due to foreign competition by footwear manufacturers, manufacturers of adhesives and water-proofing materials and textile manufacturers to relevant authorities. Further, the SLCSMI initiated the "Mentor on Road Project" by selecting 600 micro and small enterprises to equip them with low cost tools for national and global marketing and to encourage them to access broader national and global markets.

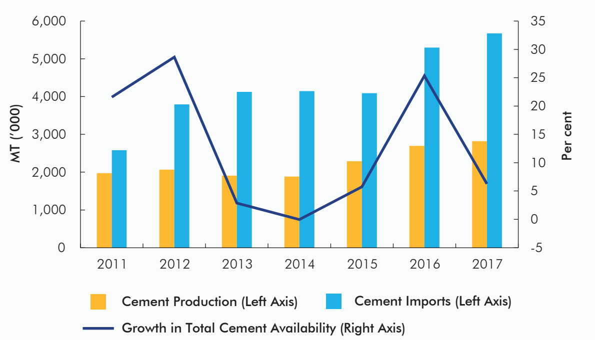
Electricity, Water and Waste Treatment

The value added of electricity, water and waste treatment activities grew by 3.9 per cent in 2017, albeit at a slower rate, compared to 10.1 per cent growth in 2016. Being the main contributor towards the growth in this category, electricity, gas, steam and air conditioning supply activities, grew at a slower pace of 2.7 per cent in 2017, compared to 8.4 per cent growth in 2016. This moderation was also reflected in the slower growth of 3.7 per cent in total electricity generation in 2017, compared to 8.1 per cent growth in 2016. Moreover, hydropower generation contracted by 12.1 per cent in 2017, compared to 29.0 per cent contraction in 2016, due to the prolonged drought that prevailed in the catchment areas, particularly during the first half of the year. Therefore, fuel oil and coal based power generation expanded during the year to meet the electricity demand. Accordingly, fuel oil based power generation grew by 13.1 per cent in 2017 compared to 96.0 per cent growth in 2016, while coal based power generation grew by 1.1 per cent in 2017, in comparison to 13.6 per cent growth observed in 2016. The water collection, treatment and supply activities expanded by 4.6 per cent in 2017, compared to 7.9 per cent expansion in 2016, which was also reflected in 3.0 per cent increase in the units of water distributed by the National Water Supply and Drainage Board (NWS&DB) in 2017, compared to 12.0 per cent growth in 2016. Further, the number of consumer accounts of the NWS&DB grew by 6.1 per cent in 2017, compared to 7.1 per cent growth in 2016. Meanwhile, the sewerage, waste treatment and disposal activities grew at a slower rate of 7.9 per cent in 2017, compared to the growth of 17.8 per cent in 2016.

Construction

The value added of construction activities grew by 3.1 per cent in 2017, yet at a slower pace, compared to 8.3 per cent growth in 2016. This slowdown in construction activities was reflected in cement production and imports, which grew at slower rates of 4.6 per cent and 7.1 per cent, respectively, in 2017, compared to the respective growth rates of 17.8 per cent and 29.5 per cent in 2016. It collectively recorded a 6.3 per cent growth in 2017, compared to 25.3 per cent growth in 2016. Further, the building material imports volume index, which increased by 22.9 per cent in 2016, recorded an increase of 6.8 per cent in 2017, indicating a moderate performance in construction activities. In the meantime, the realised growth in construction activities was supported by the infrastructure projects, and large scale residential and mixed development projects. Meanwhile, the growth in credit extended to the private sector for construction activities by Licensed Commercial Banks (LCBs) slowed down to 22.5 per cent as at end December 2017, compared to 26.9 per cent growth recorded as at end December 2016. Further, credit granted for personal housing construction activities by LCBs grew by 22.3 per cent as at end December 2017, reflecting the private sector involvement in construction activities.

Chart 2.7
Cement Availability



Source : Central Bank of Sri Lanka

Services

The Services related economic activities expanded by 3.2 per cent in 2017, in value added terms, compared to 4.7 per cent growth in 2016. The growth in Services activities during the year was largely backed by the expansion in financial services activities together with the developments in wholesale and retail trade activities. Further, the growth in other personal services, real estate activities, human health activities, transportation, accommodation services, professional services, insurance, telecommunication, education and IT related activities contributed positively towards the expansion in Services activities. However, public administration services contracted during the year. Meanwhile, the PMI for Services activities, compiled by the CBSL on a monthly basis, also denoted an expansion in Services activities throughout the year.

Wholesale and Retail Trade

The value added of wholesale and retail trade activities continued its growth momentum, recording a 3.8 per cent growth in 2017, compared to 2.5 per cent growth in 2016 largely reflected by the expansion in

external trade, amidst the decline in domestic agricultural related trade particularly due to the severe drought conditions that prevailed during the year. This expansion during the year was also reflected in the movements of import and export trade volume indices. Accordingly, the import volume index increased by 7.7 per cent in 2017, compared to 7.0 per cent increase in 2016. The importation of consumer goods and intermediate goods increased during the year, while investment goods registered a marginal decline. Accordingly, the consumer goods imports volume index increased by 6.9 per cent in 2017 against 12.0 per cent decline in 2016, which was largely backed by the significant increase in food and beverages imports, to compensate for the decline in domestic agriculture production, as a result of severe drought conditions that prevailed in the major cultivation areas. Meanwhile, the intermediate goods imports volume index increased by 10.7 per cent in 2017, compared to 10.8 per cent increase in 2016. However, the investment goods imports volume index declined marginally by 0.1 per cent in 2017 largely due to the contraction in machinery and equipment imports. Meanwhile, the exports volume index increased by 7.6 per cent in 2017 against the marginal decline of 0.7 per cent in 2016, mainly driven by the industrial exports, which registered a substantial increase of 7.9 per cent in 2017, in comparison to 0.4 per cent increase in 2016. Further, the notable recovery in agricultural exports, particularly due to the significant growth in spices and seafood exports, in comparison to the significant contraction observed in 2016, also supported this growth.

