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NATIONAL OUTPUT, EXPENDITURE AND INCOME

2.1 Overview

The Sri Lankan economy grew at a moderate pace of 3.2 per cent in 2018, in real terms, compared to 3.4 per cent in 2017, in the midst of headwinds from a challenging domestic and external environment. Favourable weather conditions that prevailed in the major cultivation areas enabled a strong recovery in Agricultural activities throughout the year, resulting in a bumper paddy harvest during the year. Meanwhile, Services activities, which provided the highest contribution to the economy in 2018, were led by growth in financial services, and wholesale and retail trade activities and were also supported by the spillover effects of the rebound in agricultural activities. However, Industry activities slowed down, dampening economic growth, owing to the setback in construction and mining activities and the moderate growth in manufacturing activities. Business surveys, conducted by the Central Bank, signalled that delayed implementation of structural reforms and policy uncertainty that prevailed throughout the year together with the heightened political tension during the latter part of the year have had an adverse impact on much-needed business confidence and investor sentiment. Meanwhile, public investment also declined due to fiscal consolidation measures targeted at rationalising government expenditure. Despite the sharp depreciation of the Sri Lankan rupee against major currencies, net external demand remained weaker. Moreover, domestic savings slowed in 2018, with a moderation in private savings and the continued increase in government dis-savings. Further, net primary income from the rest of the world continued to record negative growth during the year. However, net current transfers from the rest of the world increased with the improvement in workers' remittances in rupee terms. As a combined outcome of these developments, national savings grew at a slower pace in comparison to investments. Accordingly, the resource gap of the economy broadened during the year.

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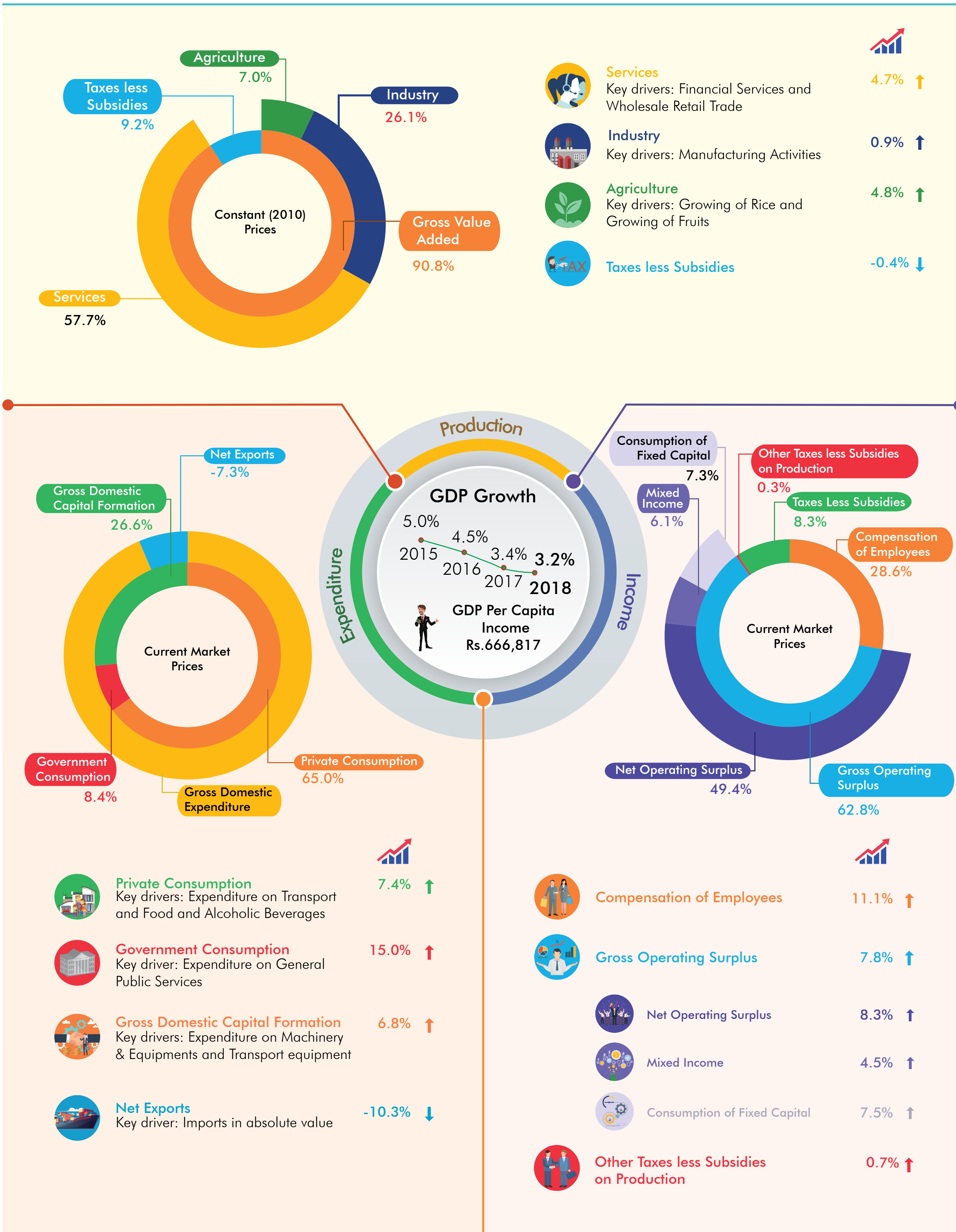
Figure 2.1 **Snapshot of National Output, Expenditure & Income - 2018**

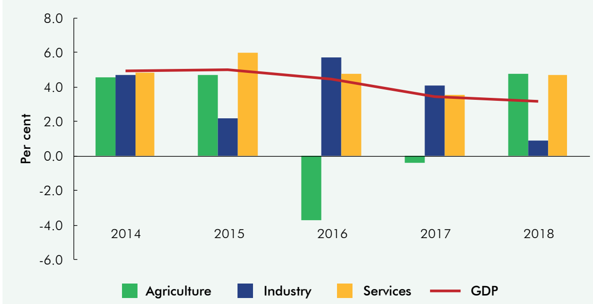


Source : Department of Census and Statistics

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

Gross Domestic Product (GDP) at both current market prices and constant market prices (hereinafter referred to as current price and constant price, respectively) recorded a moderate growth during 2018 compared to 2017. GDP at current prices was estimated at Rs. 14,449.9 billion (US dollars 88.9 billion) in 2018, while it was Rs. 13,418.3 billion (US dollars 88.0 billion) in 2017. Accordingly, GDP at current prices recorded a growth of 7.7 per cent in 2018, compared to the higher growth of 11.9 per cent recorded in 2017. This indicates a relatively low price pressure which was also reflected in the percentage change in the implicit GDP deflator,

Figure 2.2
Annual GDP Growth Rate (a)



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

Source : Department of Census and Statistics

which decreased to 4.3 per cent in 2018, from 8.2 per cent in 2017, and the moderate growth of GDP at constant prices which was estimated at Rs. 9,644.7 billion in 2018, compared to Rs. 9,344.8 billion in

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

Economic Activity	Growth (%)		Contribution to Change (%)		As a Percentage of GDP (%)	
	2017 (c)	2018	2017 (c)	2018	2017 (c)	2018
Agriculture, Forestry and Fishing	**- 0.4**	**4.8**	**- 0.7**	**10.2**	**6.9**	**7.0**
Growing of cereals (except rice)	- 12.6	2.8	- 0.5	0.1	0.1	0.1
Growing of rice	- 7.1	33.9	- 1.2	5.5	0.5	0.7
Growing of vegetables	- 5.3	2.6	- 1.0	0.5	0.6	0.6
Growing of sugar cane, tobacco and other non-perennial crops	- 12.9	- 11.0	- 0.1	- 0.1	0.0	0.0
Growing of fruits	7.4	11.2	1.1	1.9	0.5	0.6
Growing of oleaginous fruits (coconut, king coconut, oil palm)	- 19.7	6.3	- 4.3	1.1	0.6	0.6
Growing of tea (green leaves)	4.5	- 0.8	0.9	- 0.2	0.7	0.7
Growing of other beverage crops (coffee, cocoa, etc.)	- 6.4	25.6	0.0	0.1	0.0	0.0
Growing of spices, aromatic, drug and pharmaceutical crops	0.4	5.3	0.1	1.1	0.7	0.7
Growing of rubber	4.9	- 0.6	0.4	- 0.1	0.3	0.2
Growing of other perennial crops	1.4	- 4.9	0.1	- 0.3	0.2	0.2
Animal production	5.6	4.7	1.0	0.9	0.6	0.6
Plant propagation and support activities to agriculture	- 7.3	1.7	- 0.2	0.1	0.1	0.1
Forestry and logging	19.2	- 0.9	3.3	- 0.2	0.7	0.6
Fishing	- 0.5	- 0.8	- 0.2	- 0.3	1.3	1.2
Industries	**4.1**	**0.9**	**32.0**	**7.8**	**26.7**	**26.1**
Mining and quarrying	9.1	- 5.1	6.4	- 4.0	2.5	2.3
Manufacturing	3.3	3.0	14.9	14.4	15.5	15.5
Electricity, gas, steam and air conditioning supply	2.6	4.1	0.8	1.3	1.0	1.0
Water collection, treatment and supply	4.6	4.0	0.2	0.2	0.1	0.1
Sewerage, waste treatment and disposal activities	7.9	7.0	0.7	0.6	0.3	0.3
Construction	4.3	- 2.1	9.1	- 4.8	7.2	6.8
Services	**3.6**	**4.7**	**59.4**	**83.3**	**56.8**	**57.7**
Wholesale and retail trade, transportation and storage, and accommodation and food service activities	3.6	4.0	24.1	28.7	23.1	23.3
Information and communication	9.5	8.9	1.6	1.7	0.6	0.7
Financial, insurance and real estate activities including ownership of dwellings	6.7	8.2	25.4	33.8	13.3	14.0
Professional services and other personal service activities	3.3	4.7	11.2	16.8	11.5	11.6
Public administration, defence, education, human health and social work activities	- 1.2	0.9	- 3.0	2.3	8.3	8.1
Equals Gross Value Added (GVA) at Basic Price	**3.4**	**3.6**	**90.6**	**101.2**	**90.4**	**90.8**
Taxes less subsidies on products	3.3	- 0.4	9.4	- 1.2	9.6	9.2
Equals Gross Domestic Product (GDP) at Market Price	**3.4**	**3.2**	**100.0**	**100.0**	**100.0**	**100.0**
Net primary income from rest of the world	-3.6	-6.6				
Gross National Income at Market Price	**3.4**	**3.1**				

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

Source : Department of Census and Statistics

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2017. Accordingly, real GDP growth continued its moderating trend and grew by 3.2 per cent in 2018, compared to 3.4 per cent growth recorded in 2017.

GDP per capita was estimated at Rs. 666,817 in 2018 in comparison to Rs. 625,736 in 2017, recording an increase of 6.6 per cent in 2018 compared to that of 10.6 per cent in 2017. The slow growth in GDP per capita in rupee terms was mainly associated with the slowdown in GDP at current prices since the mid-year population growth rate was stable. Moreover, per capita GDP in US dollar terms stood at US dollars 4,102 in 2018, almost similar to 2017 level of US dollars 4,104, which recorded a 5.6 per cent growth in 2017. This performance was mainly due to the weakening of the domestic currency, particularly during the latter part of the year alongside the moderate growth of GDP at current prices.

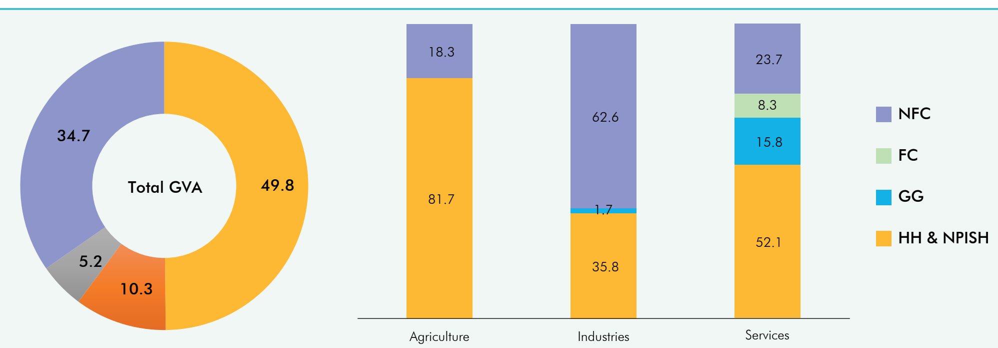
GNI, which is estimated by adjusting GDP for the net primary income from the rest of the world, increased to Rs. 14,058 billion at current prices, recording a growth rate of 7.6 per cent in 2018, compared to 11.9 per cent growth in 2017. This slowdown in the growth of GNI was a combined outcome of moderate growth in the GDP at current prices and 11.1 per cent decline observed in net primary income from rest of the world in 2018, compared to the contraction of 10.4 per cent in 2017.

2.3 Contribution from Institutional Sectors

As per the gross value added estimates at current prices under the production approach, the Households and Non-Profit Institutions Serving Households (HH and NPISH) sector continued to be the largest contributor to the economy. The HH and NPISH sector grew by 8.2 per cent at current prices in 2018, compared to the growth of 10.2 per cent in 2017, accounting for a 49.8 per cent of the total gross value added of the economy in 2018. Meanwhile, the Non-Financial Corporations (NFC) sector, being the second largest sector of the economy, accounted for 34.7 per cent share of the total gross value added and grew by 7.8 per cent in 2018, compared to the growth of 10.5 per cent recorded in 2017. Further, the General Government (GG) sector, which accounted for 10.3 per cent of the total gross value added of the economy, grew by 17.9 per cent in 2018, in comparison to 6.2 per cent growth recorded in 2017 while the Financial Corporations (FC) sector, which accounted for 5.2 per cent of the total gross value added, grew by 3.9 per cent in 2018, compared to the growth of 28.1 per cent recorded in 2017.

The primary contributor to the gross value added of Agriculture and Services activities during 2018 was the HH and NPISH sector,

Figure 2.3
Percentage Share of Gross Value Added (GVA) by Institutional Sectors in 2018 (at Current Market Prices) (a)



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

Source : Department of Census and Statistics

Table 2.2
Gross Value Added by Institutional Sector at Current Market Prices (a)(b)

Item	As a Percentage of GVA (%)							
	2017 (c)				2018			
	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	19.5	-	-	80.5	18.3	-	-	81.7
Industries	62.4	-	1.5	36.0	62.6	-	1.7	35.8
Services	23.7	8.8	14.8	52.7	23.7	8.3	15.8	52.1
Gross Value Added at Basic Price	35.0	5.4	9.5	50.1	34.7	5.2	10.3	49.8

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

Source: Department of Census and Statistics

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while the NFC sector primarily contributed for the gross value added of Industry activities at current prices. Accordingly, 81.7 per cent of the gross value added of Agriculture activities was generated from the HH and NPISH sector in 2018, recording a growth of 10.5 per cent, compared to 16.2 per cent growth recorded in the previous year. In the meantime, 52.1 per cent of the gross value added of Services activities was generated by the HH and NPISH sector in 2018, recording a growth of 8.6 per cent compared to 8.7 per cent growth recorded in 2017. Meanwhile, the NFC sector accounted for 62.6 per cent of the gross value added of the Industry activities, recording a growth rate of 6.7 per cent during 2018, in comparison to the growth of 10.0 per cent observed in 2017.