Transportation and Storage

The value added of transportation of goods and passengers, including warehousing activities, grew by 0.9 per cent in 2017, albeit at a slower rate, compared to 5.5 per cent growth in 2016. The passenger kilometers operated by transport services witnessed a slowdown during the year, reflecting a moderation in transport activities. Accordingly, the passenger kilometers operated by the Sri Lanka Transport Board and the private sector bus operators contracted by 1.8 per cent and 2.4 per cent respectively, in 2017, compared to the respective growth rates of 6.1 per cent and 2.0 per cent in 2016. However, the passenger kilometers operated by the Sri Lanka Railways (SLR) grew by 1.1 per cent in 2017 compared to 0.1 per cent marginal growth in 2016. Further, the total passenger kilometers flown by Srilankan Airlines increased at a higher rate of 8.8 per cent in 2017, compared to 0.8 per cent growth in 2016. Meanwhile, the container traffic (Twenty Foot Equivalent Units - TEUs) and cargo handled by Sri Lankan ports grew by 8.3 per cent and 8.5 per cent, respectively, in 2017, in comparison to respective growth rates of 10.6 per cent and 11.5 per cent in 2016. Moreover, the freight ton kilometers transported by SLR increased by 3.5 per cent in 2017, compared to 7.6 per cent growth in 2016. In the meantime, the freight ton kilometers flown by Srilankan Airlines grew by 9.8 per cent in 2017, in comparison to the same growth in 2016. Meanwhile, the growth of postal and courier activities moderated during the year, recording a growth of 3.9 per cent in 2017, compared to the growth of 5.1 per cent in 2016.

Accommodation and Food Service Activities

The accommodation, food and beverage service activities increased by 5.0 per cent in value added terms in 2017, compared to 4.0 per cent growth in 2016. This expansion during the year was supported by tourism related activities, reflecting an increase in tourist arrivals by 3.2 per cent in 2017 despite the partial closure of the Bandaranaike International Airport during the first quarter of the year. Western Europe, where the spending power of tourists is relatively high, recorded the highest number of tourist arrivals as a region during the year. Meanwhile, the room occupancy rate in graded hotel establishments approved by the Sri Lanka Tourism Development Authority (SLTDA) declined marginally to 73.3 per cent in 2017, in comparison to 74.8 per cent in 2016. Further, the earnings from tourism activities increased to US dollars 3.6 billion, with a growth of 3.2 per cent during the year. The growing demand for restaurants and hotels facilities, as reflected by the increase in private consumption expenditure also contributed to the growth in accommodation and food services.

Information and Communication

The value added of information and communication activities grew by 10.2 per cent in 2017, compared to 8.0 per cent growth in 2016. The growth during the year was largely driven by the expansion in telecommunication activities, which grew by 12.0 per cent in 2017, in comparison to 8.3 per cent growth in 2016. Considering the growth in total telephone connections, the cellular subscribers and fixed access wireline connections increased continuously, whilst fixed access wireless connections recovered, registering a positive growth during the year. Further, email and internet services of both fixed and mobile broadband categories grew at a higher rate, reflecting the growing demand for internet services of the economy. Meanwhile, IT programming consultancy and related activities expanded by 4.2 per cent in 2017, compared to 7.1 per cent expansion in 2016. Further, programming and broadcasting, and audio/video production activities grew by 13.2 per cent in 2017, compared to 7.9 per cent growth in 2016.

Financial, Insurance and Real Estate Activities including Ownership of Dwellings

The financial, insurance and real estate activities including ownership of dwellings expanded by 7.0 per cent in 2017, in value added terms, compared to 9.2 per cent growth in 2016. The financial service activities and auxiliary financial services, which grew by 9.4 per cent in 2017, compared to 12.3 per cent growth in 2016 primarily contributed to this growth. In this regard, the gross loans and advances in banks and non-bank financial institutions grew by 16.1 per cent and 10.2 per cent, respectively, in 2017, in comparison to the respective growth rates of 17.5 per cent and 20.1 per cent in 2016. Further, the deposit base of banks and non-bank financial institutions grew by 17.5 per cent and 29.4 per cent, respectively, in 2017, compared to the respective growth rates of 16.5 per cent and 10.4 per cent in 2016. Accordingly, the total loans and deposit base of the banking industry and non-bank financial institutions grew by 16.8 per cent in 2017, compared to 17.0 per cent growth in 2016. Meanwhile, real estate activities including ownership of dwellings grew by 4.7 per cent in 2017, compared to 6.3 per cent growth in 2016. In the meantime, the insurance, reinsurance and pension funding activities expanded by 5.7 per cent in 2017, in comparison to 8.5 per cent growth in 2016. The premiums earned by the insurance industry in 2017 increased by 12.2 per cent, while claims incurred contracted marginally by 1.7 per cent. In comparison, premiums earned and claims incurred in 2016 increased by 18.2 per cent and 19.4 per cent, respectively.