2.4 Output, Policies, Institutional Support and Issues

Agriculture

Recovering from the negative performance observed during the past two years, the value added of Agriculture activities grew by 4.8 per cent in 2018 against 0.4 per cent contraction recorded in 2017. The favourable weather conditions that prevailed in major cultivation areas throughout the year spurred the recovery in Agriculture activities as witnessed mainly by the substantial increase in the growing of rice, fruits, oleaginous fruits (coconut, king coconut, oil palm) and spices during the year. Further, animal production, growing of vegetables, growing of other beverage crops (coffee, cocoa etc.), growing of cereals and, plant propagation and support activities to agriculture contributed positively to the growth of Agriculture. However, fishing activities, growing of other perennial crops, growing of tea, forestry and logging, growing of sugarcane, tobacco and other non-perennial crops and growing of rubber contracted in 2018, compared to the previous year. Favorable base effect also contributed to the higher growth in the Agricultural activities.

Agriculture Production Index

The Agriculture Production Index, which measures the output of the Agriculture and Fisheries sectors, recorded a growth of 10.7 per cent in 2018, compared to a decline of 10.7 per cent in 2017. Within the index, the sub-indices of paddy, coconut and other crops (fruits, vegetables and other field crops) increased, while tea and rubber sub-indices declined in comparison to the previous year. Meanwhile, activities in the livestock sector grew, while a contraction was recorded in fisheries activities.

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

Item	2017 (a)	2018 (b)	Growth Rate (%) 2016/17 (a)	Growth Rate (%) 2017/18 (b)
Agriculture and Fisheries	113.6	125.8	-10.7	10.7
1 Agriculture	104.3	119.2	-13.6	14.3
1.1 Agriculture Crops	96.5	112.5	-16.8	16.6
Paddy	63.7	105.1	-46.1	65.0
Tea	98.5	97.5	4.9	-1.0
Rubber	61.9	61.5	4.9	-0.6
Coconut	86.5	92.6	-18.6	7.1
Other Crops	135.7	152.8	-9.7	12.6
o/w Vegetables	123.4	145.3	-12.6	17.7
Fruits	164.0	183.9	12.5	12.1
OFC	117.9	134.2	-14.9	13.8
1.2 Livestock	166.6	172.6	5.3	3.6
2 Fisheries	159.2	158.0	0.1	-0.8

(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka

Paddy

Total paddy production of the country grew significantly in 2018 amidst favourable weather conditions. Paddy production, which was affected by adverse weather conditions, in 2017, recovered with an increase of 64.9 per cent, resulting in a production of 3.9 million metric tons during 2018. The net extent harvested during the year increased by 59.5 per cent to 884,555 hectares, resulting in an increase in the average yield to 4,443 kilogrammes per hectare. Compared to the previous Maha season, paddy production during the 2017/18 Maha season recorded an increase of 62.6 per cent to 2.4 million metric tons. The net extent harvested during this season was 557,221 hectares, which was a 62.6 per cent increase compared to the 2016/17 Maha season. The increase in the cultivation extent together with favourable weather conditions during the season supported the marginal increase in the average yield of paddy to 4,302 kilogrammes per hectare, in comparison to 4,301 kilogrammes per hectare recorded in the previous Maha season. Meanwhile, paddy production during the 2018 Yala season increased by 68.6 per cent to 1.5 million metric tons. The net extent harvested during the 2018 Yala season was 327,334 hectares, and this was a 54.5 per cent expansion compared to the previous Yala season, while the average yield of paddy increased from 4,291 kilogrammes per hectare in the 2017 Yala season to 4,683 kilogrammes per hectare during the 2018 Yala season. Despite crop damages due to the impact of drought, pest attacks and diseases, the significant improvement in paddy production in both the Yala and Maha seasons were the result of conducive weather conditions and sufficient availability of water for paddy cultivation during the period.

Rice imports witnessed a considerable decline in 2018 due to the availability of sufficient stocks in the domestic paddy market. Total rice milled was estimated at 2.5 million metric tons, which was sufficient to meet the household rice requirement of the country for around 13 months. Accordingly, total

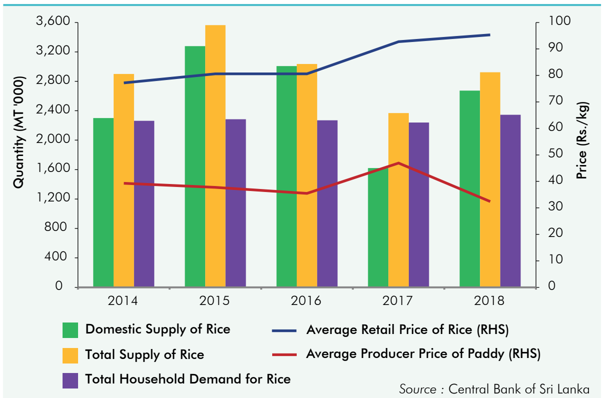
Table 2.4
Paddy Sector Statistics

Item	Unit	2017 (a)			2018 (b)		
		Maha	Yala	Total	Maha	Yala	Total
Gross Extent Sown	hectares '000	543	249	792	667	374	1,041
Gross Extent Harvested	hectares '000	383	236	619	620	363	983
Net Extent Harvested	hectares '000	343	212	555	557	327	885
Production	mt '000	1,474	909	2,383	2,397	1,533	3,930
	bushels '000	70,634	43,580	114,214	114,874	73,466	188,340
Average Yield (c)	kg/ hectare	4,301	4,291	4,297	4,302	4,683	4,443
Credit Granted	Rs. mn	3,391	2,170	5,562	3,986	2,893	6,878
Rice Imports (d)	mt '000	n.a.	n.a.	748	n.a.	n.a.	249
Paddy Equivalent of Imported Rice (d)	mt '000	n.a.	n.a.	1,069	n.a.	n.a.	356

(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

Figure 2.4
Rice : Supply and Demand



Source : Central Bank of Sri Lanka

rice imports decreased by 66.7 per cent, compared to the previous year. During 2018, 248,901 metric tons of rice was imported at a total cost of US dollars 106.8 million and around 95 per cent of this rice was imported in the first four months of the year.

Paddy and rice prices of selected varieties remained elevated during 2018. Samba paddy prices, which remained elevated during the first half of the year amidst limited supply to the market, showed a decreasing trend during the latter part of the year, following the increased harvest from the 2017/18 Maha season. Average price of Samba paddy marginally increased to Rs. 51.04 per kilogramme during 2018, while Nadu paddy recorded a decline from Rs. 49.57 per kilogramme in 2017 to Rs. 40.17 per kilogramme in 2018. The guaranteed paddy purchasing price for Samba and Nadu varieties were Rs. 41.00 per kilogramme and Rs. 38.00 per kilogramme, respectively, in 2018. Although the supply of rice increased, the average price of selected rice varieties increased during 2018, highlighting the need for competitive markets. The average retail price of Samba rice was Rs.109.24 per kilogramme during the year 2018, which was an increase of 10.7 per cent from the previous year. Meanwhile, the average retail price of Nadu rice was Rs. 91.94 per kilogramme, which was an increase of 1.1 per cent compared to the same period of the previous year.

Tea

Unfavourable weather conditions in tea growing areas, particularly during the months of May and June 2018, and wage related trade union action in the plantation sector affected the total tea production during the year. Accordingly, total tea production decreased by 1.0 per cent to 303.8 million kilogrammes in 2018 from 307.1 million kilogrammes in 2017. Low grown tea production, which accounts for 63.2 per cent of the total production, decreased by 2.7 per cent to 192.0 million kilogrammes, while the production of high grown tea and medium grown tea increased by 1.3 per cent to 64.8 million kilogrammes and 3.0 per cent to 47.0 million kilogrammes, respectively. In the meantime, the tea smallholder sector recorded a decline in the average yield of made tea to 1,958 kilogrammes per hectare from 1,995 kilogrammes per hectare in 2017. Orthodox tea and value added tea production recorded a decline of 1.9 per cent and 1.7 per cent, respectively, while CTC tea production increased by 9.6 per cent during 2018.

A declining trend in tea prices was recorded from early 2018 and continued till the end of the year. Average auction prices of high, medium and low grown teas at the Colombo Tea Auction (CTA) were significantly lower than the corresponding prices that were observed in 2017. During 2018, the average price of tea decreased to Rs. 581.58 per kilogramme from Rs. 620.44 per kilogrammes in 2017. The highest year-on-year decrease in tea prices at the CTA was observed for medium grown tea (8.0 per cent), followed by high grown tea (6.3 per cent) and low grown tea (5.9 per cent). The average export price (FOB) recorded a decrease of 4.4 per cent to US dollars 5.06 per kilogramme in 2018, compared with US dollars 5.29 per kilogramme in 2017. Meanwhile, Iraq was

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the major importer of Sri Lankan tea, followed by Turkey and Russia. Comparatively low demand during 2018 from exporters adversely affected tea exports. Accordingly, total tea exports decreased by 2.3 per cent to 282.4 million kilogrammes in 2018, compared to 289.0 million kilogrammes in the previous year.

Rubber

Rubber production declined by 0.6 per cent to 82.6 million kilogrammes in 2018 from 83.1 million kilogrammes produced in 2017. Continuous rain in plantation areas that prevailed during tapping days along with the high cost of production and poor management of plantations contributed to the drop in total rubber production in 2018. During the first half of 2018, rubber production showed a declining trend, while rubber production improved considerably thereafter, supported by favourable weather conditions in major rubber growing areas. The production of sheet rubber, which accounts for about 50.0 per cent share of total rubber production, declined by 0.5 per cent to 41.3 million kilogrammes from 41.5 million kilogrammes in 2017. Crepe rubber production recorded a considerable growth of 26.2 per cent to 14.5 million kilogrammes. Production of other categories of rubber, which accounts for 32.4 per cent of total rubber production, declined by 11.1 per cent to 26.8 million kilogrammes, in comparison to the previous year's production of 30.1 million kilogrammes. Domestic usage of rubber for local industries increased by 5.6 per cent to 135.2 million kilogrammes in 2018. Meanwhile, exports of raw rubber recorded a decline of 18.9 per cent to 14.0 million kilogrammes during 2018. Reflecting the drop in international market prices in 2018, rubber prices in the domestic market also showed a declining trend during 2018. At the Colombo Rubber Auction, the average price of Ribbed Smoked Sheet No.1 (RSS1) declined by 8.2 per cent to Rs. 309.09 per kilogramme, while prices of latex crepe declined by 8.5 per cent to Rs. 321.70 per kilogramme. Low rubber prices in the international market and lower domestic production resulted in an increase of raw rubber imports from 61.8 million kilogrammes in 2017 to 65.8 million kilogrammes during 2018 to meet the requirements on rubber based industries in the country.

Coconut

Coconut production recovered from its declining trend in 2018, due to the lagged effect of favourable rainfall experienced in major coconut growing areas in 2017. Although coconut production that remained subdued during the first quarter of the year, recorded an expansion thereafter resulting in an overall growth of 7.1 per cent to 2,623 million nuts during 2018. Due to low supplies during the first half of the year, production volumes of many coconut based products decreased in 2018, compared to 2017. Accordingly, desiccated coconut (DC) production decreased significantly by 16.7 per cent in 2018. Similarly, coconut oil production also declined by 14.6 per cent in 2018, largely due to the reduction in coconut oil production by small and medium scale mills owing to high cost of production. Meanwhile, palm oil imports, a close substitute for coconut oil, increased by 11.5 per cent in 2018, induced by lower domestic coconut oil production and the decline in global palm oil prices. Meanwhile, production of coconut cream, coconut milk powder and coconut milk grew by 13.4 per cent in 2018, reflecting high export demand for these products. Further, production of virgin coconut oil was also affected by limited availability of nuts, resulting in a 13.1 per cent decline in its production. Reflecting higher demand from domestic manufacturers for coconut products and increased export demand amidst supply shortages in the world market,

Table 2.5
Trends in Principal Agricultural Crops

Category	Unit	2017 (a)	2018 (b)	Change (%) 2016/17 (a)	Change (%) 2017/18 (b)
1. Tea					
1.1 Production (c)	kg mn	307.1	303.8	5.0	-1.0
1.2 Total Extent	hectares '000	201	201	-0.5	-
1.3 Extent Bearing	hectares '000	193	193	-	-
1.4 Cost of Production (d)	Rs/kg	466.98	475.29	-0.5	1.8
1.5 Average Price					
- Colombo Auction	Rs/kg	620.44	581.58	31.1	-6.3
- Export (F.O.B.)	Rs/kg	807.44	820.75	26.2	1.6
1.6 Replanting	hectares	944	1,027	-28.4	8.8
1.7 New Planting	hectares	225	435	75.7	93.3
1.8 Value Added as % of GDP (e)		0.7	0.7	-	-
2. Rubber					
2.1 Production	kg mn	83.1	82.6	5.1	-0.6
2.2 Total Extent	hectares '000	137	136	2.9	-0.4
2.3 Area under Tapping (f)	hectares '000	103	107	3.8	4.2
2.4 Cost of Production	Rs/kg	195.00	205.00	8.3	5.1
2.5 Average Price					
- Colombo Auction (RSS 1)	Rs/kg	336.72	309.09	40.7	-8.2
- Export (F.O.B.)	Rs/kg	343.56	363.93	16.7	5.9
2.6 Replanting (f)	hectares	1,338	870	-8.8	-35.0
2.7 New Planting (f)	hectares	677	980	10.1	44.8
2.8 Value Added as % of GDP (e)		0.3	0.2	-	-33.3
3. Coconut					
3.1 Production	nuts mn	2,450	2,623	-18.7	7.1
3.2 Total Extent	hectares '000	452	455	-3.0	0.7
3.3 Cost of Production	Rs/nut	16.69	18.84	-0.1	12.9
3.4 Average Price					
- Producer Price	Rs/nut	62.71	60.68	95.2	-3.2
- Export (F.O.B.) (g)	Rs/nut	62.03	68.29	50.7	10.1
3.5 Replanting / Under Planting (h)	hectares	8,824	4,549	64.6	-48.4
3.6 New Planting (i)	hectares	15,121	8,198	63.6	-45.8
3.7 Value Added as % of GDP (e)		0.6	0.6	-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

coconut prices increased, particularly during the first nine months of 2018. However, with increased supplies in the last quarter of 2018, the average wholesale price of coconut declined marginally to Rs. 60.68 per nut in 2018, from Rs. 62.71 per nut in 2017. High farmgate prices of coconut, mostly reported in the first nine months, resulted in increasing the retail price of coconut as well as the cost of production of coconut based products. The average retail price of a coconut increased to Rs. 69.71 per nut in 2018 from Rs. 67.40 per nut in 2017, while the average price of coconut oil remained broadly unchanged. The average FOB price of desiccated coconut increased to Rs. 430.84 per kilogramme in 2018 from Rs. 387.35 per kilogramme in 2017. Meanwhile, DC exporters were unable to harness the full benefit of increased prices due to low domestic production, as reflected by the decline of around 28 per cent in DC exports during 2018.

Minor Export Crops

The performance of minor export crops continued to weaken in 2018 as in the previous year. Although the production of cinnamon, cocoa, arecanut, citronella and turmeric recorded a growth, the production of pepper, clove, cardamom, coffee, nutmeg, betel and ginger declined considerably during 2018, compared to 2017. Despite the increase in extent under minor export crops by 1.9 per cent, total production decreased by 14.3 per cent to 101,718 metric tons during 2018. This decline in production was mainly due to dry weather and the unusual shift in the rainfall pattern in growing areas. Accordingly, pepper production decreased by 31.9 per cent to 20,135 metric tons mainly due to unfavourable weather conditions in major pepper growing areas during the flowering and fruiting period. Meanwhile, both farmgate and auction prices of pepper dropped significantly by around 30 per cent due to the declining trend in world market prices and the issue due to the importation of low quality pepper that was then re-exported under trade agreements. However, cocoa production improved significantly by 38.9 per cent to 654 metric tons and cinnamon production grew by 3.0 per cent to 23,019 metric tons during the year, supported by the increase in the cultivation extent in recent years. The total export volume of minor export crops dropped by 19.6 per cent, along with an 11.3 per cent reduction in earnings to US dollars 360.2 million during 2018, compared to the previous year.