Professional Services and Other Personal Service Activities

The professional services and other personal service activities grew at a higher rate of 3.3 per cent in 2017, in comparison to 0.9 per cent growth in 2016. The other personal service activities, being the major contributor to the segment, continued to expand during the year by 3.2 per cent compared to 1.3 per cent growth in 2016. Meanwhile, professional, scientific, technical, administration and support service activities, which include the services that require professional expertise, grew by 4.3 per cent in 2017, recovering from 1.3 per cent contraction in 2016 and supported the expansion in the segment.

Public Administration, Defence, Education, Human Health and Social Work Activities

The growth in public administration, defence, education, human health and social work activities contracted by 1.2 per cent in 2017 against the 4.9 per cent growth in 2016. This setback was largely attributable to the contraction of 4.8 per cent in 2017 compared to the expansion of 5.2 per cent in 2016 in public administration, defence and compulsory social security activities, which account for the largest share of the segment. However, human health activities, residential care and social work activities recorded a significant expansion by registering a growth of 7.2 per cent in 2017, in comparison to 1.5 per cent growth in 2016. Meanwhile, the growth of education services slowed down to 0.5 per cent in 2017 from 7.5 per cent growth in 2016.

Chart 2.8
Business Condition Index (a)

(a) This index ranges from 0-200 where an index value above the neutral level of 100 denotes an improvement, while a value below 100 denotes a deterioration in the business sentiment.

Source : Central Bank of Sri Lanka

Developments in Economic Activities as reflected through Business Outlook Survey

Business Outlook Survey, which is a forward looking survey conducted by the CBSL on a quarterly basis, targeting large scale business entities, covering Agriculture, Industry and Services activities, also reflected subdued business conditions during the year. In fact, the Business Condition Index compiled through this survey remained below neutral level of 100 throughout the year indicating a deterioration in business condition. Moreover, policy inconsistencies, labour market imbalances and high interest rates were identified as major constraints to fast-track business activities. However, outlook for the first quarter of 2018 indicates an improvement mainly supported by the recovery in Agriculture activities.

2.5 Expenditure

On the expenditure front, the Gross Domestic Expenditure (GDE), which consists of the total consumption and investment expenditure of the economy, expanded by 11.5 per cent in 2017 compared to 8.5 per cent growth in 2016 and was estimated at Rs. 14,247.7 billion at current market prices during the year. The growth in both consumption and investment expenditure contributed towards the expansion in GDE. The consumption expenditure, which grew at 3.1 per cent in 2016, grew by

9.0 per cent in 2017, while investment expenditure showed some slowdown from 22.0 per cent growth in 2016 to 16.6 per cent growth in 2017. At constant prices, the GDE grew by 6.8 per cent in 2017, compared to 6.3 per cent growth in 2016. The consumption expenditure at constant prices grew at a marginal rate of 0.6 per cent when compared to a higher growth at current market prices in 2017, reflecting the increased price levels of the economy. Meanwhile, investment expenditure grew by 17.2 per cent in 2017 at constant prices, in comparison to 27.1 per cent growth in 2016. Meanwhile, net external demand worsened further, recording a contraction of 9.6 per cent in current market prices in 2017 compared to the contraction of 6.0 per cent in 2016, reflecting the significant increase in the import of goods and services, in comparison to the growth in the export of goods and services in rupee terms. Moreover, at constant prices, the rupee value of exports and imports grew by 7.5 per cent and 19.3 per cent, respectively, in 2017, resulting in a further deterioration of the net external demand. In view of the trade indices, a similar increasing trend could be observed in both exports and imports volume and value indices. The increase in both imports volume and value indices was mainly driven by the increase in consumer and intermediate goods imports particularly owing to the severe drought conditions that prevailed in the country, while investment goods imports witnessed some slowdown. With respect to exports, all major export categories including industrial, agricultural and mineral exports volume and value indices increased during the year. Consequently, the GDP at current market prices, which is the total demand for final goods produced in the economy, that consists of GDE and the net external demand, expanded by 11.6 per cent at current market prices, amounting to Rs. 13,289.5 billion in 2017, where as at constant prices, it grew by 3.1 per cent.

Consumption

The growth in consumption expenditure accelerated by 9.0 per cent at current market prices in 2017, in comparison to 3.1 per cent growth in 2016, accounting for a 70.7 per cent share of aggregate expenditure of the economy. In comparison to the slowdown witnessed in total consumption expenditure in the previous year, it gathered momentum during 2017 contributed

Table 2.10
Aggregate Demand (a)