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Despite exports of many crops such as pepper, clove, cardamom, cocoa, betel and arecanut recording a decline in 2018, cinnamon exports showed a continuous growth and reached 17,537 metric tons with 5.5 per cent increase over the previous year. Meanwhile, the importation of minor export crops including pepper, cocoa, turmeric and ginger increased by 12.0 per cent and import expenditure increased by around 8.9 per cent in 2018.

Other Field Crops

The production of other field crops (OFCs) increased amidst crop damages due to adverse weather conditions and pest attacks that prevailed in certain parts of the country during the year. The overall production of OFCs increased by 19.2 per cent in 2018 to 606,926 metric tons from 509,076 metric tons in 2017. This was the combined outcome of a growth of 42.3 per cent in the 2017/18 Maha season and a 14.4 per cent decline in the 2018 Yala season. The output of maize, finger millet (kurakkan), potatoes, green gram, black gram, ground nut and cowpea increased in 2018, compared to the previous year, while the production of big onion, soya bean and sorghum recorded a negative growth, which prompted increased imports of these crops. Big onion production declined by 47.7 per cent during the year, and consequently, imports of big onion increased by 6.0 per cent to 246,237 metric tons. Although the potato production increased by 21.2 per cent to 88,897 metric tons in 2018, potato imports also increased by 4.8 per cent, supported by low prices in the global market along with increased domestic demand. It is expected that the improved local supply of OFCs would support domestic industries that use such produce, dampening the demand for imports. However, in order to strengthen domestic food security, further efforts are required to improve the supply of all OFCs by promoting off-seasonal production, expanding storage capacity, strengthening extension services as well as research and development activities on seed production, pest management and quarantine services, and adopting best practices on climate resilient agriculture. Meanwhile, maize and finger millet production was severely affected during the last quarter of the year due to the 'Sena' caterpillar infestation, and it is expected that the production of these crops will decline in the 2018/19 Maha season.

Vegetables

According to the estimates of the Department of Census and Statistics, vegetable production increased to 1.7 million metric tons in 2018, registering a growth of 13.3 per cent amidst weather related disturbances during some periods of the year. This was supported by an increase of 20.6 per cent in the 2017/18 Maha season and a 4.6 per cent growth during the 2018 Yala season. Meanwhile, there were wide fluctuations in vegetable prices throughout the year owing to both drought and flood conditions that prevailed in some parts of the country. Weather related setbacks experienced during the second quarter of 2018 resulted in crop damages, reducing the market supply and elevating prices of many vegetable varieties. Meanwhile, during the third quarter of 2018, prices increased displaying the regular seasonal pattern, while rainy weather conditions substantially disturbed harvesting and transporting of vegetables during the end of the fourth quarter of the year. However, amidst these weather related disturbances, the supply of vegetables increased during the peak harvesting period of the Maha season as well as the Yala season, thus lowering prices. During 2018, 25.8 million kilogrammes of vegetables worth Rs. 4.6 billion were exported, while 738.2 million kilogrammes of vegetables worth Rs. 49.1 billion were imported. Meanwhile, pest attacks became a major issue in vegetable cultivation, and measures are required to address this issue in order to protect the farmers and the consumers, as well as to increase the sustainability of the sector.

Fruits

The production of fruits increased in 2018, with significant contributions from avocado, orange, guava, rambutan and lime. Fruit production recorded a significant growth of 28.8 per cent in 2018, compared to the growth of 9.5 per cent in the previous year. During the year, 37.3 million kilogrammes of fruits worth Rs. 6.3 billion were exported, while 78.7 million kilogrammes of fresh fruits, including apples, mandarins, oranges and grapes valued at Rs. 14.2 billion were imported. Fruit cultivation in Sri Lanka is spread over 150,000 hectares, while a large share of this extent is cultivated in home gardens. Due to poor planning in cultivation of fruits and lack of awareness, contribution to national development by fruit production still remains low. Increasing effectiveness of fruit cultivation, ensuring quality of products and meeting market demand for fruits with better awareness among farmers on ground conditions are key issues that need to be addressed in developing this sector.

Sugar

The slowdown witnessed in sugar production in 2017, continued during 2018 as well. Total domestic sugar production registered a decline of 7.7 per cent to 51,265 metric tons during the period under review, compared to a slowdown of 9.3 per cent recorded in 2017. Accordingly, around 720,259 metric tons of sugarcane were crushed in 2018 compared to 746,607 metric tons recorded in 2017. Total sugar produced at the Sevanagala factory during 2018 was 14,709 metric tons, compared to 15,198 metric tons recorded in previous year. Production at the Pelwatta factory, which is based on rainfed cane supply, witnessed an increase of 1.5 per cent to 28,061 metric tons, while the Gal Oya (Hingurana) factory recorded a production decline of 33.2 per cent to 8,495 metric tons during the period under review. The estimated share of output from the Sevanagala, Pelwatta, and Gal Oya factories to the overall national production was around 29 per cent, 54 per cent and 17 per cent, respectively. Sugar recovery rate[1], which is considered as an indicator of the productivity in the sugar sector, declined to 7.1 per cent in 2018 from 7.4 per cent in 2017. Meanwhile, imports of sugar also increased by 29.5 per cent to 644,675 metric tons in 2018 from 497,952 metric tons in 2017, on account of low domestic production and low prices witnessed in the international market. Overall, domestic sugar manufacturers were able to meet around nine per cent of the sugar demand of the country in 2018, in comparison to ten per cent in 2017, while the remaining domestic demand was met through imports.

Fisheries

The fisheries sector witnessed a marginal setback in 2018. Total fish production showed a decline of 0.8 per cent to 527,060 metric tons during 2018, compared to the marginal expansion of 0.1 per cent recorded in 2017. The contraction in fish production was mainly attributed to the decline in marine fish production. Marine fish production, which accounts for around 83 per cent of total fish production, witnessed a decline of 2.2 per cent to 439,370 metric tons in 2018, largely due to the drop in coastal and lagoon fish production. Meanwhile, offshore fish production increased marginally. Adverse weather conditions that prevailed during the second quarter of 2018 in the Western and Southern coastal areas adversely affected the operations of the day boats and thereby, affected marine

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

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fish production. However, inland fish production that contributed around 17 per cent to the total fish production showed an increase of 7.1 per cent to 87,690 metric tons in 2018 compared to the previous year. The increased release of fingerlings to tanks that was supported by the recovery in water levels in major reservoirs in the early part of 2018, better management of aquaculture resources and proper monitoring largely contributed to the improvements in the inland fisheries sector. In 2018, around 112 million of fingerlings were produced, which is an increase of around 35 per cent, compared to the previous year. Meanwhile, the production in the shrimp farms subcategory also increased considerably during the period under review, while the aquaculture category witnessed a decline of 2.9 per cent to 8,490 metric tons. In response to the decline in production, prices of large fish varieties registered a marginal increase of 0.7 per cent, while small fish varieties recorded an increase of 15.2 per cent during 2018, in comparison to the previous year. In the meantime, export earnings from fish products in terms of value, witnessed an increase of 10.5 per cent to US dollars 265.8 million and 6.6 per cent in terms of volume to 25,949 metric tons during 2018, reflecting the continued positive impact of the removal of the ban on fish exports to the EU market. Meanwhile, fish imports witnessed a decline of 20.4 per cent to 84,206 metric tons in 2018 from 105,745 metric tons recorded in 2017.

Table 2.6
Fish Production

mt '000

Sub-Sector	2017	2018 (a)	Change (%)	
			2016/17	2017/18 (a)
Marine	449	439	-1.7	-2.2
Coastal and Lagoon	260	249	-5.3	-4.1
Off-shore	190	190	3.8	0.3
Inland Fisheries	82	88	10.7	7.1
Capture	69	71	17.3	3.7
Aquaculture	9	8	-7.9	-2.9
Shrimp Farms	5	8	-23.2	76.7
Total	531	527	0.1	-0.8

(a) Provisional

Source: Ministry of Agriculture, Rural Economic Affairs, Livestock Development, Irrigation and Fisheries and Aquatic Resources Development

Livestock

Total milk production recorded a notable expansion in 2018. Accordingly, total milk production increased by 19.0 per cent to 471.6 million litres in 2018, compared to 396.2 million litres in 2017. Cow milk production increased by 17.7 per cent to 385.7 million litres, while buffalo milk production increased by 25.3 per cent to 85.9 million litres in comparison to 2017. Meanwhile, milk production at the National Livestock Development Board (NLDB) decreased to 14.7 million litres in 2018, from 15.0 million litres in the previous year. The number of milking cows increased by 11.2 per cent to 329,380, while the number of milking buffalo cows increased by 8.9 per cent to 94,200 during 2018. Despite increased production, milk powder imports grew by 6.3 per cent to 99,028 metric tons at a value of Rs. 50.3 billion during 2018. Since domestic milk production is only sufficient to meet around 45 per cent of the total demand of the country, it is essential to address the existing issues in the sector while encouraging milk producers to enhance their production capacity. Meanwhile, the average cost of milk production increased to Rs. 47.67 per litre due to the price increase of concentrate feeds, while the average farmgate price remained broadly unchanged at Rs. 66.88 per litre as in the previous year.

Egg production declined, while meat production recorded a mixed performance during 2018. Egg production decreased by 4.9 per cent to 1,972.2 million eggs in 2018, compared to 2,072.9 million eggs in 2017. Meanwhile, the cost of production of a large scale egg producer increased by 3.7 per cent to Rs. 12.80 in 2018. Chicken production recorded an increase of 2.4 per cent to 205,820 metric tons during 2018, from 200,980 metric tons in 2017, while the cost of production of chicken increased from Rs. 245.32 per kilogramme to Rs. 265.85 per kilogramme during 2018. Further, broiler parent imports increased

Table 2.7
Livestock Sector Statistics

Sub-Sector	2017 (a)	2018 (b)	Change (%) 2016/17 (a)	2017/18 (b)
1. National Herd (No.) (million)	1.3	1.4	6.0	10.5
Neat Cattle	1.0	1.1	5.9	11.0
Buffalo	0.3	0.3	6.3	8.9
2. National Milk Production (million litres)	396.2	471.6	3.2	19.0
Cow Milk	327.6	385.7	3.1	17.7
Buffalo Milk	68.6	85.9	3.7	25.3
3. Milk Products (million litres) (c)	42.6	45.1	15.4	5.8
4. Producer Price - Cow Milk (Rs./litre)	66.34	66.88	3.6	0.8
5. National Egg Production (No.) (million)	2,072.9	1,972.2	0.6	-4.9
6. National Poultry Meat Production (mt '000)	201.0	205.8	10.0	2.4

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

Sources: Ministry of Agriculture, Rural Economic Affairs, Livestock Development, Irrigation and Fisheries and Aquatic Resources Development
Department of Census and Statistics
Department of Animal Production and Health
National Livestock Development Board
MILCO (Pvt) Ltd.

from 382,421 in 2017 to 428,108 in 2018, while local production of broiler parents increased to 1.1 million during 2018, compared to 1.0 million in 2017. Meanwhile, pork production increased by 32.2 per cent to 10,430 metric tons, while mutton production increased by 14.8 per cent to 1,630 metric tons in 2018. However, beef production decreased by 5.7 per cent to 28,420 metric tons in 2018 from 30,130 metric tons recorded in 2017.

Agriculture Policies and Institutional Support

The government policy on agriculture as envisaged in the 'National Agriculture Policy' continued with the aim of achieving food security in the country. Accordingly, the Crop Production and Forecasting Programme, the National Food Security Programme and the Organic Fertiliser Production Programme continued during the year together with the Agriculture Sector Modernisation Project. Meanwhile, the Climate Smart Irrigated Agriculture Project, which is funded by the World Bank, was initiated in six provinces with the objective of implementing climate resilient agriculture systems in the country. Further, considering the high proportion of crop damages caused by wild animals, the Ministry of Agriculture focused its attention on the management of wildlife and the prevention of crop damages. Meanwhile, considering the high post-harvest losses, the government initiated the establishment of a temperature controlled storage facility adjacent to the Dambulla Economic Centre to reduce volatility in supplies and prices of perishable farm produce by ensuring proper storage. The government continued to implement several policy measures as proposed in the Budget 2018, mainly focusing on shifting the agriculture sector into a more productive, eco-friendly and export oriented sector. The Budget 2019 proposed measures to promote agri-business value chains for the infusion of technology and to develop high value crops. The government has earmarked Rs. 400 million to set up modern climate-controlled warehousing facilities in Katunayake, Embilipitiya, Jaffna and Keppetipola. Further, Rs. 250 million has been allocated to expand the Agriculture Modernisation Project in five new districts. The Budget also proposed several measures to develop the cinnamon and rubber industries, coconut based products, fisheries sector and irrigation infrastructure.

The Sri Lanka Tea Board (SLTB), the Tea Small Holdings Development Authority (TSHDA) and the Tea Research Institute (TRI) followed their regulatory and development activities for the improvement of the tea sector, with emphasis on productivity and technological enhancements throughout 2018. The SLTB continued to provide financial assistance under the brand promotion scheme and facilitated the participation of Sri Lankan tea exporting companies in international trade fairs in selected markets, promoting both 'Ceylon Tea' as a country brand and private individual brands. The SLTB also carried out the registration and renewal of the Ceylon

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Tea Lion Logo in Sri Lanka and other countries. The SLTB encouraged trade exhibitions and events during the year under review and conducted promotional activities such as media campaigns, outdoor advertising, global promotional campaigns, and Ceylon Tea Forum and Tasting, while facilitating and hosting a delegation from Russia. Meanwhile, the TSHDA continued the implementation of their tea replanting and new planting programmes, and crop rehabilitation subsidy programmes during 2018 as well. The TSHDA conducted a range of extension and awareness programmes for stakeholders with the aim of enhancing tea production. In addition, the TSHDA recommended loans for tea replanting and tea new planting under the 'Special Bank Loan Scheme' implemented by the Bank of Ceylon for tea small holders, in order to promote investment of their holdings. Accordingly, 1,027 hectares were replanted in tea small holdings at a subsidised rate of Rs. 500,000 per hectare, while 435 hectares were newly planted during 2018. As per the TRI Strategic Plan 2018 – 2020, research and development strategies and extension activities were undertaken by the TRI to improve the tea sector. Under the strategic plan, a special project was established to multiply and disseminate quality planting material of newly developed tea cultivars and improved seed material among tea small holders. Land productivity improvement through integrated soil fertility management approaches and agronomic practices, popularising mechanical harvesters and other devices in the small holding sector, and diversifying products from off grades were carried out by the TRI during the year. Moreover, a project was initiated to disseminate four cultivars developed by the TRI 5000 series to the upcountry region. A Soil Quality Index (SQI) has been developed by the TRI, considering physical, chemical and biological properties of soil, and the TRI investigated on critical control points in black and green tea processing, and chemical and microbial standards of tea to ensure product quality. It has been recognised that low productivity of land, labour issues, high cost of production, post-harvest damage, inadequate facilities in tea factories, low quality tea production and unstable tea prices have adversely impacted the production of tea. Moreover, tea production is highly labour intensive and the industry faced low labour productivity, labour scarcity and high labour costs as well as trade union action during 2018 as well.