Item	Current Market Prices (Rs.mn)			Constant (2010) Prices (Rs.mn)		
	2015 (b)	2016 (b)(c)	2017 (c)	2015 (b)	2016 (b)(c)	2017 (c)
A. Domestic Demand						
Consumption	8,360,930	8,616,150	9,393,491	6,584,691	6,369,395	6,405,552
(% Change)	6.5	3.1	9.0	7.8	-3.3	0.6
Gross Domestic Capital Formation	3,414,556	4,164,890	4,854,187	3,006,450	3,821,310	4,478,393
(% Change)	2.0	22.0	16.6	3.8	27.1	17.2
Total Domestic Demand	**11,775,486**	**12,781,040**	**14,247,678**	**9,591,141**	**10,190,705**	**10,883,945**
(% Change)	**5.2**	**8.5**	**11.5**	**6.5**	**6.3**	**6.8**
B. External Demand						
Export of Goods and Services	2,301,065	2,540,049	2,914,309	1,605,147	1,593,234	1,712,567
(% Change)	5.3	10.4	14.7	4.7	-0.7	7.5
Import of Goods and Services	3,125,931	3,414,338	3,872,521	2,548,455	2,749,649	3,281,024
(% Change)	3.5	9.2	13.4	10.6	7.9	19.3
Net External Demand	**-824,865**	**-874,289**	**-958,212**	**-943,307**	**-1,156,414**	**-1,568,457**
(% Change)	**1.4**	**-6.0**	**-9.6**	**-22.4**	**-22.6**	**-35.6**
C. Total Demand	**10,950,621**	**11,906,752**	**13,289,466**	**8,647,833**	**9,034,290**	**9,315,488**
(% Change)	**5.7**	**8.7**	**11.6**	**5.0**	**4.5**	**3.1**

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

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

2

by increased consumption in both private and government sectors. The private consumption expenditure (PCE) that accounts for 88.0 per cent of total consumption expenditure grew at a higher rate of 8.7 per cent in 2017, compared to 3.1 per cent growth in 2016. This expansion was also reflected by the recovery in consumer goods imports volume and value indices during the year, in comparison to the contraction in 2016. In the meantime, the government consumption expenditure (GCE) grew by 11.4 per cent in 2017, compared to 3.0 per cent growth in 2016. This was reflected in both government individual consumption expenditure and collective consumption expenditure, which grew by 8.4 per cent and 12.9 per cent, respectively, in 2017, compared to 2.7 per cent and 3.2 per cent, respectively, in 2016. The expansion in GCE was also reflected by the increase in the government recurrent expenditure on interest payments, and salaries and wages, which grew by 20.4 per cent and 2.1 per cent, respectively, in 2017, compared to 19.9 per cent and 2.6 per cent growth, respectively, in 2016.

PCE on food and non-alcoholic beverages, the largest expenditure category of PCE, grew at a higher rate of 5.4 per cent in 2017 at current market prices as against the 2.5 per cent contraction observed in 2016. This expansion was also reflected in the food and beverages imports value index in rupee terms, which increased by 18.4 per cent in 2017, compared to 7.3 per cent increase in 2016. Further, this was also mirrored by the rebound in the food and beverages imports volume index, which increased by 18.2 per cent in 2017, against 3.1 per cent decline in 2016. The growth of PCE, on food and non-alcoholic beverages at current market prices, was partly driven by higher price levels, as reflected by the increased food inflation based on the National Consumer Price Index (NCPI, 2013 = 100), which increased at a higher rate of 11.3 per cent in 2017, compared to 3.1 per cent in 2016. However, the share of the food and non-alcoholic beverages category in PCE, marginally declined to 29.1 per cent in 2017 from 30.0 per cent in 2016.

Table 2.11
Composition of Private Consumption Expenditure at Current Market Prices (a)

Category	Share of Total PCE (%)			Rate of Change (%)	
	2015 (b)	2016 (b)(c)	2017 (c)	16/15 (b)(c)	17/16 (c)
1. Food and Non-alcoholic Beverages	31.7	30.0	29.1	-2.5	5.4
2. Alcoholic Beverages, Tobacco and Narcotics	1.9	2.0	2.0	9.3	9.2
3. Clothing and Footwear	5.4	5.4	4.0	2.4	-20.6
4. Housing, Water, Electricity, Gas and Other Fuels	10.4	11.5	11.2	13.7	5.7
5. Furnishings, Household Equipment and Routine Household Maintenance	1.3	1.5	1.4	19.7	1.4
6. Health	2.8	3.1	3.0	11.5	8.2
7. Transport	18.5	18.7	21.6	4.4	25.6
8. Communication	1.0	1.1	1.1	9.8	4.4
9. Recreation and Culture	2.3	1.9	1.8	-14.8	5.6
10. Education	1.4	1.3	1.2	-1.8	-1.8
11. Restaurants and Hotels	4.2	4.4	4.6	7.9	11.8
12. Miscellaneous Goods and Services	21.8	22.8	23.2	7.7	11.1
13. Direct Purchases Abroad by Residents	2.8	3.1	3.1	15.0	8.5
14. Less: Direct Purchases in Domestic Market by Non-residents	5.6	6.8	7.3	26.3	16.6
Total Private Consumption Expenditure	**100.0**	**100.0**	**100.0**	**3.1**	**8.7**

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

Source: Department of Census and Statistics

PCE on alcoholic beverages, tobacco and narcotics grew by 9.2 per cent in 2017 at current market prices, compared to 9.3 per cent growth in 2016. The slowdown in inflation of alcoholic beverages and tobacco based on the NCPI to 10.8 per cent in 2017 from 22.1 per cent in 2016 may have contributed to increase the consumption in this category. The PCE share of alcoholic beverages, tobacco and narcotics remained at 2.0 per cent level in 2017.

The PCE on clothing and footwear contracted by 20.6 per cent in 2017 at current market prices against the 2.4 per cent growth in 2016. This decline was also reflected in the decrease in the clothing and accessories import volume index by 4.5 per cent in 2017, compared to 13.7 per cent decrease observed in 2016. Meanwhile, the inflation of clothing and footwear based on the NCPI also slowed down to 3.2 per cent in 2017 from 3.7 per cent in 2016, reflecting the subdued price pressure of this category. Meanwhile, the share of clothing and footwear in PCE declined to 4.0 per cent in 2017 from 5.4 per cent in 2016.

The PCE on housing, water, electricity, gas and other fuels at current market prices, grew by 5.7 per cent, yet at a slower rate in 2017, compared to 13.7 per cent growth in 2016. The electricity sales to domestic sector expanded by 4.4 per cent in 2017, compared to 8.3 per cent expansion in 2016. Further, the units of water distributed to the domestic sector increased by 3.1 per cent, albeit at a slower rate, in 2017, compared to 12.8 per cent growth in 2016. Meanwhile, the tariffs on electricity and water, and prices of diesel and petrol remained unchanged during the year, while the price of a domestic liquid petroleum gas cylinder was revised upwards in September 2017, contributing to the increase in household expenditure in this category. Meanwhile, the inflation of housing, water, electricity, gas and other fuels based on the NCPI increased slightly to 0.9 per cent in 2017, from 0.1 per cent in 2016, reflecting the marginal price pressure remained in this category.

The PCE on transport activities grew at a higher rate of 25.6 per cent in 2017 at current market prices, compared to 4.4 per cent growth in 2016. The passenger transport fares on bus services increased from July 2017, increasing the household expenditure on transport. However, the passenger transport fares on railways remained unchanged during the year. The inflation of transport activities based on the NCPI increased to 5.9 per cent in 2017 from 5.1 per cent in 2016, which indicates that the growth of PCE, on transport activities at current market prices, was partly driven by the increase in price levels. The share of transport activities in PCE increased to 21.6 per cent in 2017, compared to 18.7 per cent in 2016.

The PCE on health activities grew by 8.2 per cent in 2017 at current market prices, compared to 11.5 per cent growth in 2016, whilst PCE on education activities contracted by 1.8 per cent in 2017, same as the contraction recorded in 2016. Meanwhile, the share of PCE in these activities remained at relatively lower levels of 3.0 per cent and 1.2 per cent, respectively, in 2017. The low levels of household consumption expenditure on these categories were partly attributable to the higher contribution from the government in providing education and health services for free of charge. This is also reflected by the higher contribution of the government sector to the value added of education and human health activities, under the institutional classification of the economy.

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The PCE on communication grew by 4.4 per cent in 2017 compared to 9.8 per cent growth in 2016. The telecommunication devices import value and volume indices increased in 2017, compared to the previous year, reflecting the expansion in the telecommunication industry. This was further indicated by the continuous expansion in telephone and internet connections of the country, which grew by 7.0 per cent and 20.0 per cent, respectively, in 2017, compared to the respective growth rates of 6.6 per cent and 20.3 per cent in 2016. In the meantime, the inflation of communication services based on the NCPI increased to 9.3 per cent in 2017, from 6.8 per cent in 2016, reflecting the increase in the price levels of these services.

The PCE on restaurants and hotels grew by 11.8 per cent in 2017, at current market prices, compared to 7.9 per cent growth in 2016. This growth indicates the rapid developments in this industry with the increased demand for these services and increasing number of hotels and restaurants established in the country. The inflation related to restaurants and hotels based on the NCPI increased to 3.7 per cent in 2017 from 1.9 per cent in 2016.

The GCE, which consists of collective final consumption expenditure and the individual final consumption expenditure of the government, expanded at a higher rate in 2017, compared to the slow growth in the previous year, despite the efforts taken to rationalise government expenditure. The collective final consumption expenditure, which consists of government expenditure on services such as defence, social protection, general public services, economic affairs and public order and safety, accounted for 68.6 per cent of GCE in 2017. Accordingly, the collective final consumption expenditure expanded at a higher rate of 12.9 per cent in 2017, compared to 3.2 per cent growth in 2016. This acceleration in growth was mainly attributable to the increased government expenditure on general public services, which substantially grew by 43.2 per cent in 2017 against the 6.1 per cent contraction in 2016. Meanwhile, the individual final consumption expenditure of the government, which consists of government expenditure on health and education services, grew by 8.4 per cent in 2017, compared to 2.7 per cent growth in 2016.

Investment

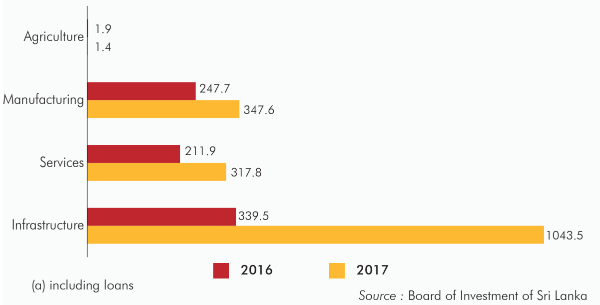
Investment expenditure continued to grow by 16.6 per cent in 2017, yet at a slower pace, compared to 22.0 per cent growth in 2016. The investment on construction activities, which is the largest category in the investment expenditure, grew by 11.6 per cent in 2017, yet at a slower rate, compared to 18.0 per cent growth observed in 2016 at current market prices. This was also reflected in the growth in importation of building materials and the credit granted by the LCBs to the private sector for construction activities in 2017, yet at a slower pace, compared to 2016. Meanwhile, the development projects undertaken by both the government and private sector, such as infrastructure developments and large scale residential and mixed development projects, contributed to the expansion in construction expenditure. Moreover, the growth in investment expenditure was further augmented by the growth of investment in machinery and equipment and weapons systems, transport equipment, information and communication technology (ICT) equipment together with the growth of investment in intellectual property. Further, the investment in the areas of cultivated biological resources also contributed to the overall growth in investment activities. Moreover, the increase of 36.7 per cent in the changes in inventories and acquisition less disposals of valuables in 2017, compared to 64.8 per cent increase in 2016 also supported the expansion in investment activities.