The Rubber Development Department (RDD) and Rubber Research Institute (RRI) continued their research and development activities with a view to increasing natural rubber production in 2018. The strategic plan of RDD focused on increasing natural rubber production up to 200,000 metric tons annually by year 2040 from the current

Table 2.8
Food Balance Sheet of Major Food Commodities

Item	Unit	2010			2017			2018 (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	1, 523	748	106	2,751	249	138
Maize	mt '000	162	16	9	196	191	18	270	133	19
Wheat	mt '000	-	1,051	51	-	1,250	58	-	1,297	60
Big Onion	mt '000	59	158	10	54	232	13	28	246	13
Sugar	mt '000	31	548	28	56	498	26	51	645	32
Potatoes	mt '000	52	130	9	73	151	10	89	159	11
Fresh Fish	mt '000	385	14	19	531	28	26	527	19	25
Cow Milk	mn litres	192	-	9	328	-	15	386	-	18
Coconut Oil	mt '000	65	3	3	13	10	1	11	12	1

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

Sources: Department of Census and Statistics
Sri Lanka Customs

annual production of around 83,000 metric tons. Productivity improvement and expansion of rubber cultivation to non-traditional areas were the main strategies implemented in this regard during 2018. To compensate for the low rubber prices prevailing in the market, the RRI introduced farming systems that enable the farmers to have an additional income, popularised low frequency tapping systems to reduce labour costs and overall cost of production and popularised rain-guards in the rubber plantations to generate more revenue. A special capital project was received by the RRI for establishing sustainable rubber cultivations with a variety of intercrops. Under this scheme, seven farmer fields were established in Kilinochchi, Vavuniya, Moneragala, and Ampara districts. A research grant was received from the National Research Council (NRC) to investigate physiological and molecular biological aspects of rubber plants to enhance growth and yield under abiotic stress conditions, while a new project on analysing the effect of gaseous stimulation on latex and dry rubber properties commenced at Pimbura Estate in Agalawatta. Although the value addition of raw rubber has been promoted continuously, the rubber production sector suffers from lack of competitiveness with low productivity levels due to the poor adoption of accepted agro management practices. Moreover, low and volatile market prices for natural rubber, high cost of production, high labour costs, labour shortages including lack of skilled tappers and adverse weather conditions are the issues highlighted by stakeholders in the rubber sector.

Within the coconut sector, institutional support was further strengthened to promote new planting and replanting, upgrading and promoting research activities in related institutions, and implementing measures to improve productivity through adaptations to climate change. Under the subsidy scheme for replanting and new planting, around Rs. 274 million were disbursed during the year. Accordingly, replanting and under planting areas were 4,549 hectares, while new planting areas stood at 8,198 hectares. Meanwhile, the temporary discontinuation of issuing approvals on fresh coconut exports, which was effective since June 2017, due to a severe fresh coconut shortage in the domestic market was removed on 01 September 2018, considering the satisfactory performance of the sector. As the production levels recovered with a view to promote fresh nut exports, the service charge collected by the Coconut Development Authority (CDA) on fresh nut exports was reduced to Rs. 8.00 from Rs. 15.00 per nut. Moreover, during the year, the import tariff on coconut oil was increased from Rs. 130.00 per kilogramme to Rs. 170.00 per kilogramme, while the import tariff on crude palm oil was increased from Rs. 110.00 per kilogramme to Rs. 150.00 per kilogramme, with the aim of safeguarding the domestic coconut oil industry. Although the tariff revisions are likely to have a positive impact on the domestic oil industry, production of coconut oil did not recover completely after the stoppage of production by oil mills during the early part of the year due to high fresh nut prices. Meanwhile, capital expenditure incurred by government institutions for coconut sector development amounted to Rs. 844 million in 2018 in comparison to Rs. 772 million in 2017. Further, the Coconut Research Institute (CRI) continued its research activities to improve productivity, crop conservation and introduce new coconut-based products, while contributing to control the spread of the Weligama Coconut Leaf Wilt Disease (WCLWD). Under technology transfer activities, the CRI conducted the annual 'Certificate Course on Coconut Cultivation and

Value Addition' for coconut growers, conducted series of workshops on increasing productivity to both state and private sector coconut plantations and successfully completed the first 'International Certificate Course on Coconut Plantation Management' jointly with the International Coconut Community (ICC).

Several measures were introduced to increase the yield and production of export agriculture crops. Measures implemented by the Department of Export Agriculture (DEA) mainly targeted to expand new planting activities while improving the yield of existing cultivations. Further, the DEA continued to provide high quality planting material at a subsidised rate together with technical assistance and extension services to growers in 2018. Meanwhile, 'Danasaviya' economic home garden programme, which was implemented to strengthen the economy of women through the cultivation of export agriculture crops in their home gardens continued in 2018.

During the year, the Department of Agriculture (DOA) continued to carry out a number of programmes focusing on promoting domestic agriculture to achieve self-sufficiency, while managing the impact from climate change on agriculture production. During 2018, a new drought resistant seed paddy variety was released for local cultivation, while three new varieties of other field crops (onion / green gram) were also released. In addition, the certified seed production and purchasing programme, plant quarantine services and the Good Agriculture Practices (GAP) strengthening programmes continued in 2018, as well. The government took measures to reintroduce the fertiliser subsidy programme from the 2018 Yala season onwards replacing the fertiliser cash grant scheme, considering the requests made by stakeholders. Further, a central analytical laboratory was established at the Horticulture Crop Research and Development Institute to strengthen the laboratory services. Research activities of the Institute of Post-Harvest Technology (IPHT) continued in 2018, and sixteen research projects were carried out during the year. Further, extension activities of the IPHT on disseminating technology continued. Meanwhile, the IPHT introduced vacuum dehydrated technology for selected vegetable and fruit varieties, with the view of reducing post-harvest losses. Moreover, fifteen commercial level fruit villages have been set up and agricultural equipment were distributed to maintain the existing fruit villages under the 'Fruit Village Development Programme'. The DOA, with the technical support of International Financial Corporation (IFC) affiliated to the World Bank, devised plans to implement an index based insurance scheme for paddy cultivation. The first stage of this project was implemented on a trial basis in the Vavuniya district and Mahaweli H Zone in Anuradhapura district during 2018. Further, a compulsory insurance scheme for Paddy, Soya, Potato, Maize, Big Onion and Chillies was implemented according to 2018 budget proposals. The government allocated Rs. 250 million as compensation for farms affected by the Fall Armyworm, and Rs. 40,000 per acre was paid for the farms that were affected. In the view of promoting professional agriculture, an event to showcase ground breaking innovative agriculture technology of the world to modernise the agriculture sector in Sri Lanka, the Ministry of Agriculture organised 'Harvest 2018', a modern agriculture exhibition under the 'Agriculture Sector Modernisation Project'.

BOX 4

A Stronger Agriculture Quarantine Framework to Improve Resilience of the Agriculture Sector

The Need to Strengthen the Agriculture Quarantine Framework

The recent outbreak of the Fall Armyworm ('Sena' caterpillar) infestation, which drastically damaged the maize production of the country in late 2018, has, once again, highlighted the vulnerability of Sri Lanka's agriculture sector to frequent exogenous disturbances. While the agriculture sector suffers from low levels of productivity due to longstanding structural issues that need to be addressed through land and labour market reforms, the recurrence of adverse effects arising from extreme weather conditions, infectious diseases and pest attacks indicates the need for focused efforts to protect the agriculture sector to strengthen food security of the country. The protection of agricultural production is essential in order to minimise undue escalation in food prices and the cost of living, reduce the import bill for food, weedicides and pesticides, as well as to realise the true export potential of the agriculture sector.

The growth in international trade and transport between countries and regions has increased the risk of pests, diseases and weeds spreading globally. Species, which were previously capable of diffusing only over short distances by natural processes, can now be transferred from country to country or from one geographical region to another with greater ease. Even in the past when mobility was limited, these invasive pests introduced through trade activities have damaged crops and even created famines in different parts of the world. The Ireland famine that occurred in the middle of the 18th Century was a result of the total failure of the potato crop due to the introduction of late blight pathogen from Central America. Moreover, the introduction of mildew, from America, in quick succession around the middle of the 19th Century, virtually destroyed the grape vine industry of France. In Sri Lanka, coffee was replaced by tea as a plantation crop because of the destruction caused by the spreading of coffee leaf rust disease in 1868, while cinchona that was used to treat malaria was devastated by *Heloplice antonieso*. In addition, about 20,000 hectares of coconut plantations, in Sri Lanka, were devastated by the invasion of Coconut leafminer during the late 1960s. More recently, Weligama coconut leaf wilt disease, caused by Phytoplasma, destroyed coconut plantations in Southern Sri Lanka. The Fall Armyworm, which had a devastating effect on Sri Lanka's maize crop, is indigenous to the American tropical and subtropical regions, and first spread to Africa where it was detected in Nigeria, in January 2016, and across all of sub-Saharan Africa thereafter. The pest then spread to Asia, and it is believed that it was spread to Sri Lanka in 2018 through trade and air transport channels from India. Control measures against the pest have been taken to prevent further crop damage with the aid of integrated pest management systems. Furthermore, recent restrictions on some of Sri Lanka's agricultural exports by major export destinations also display the vulnerabilities Sri Lanka faces due to inadequate quarantine procedures. Such increased risks and vulnerabilities highlight the urgent need to strengthen the country's plant protection framework and quarantine procedures at borders in order to minimise the adverse effects on the agriculture sector arising from alien species being introduced to the country knowingly or unknowingly through the import of food items, seeds, plants as well as live animals.