According to the Board of Investment (BOI), Foreign Direct Investment (FDI) inflows including loans to companies registered under BOI, amounted to US dollars 1,710.3 million[4] in 2017 as compared to US dollars 801 million in 2016, reflecting a significant year-on-year growth of 113.5 per cent. The main reason for the notable increase in FDI inflows during the period was the higher FDI inflows to infrastructure projects amounting to US dollars 1,043.5 million, recording a growth of 207.4 per cent, on account of port container terminals that included the proceeds to the Hambantota port, housing and property development. FDI inflows for the manufacturing sector reported a growth of 40.3 per cent (US dollars 347.6 million) while FDI inflows to the services sector grew by 50.0 per cent (US dollars 317.8 million) over the previous year. Meanwhile, FDI inflows to infrastructure, manufacturing and services accounted for 61.0 per cent, 20.3 per cent and 18.6 per cent, respectively, of total FDI inflows to the country during 2017.

4 The FDI figure corresponds to receipts, including loans, to companies registered with the BOI and may differ from the estimates presented in Chapter 5, mainly due to the inclusion of FDI inflows to non-BOI companies in the latter.

Chart 2.9

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



Total estimated investments of projects approved in 2017 under Sections 16 and 17 of the BOI Act are estimated at Rs. 684.3 billion. Estimated investment inflows into projects approved in food, beverages and tobacco, textile, wearing apparel and leather sectors increased compared to the last year. However, investment value of project approvals in the services, chemicals, petroleum, coal, rubber and plastics, fabricated metal, machinery and transport equipment, non-metallic and mineral products sectors declined,

Table 2.12

Investment and Employment in Enterprises Registered under Board of Investment of Sri Lanka (BOI) and Ministry of Industry and Commerce (MIC)

	No. of Projects		Estimated Investment (Rs. million)						Employment (No.)	
	2016 (a)	2017 (b)	2016 (a)			2017 (b)			2016 (a)	2017 (b)
			Foreign	Local	Total	Foreign	Local	Total		
BOI (Under Act No. 4 of 1978)										
Projects Approved	218	170	1,012,419	352,868	1,365,287	457,147	227,132	684,278	29,678	31,658
Under Section 17 (c)	202	137	1,010,747	352,796	1,363,543	452,989	226,386	679,375	29,250	29,632
Under Section 16	16	33	1,672	72	1,744	4,158	746	4,903	428	2,026
Projects Contracted Under Section 17 (c)	185	100	528,587	229,393	757,979	307,964	180,813	488,776	27,840	23,569
Realised Investment Under Section 17 (d) (e)	1,929	1,908	1,345,715	834,098	2,179,813	1,601,805	969,609	2,571,413	n.a.	n.a.
Projects in Commercial Operations (d)	2,718	2,731	475,773	4,212,961	4,688,735	492,734	4,262,672	4,755,406	402,709	408,536
Under Section 17 (c) (d)	1,989	2,046	440,435	4,202,102	4,642,537	456,773	4,252,105	4,708,878	365,555	373,671
Under Section 16 (d)	729	685	35,338	10,859	46,198	35,961	10,567	46,528	37,157	34,865
MIC										
Companies Registered (d)	2,436	2,514	-	-	204,975	-	-	205,231	315,681	311,001

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

Sources: Board of Investment of Sri Lanka
Ministry of Industry and Commerce

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

compared to 2016. The estimated investment value of projects contracted under Section 17 was Rs. 488.8 billion, which was a decline of 35.5 per cent, compared with 2016. Estimated investments of projects that commenced commercial operations under Sections 17 and 16 of the BOI Act were Rs. 4,755.4 billion as at end 2017. The cumulative realised investment of the BOI by end 2017 was Rs. 2,571.4 billion.

Availability and Utilisation of Resources

The available resources of the economy continued to expand by 12.0 per cent in 2017, compared to 8.8 per cent growth in 2016 amounting to Rs. 17,162.0 billion at current market prices. In this regard, the domestic resources and the external resources expanded at a higher rate at current market prices during the year compared to the previous year. The growth in domestic resources was mainly driven by the expansion in Industry and Services activities, as Agriculture activities contracted during the year. Further, the expansion of domestic resources at current market prices was partly attributable to the increased price levels, as reflected by the substantial increase in the GDP deflator during the year. Under external resources, imports grew at a higher rate in 2017, at current market prices, compared to the previous year and was partly attributable to the increase in imports, particularly that of food and beverages, and fuel, due to the severe drought conditions that prevailed in the country, which slowed down the domestic agricultural production and the hydro power electricity generation. Further, moderate depreciation of the local currency also contributed to the increase in the rupee value of imports at current market prices during the year. Moreover, resource availability increased at constant prices, recording a growth of 6.9 per cent in 2017 compared to 5.2 per cent growth in 2016, mainly supported by the substantial growth in external resources, at constant prices, amidst the slowdown in domestic resources at constant prices.

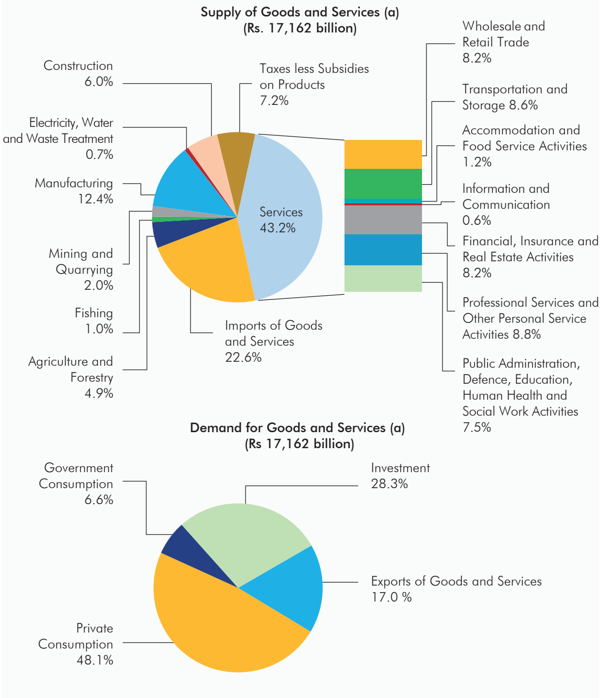
Table 2.13
Total Resources and Their Uses at Current Market Prices (a) (c)

Item	Percentage Share %		Percentage Growth %	
	2016 (b)	2017	2016 (b)	2017
A. Resources				
Gross Domestic Product	77.7	77.4	8.7	11.6
Import of Goods and Services	22.3	22.6	9.2	13.4
Total	**100.0**	**100.0**	**8.8**	**12.0**
B. Utilisation				
Consumption	56.2	54.7	3.1	9.0
Gross Fixed Capital Formation	20.7	20.4	12.8	10.3
Changes in Inventories and Acquisition less Disposals of Valuables	6.5	7.9	64.8	36.7
Export of Goods and Services	16.6	17.0	10.4	14.7
Total	**100.0**	**100.0**	**8.8**	**12.0**

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

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

Chart 2.10
The Economy in 2017 (at Current Market Prices) (a)



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

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

Available resources of the economy were utilised for consumption, investment and exporting purposes during the year. The share of resources utilised for consumption purposes in the total resources declined to 54.7 per cent at current market prices in 2017, compared to 56.2 per cent in 2016. Meanwhile, the share of resources utilised for investment purposes increased to 28.3 per cent in 2017, compared to 27.2 per cent in 2016. Accordingly, the share of change in inventories and acquisition less disposals of valuables in total resource utilisation increased to 7.9 per cent in 2017, from 6.5 per cent in 2016, while that of gross fixed capital formation marginally declined to 20.4 per cent in 2017 from 20.7 per cent in 2016. Meanwhile, exports, as a percentage of the total utilisation of resources, increased to 17.0 per cent in 2017 from 16.6 per cent in 2016. Meanwhile, the resource utilisation at constant prices increased, mainly supported by the increase in investment, which consists of fixed capital formation and change in inventories and acquisition less disposals of valuables, and exports during the year.

Savings

Domestic savings of the economy grew during 2017, albeit at a slower rate of 18.4 per cent, amounting to Rs. 3,896.0 billion, compared to 27.1 per cent growth in 2016. In this regard, the government dis-savings increased as the improvement in government revenue collection was insufficient to meet the upsurge in government recurrent expenditure during the year Meanwhile, private savings grew at a healthy rate, contributing positively to the domestic savings. Consequently, domestic savings as a percentage of GDP increased to 29.3 per cent in 2017, when compared to 27.6 per cent in 2016.

The national savings increased to Rs. 4,502.7 billion in 2017, registering a relatively slower growth of 15.2 per cent, compared to 23.8 per cent growth in 2016. This slowdown was mainly attributable to the combined effect of lower growth observed in domestic savings and net current transfers from the rest of the world together with the continuous contraction in net primary income from the rest of the world during the year. However, national savings as a percentage of GDP

Table 2.14
Consumption, Investment and Savings at Current Market Prices (a) (c)

Item	Rs. million		% Change		As a per cent of GDP	
	2016 (b)	2017	2016 (b)	2017	2016 (b)	2017
1. Gross Domestic Product at Market Price	11,906,752	13,289,466	8.7	11.6	100.0	100.0
2. Consumption Expenditure	8,616,150	9,393,491	3.1	9.0	72.4	70.7
Private	7,601,405	8,262,817	3.1	8.7	63.8	62.2
Government	1,014,746	1,130,674	3.0	11.4	8.5	8.5
3. Investment	4,164,890	4,854,187	22.0	16.6	35.0	36.5
4. Domestic Savings	3,290,601	3,895,975	27.1	18.4	27.6	29.3
Private	3,362,321	3,992,138	18.5	18.7	28.2	30.0
Government	-71,719	-96,162	70.9	-34.1	-0.6	-0.7
5. Domestic Savings - Investment Gap	-874,289	-958,212	-6.0	-9.6	-7.3	-7.2
6. Net Primary Income from Rest of the World (d)	-321,260	-356,282	-16.9	-10.9	-2.7	-2.7
7. Net Current Transfers from Rest of the World	939,782	962,957 (d)	11.6	2.5	7.9	7.2
8. National Savings	3,909,124	4,502,650	23.8	15.2	32.8	33.9

(a) Based on the GDP estimates (base year 2010)
(b) Revised
(c) Provisional
(d) The difference with the BOP estimates is due to the time lag in compilation.

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

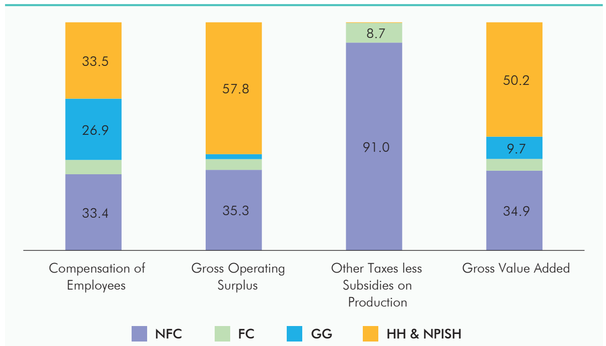
increased to 33.9 per cent in 2017 from 32.8 per cent in 2016. Meanwhile, due to the relatively higher growth in investment expenditure, the national savings-investment gap widened to 2.6 per cent of GDP in 2017 from 2.1 per cent of GDP in 2016.

2

2.6 Income

The income approach of national accounts explains the disaggregated components, namely Compensation of the Employees (CE), Gross Operating Surplus (GOS) and taxes less subsidies on production that generate income within the economy. GOS which is the income generated from factors of production other than labour, grew by 11.9 per cent at current market prices in 2017, compared to 7.2 per cent growth in 2016, accounting for 69.1 per cent of total gross value added, being the major income source. This was mainly attributable to the expansion in Net Operating Surplus (NOS) the main income category in GOS that grew by 11.6 per cent in 2017, compared to 6.9 per cent growth in 2016. Further, the other two sub components of GOS which are consumption of fixed capital and mixed income grew by 16.6 per cent and 9.3 per cent, respectively, in 2017, compared to 10.5 per cent and 6.1 per cent growth,

Chart 2.11
Percentage Share of Income Components by Institutional Sectors in 2017 (at Current Market Prices) (a)



respectively, in 2016. Meanwhile, CE which is the income accruing to individuals in return for their labour input into production process, accounted for 30.6 per cent of the total gross value added of the economy, recording a growth of 7.5 per cent in 2017, compared to 7.9 per cent in 2016. However, taxes less subsidies on production contracted by 7.4 per cent in 2017, compared to 10.8 per cent growth in 2016, accounting for 0.3 per cent of the total gross value added of the economy.

According to the institutional sector classification, the highest contribution to the income was generated by the HH and NPISH sector, accounting for 50.2 per cent

Table 2.15
Income Components by Institutional Sector at Current Market Prices (a) (c)

Item	Percentage Share (%)									
	2016 (b)					2017				
	Non-Financial Corpora-tions	Financial Corpora-tions	General Govern-ment	Households and Non-Profit Institutions Serving Households	Total Economy	Non-Financial Corpora-tions	Financial Corpora-tions	General Govern-ment	Households and Non-Profit Institutions Serving Households	Total Economy
Compensation of Employees	33.5	4.8	27.8	33.8	100.0	33.4	6.3	26.9	33.5	100.0
Gross Operating Surplus	35.1	4.6	1.6	58.7	100.0	35.3	4.7	2.1	57.8	100.0
Net Operating Surplus	38.2	5.6	0.7	55.4	100.0	38.7	5.7	0.7	54.9	100.0
Mixed Income	-	-	-	100.0	100.0	-	-	-	100.0	100.0
Consumption of Fixed Capital	45.2	2.0	9.3	43.5	100.0	43.0	2.3	13.5	41.2	100.0
Other Taxes less Subsidies on Production	91.0	8.7	-	0.3	100.0	91.0	8.7	-	0.3	100.0
Gross Value Added at Basic Price	34.8	4.7	9.9	50.6	100.0	34.9	5.2	9.7	50.2	100.0

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

Source: Department of Census and Statistics

of total gross value added, recording a 9.5 per cent growth at current market prices in 2017. Further, the NFC sector, which is the second largest contributor amounted to 34.9 per cent of total gross value added, recording a growth of 10.8 per cent in 2017. With respect to the GOS, the HH and NPISH sector represented 57.8 per cent of GOS, recording a growth of 10.3 per cent at current market prices in 2017. This was followed by the NFC sector, which accounted for 35.3 per cent and grew by 12.7 per cent at current market prices in 2017. Meanwhile, the HH and NPISH sector, which accounted for 33.5 per cent of CE grew by 6.5 per cent in 2017, at current market prices. Further, the NFC and GG sectors also accounted for 33.4 per cent and 26.9 per cent of CE, respectively, in 2017 and recorded growth rates of 7.0 per cent and 3.7 per cent, respectively, at current market prices during the year. NFC being the major contributor to other taxes less subsidies on production accounted to 91.0 per cent, contracted by 7.4 per cent in 2017. Further, it is noteworthy to highlight that, the HH and NIPSH sector accounted only for 0.3 per cent of other taxes less subsidies on production even though it accounted for 50.2 per cent of the total gross value added.