Quarantine Regulations in Sri Lanka

Plant quarantine laws, regulations and services are based on national and international agreements, which evolved, during the 19th and 20th Centuries, around the world with a view to ensuring the safe trade of agricultural products across the globe. The plant quarantine system of Sri Lanka originated under the British rule in 1880s, and at present there are a number of regulatory and operational activities that are designed to prevent the entry, establishment and spread of pests in Sri Lanka. The National Plant Quarantine Service (NPQS), which functions under the Seed Certification and Plant Protection Centre of the Department of Agriculture, is responsible for plant quarantine activities. NPQS engages in domestic pest control programmes, development of treatment technologies to eradicate pests of quarantine importance, and promotion of import and export of healthy plants and plant products. Further, services such as pest diagnostics and detection, training and awareness programmes and plant quarantine related research are carried out by NPQS. The NPQS stations also provide quarantine processes such as the issuance of permits for the importation of plants and plant products based on the import conditions, issuance of phytosanitary certificates, inspection of import and export cargo of plant and plant products, handling of post-entry quarantine activities, coordination with stakeholders on plant quarantine matters and advisory services, import risk analysis, and identification of diseases, insects and pests.

The main legal instruments available in Sri Lanka to tackle issues related to invasive pests are the Water Hyacinth Ordinance No. 4 of 1909, Fauna and Flora Protection Ordinance No. 2 of 1937 (as amended), Fisheries and Aquatic Resources Act, No. 02 of 1996 (as amended), Plant Protection Act No. 35 of 1999, Prevention of Mosquito Breeding Act No. 11 of 2007 and Marine Pollution Prevention Act No. 35 of 2008. Since new regulations under the Plant Protection Act are not yet issued, those made under the Plant Protection Ordinance are still in operation. The Plant Protection Act intends to prevent the introduction and spread of any organism injurious or harmful to plants or destructive to plants found in Sri Lanka.

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This Act defines 'invasive' to include all active, infective and dormant stages of life forms that could be harmful to plant life. This includes not only plants but organisms as well. Further, several government institutions have developed policy statements of mechanisms to tackle the issues, including those related to quarantine pests in Sri Lanka, such as the National Wildlife Policy, the National Environmental Policy, and the National Agriculture Policy. However, considering the importance of the development and implementation of an effective framework to support the country's efforts to manage pests, the government approved a new National Policy on Invasive Alien Species, and the strategies and action plan for its implementation was approved by the Cabinet of Ministers in March 2016. However, the action plan is yet to be implemented.

International Standards on Plant Protection

In implementing and strengthening frameworks to take immediate action against invasive pests, it is important to ensure that Sri Lanka's standards are in line with relevant global conventions. The World Trade Organisation (WTO), Convention on Biological Diversity (CBD), International Plant Protection Convention (IPPC), and International Convention for the Prevention of Pollution from Ships are the key International organisations and Conventions that focus on plant protection. The IPPC has created a governing body known as the Commission on Phytosanitary Measures (CPM), which oversees the implementation of the Convention. The Convention is recognised by the WTO's Agreement on the Application of Sanitary and Phytosanitary Measures (the SPS Agreement) as the only international standard setting body for plant health. The IPPC's primary focus is on plants and plant products moving in international trade. Member countries of IPPC are expected to maintain inspection procedures for export and undertake eradication and control measures in the event new pest infestations occur. IPPC encourages governments to take all steps necessary to implement regulations, while member countries are required to establish a National Plant Protection Organisation (NPPO) within the country to promote safe agricultural trade. International Standards for Phytosanitary Measures (ISPMs) of IPPC are the key elements to facilitate the process of developing international standards for plant quarantine. This programme makes available to members of the Food and Agriculture Organisation (FAO) and other interested parties the standards, guidelines and recommendations to achieve international harmonisation of phytosanitary measures, with the aim of facilitating trade and avoiding the use of unjustifiable measures that operate as barriers to trade.

Measures to Strengthen Sri Lanka's Quarantine Framework

Even though Sri Lanka is a member of IPPC and follows the standards and regulations of phytosanitary measures, the numerous instances of crop damages particularly in recent times show that the country is lagging behind in implementing international standards in quarantine activities. Strengthening national legal and institutional frameworks, building research capacity, developing a system of environmental risk analysis, building public awareness and engagement, and promoting international cooperation are among the strategies that are needed to enhance the quarantine services of Sri Lanka. Plant protection institutions are constrained by the inadequacy of technology, equipment and trained workforce to upgrade quarantine services to the required level. The policy and regulatory framework for minimising the risks still remains under-developed and not well coordinated. There is a necessity to formulate and review the existing Acts, regulations and policies at national level to support the NPQS and strengthen it as an independent government agency. Responsible institutions should be harmonised with policies and regulations to build up a national level quarantine framework. Introduction of appropriate incentive mechanisms for strengthening the agriculture quarantine framework is also an essential step to protect the country's agriculture production. Further, there is a need for capacity building and networking of crop specialists, entomologists, environmentalists and plant quarantine specialists to address the issues posed by invasive pests. Capacity building efforts should be focused to build basic awareness through appropriate training programmes among immigration officials, quarantine officials, customs, food inspection authorities and stakeholders. In addition, awareness programmes for importers, exporters and the general public are necessary to educate them on the importance of protecting national plant resources and the national phytosanitary regulations. Further, strengthening the research capacity to analyse risks and develop improved techniques to eradicate invasive pests through environmentally sustainable strategies is also required. An effective mechanism for information exchange, surveillance, monitoring and early warning systems for the prevention and eradication of pests needs to be developed with the help of all stakeholders. Moreover, rapid initial detection of pests both during initial inspection procedures and field surveillance is essential to minimise the effects of pests. New methods for pest detection such as remote pest identification using digital imaging, X-ray scanning techniques, sniffer dogs, etc. need to be practiced in Sri Lanka as well. Rapid response mechanisms with appropriate risk analysis and environmental assessment to tackle the incursion of invasive pests are essential to build up most effective quarantine services. Moreover, promoting domestic seed production could also help develop agricultural products that are more suitable for Sri Lanka while reducing pests that could enter through seed imports. An effective quarantine framework that includes the aspects discussed above is essential, if the agriculture sector is to progress as a resilient sector in the economy.

The Sugarcane Research Institute (SRI) continued its research activities and extension services aimed at strengthening local sugar industry. Establishing nurseries, conducting training programmes and monitoring of sugarcane plantations established under sugar factories continued, while carrying out pest controlling activities mainly to control Fall Armyworm attacks on sugar cane cultivation. Meanwhile, the Cabinet of Ministers approved the setting up of a 'Sri Lanka Sugar Industry Development Committee', to undertake appropriate measures to develop domestic sugar industry by enabling both growers and millers to enhance their income and welfare. Further, SRI continued to develop high tolerance and sugar yielding sugarcane varieties for commercial cultivation. Although commercial sugarcane cultivation in Sri Lanka commenced several decades ago, the domestic sugar industry encounters several structural problems. Low yields, poor recovery rates, increased cost of production, shortages of skilled labour, increased fertiliser prices, lack of new technology, short crushing seasons, inadequate irrigation facilities, and non-availability of high quality seed material on time affect the productivity of the domestic sugar industry. Thus, in order to make domestic sugar industry a viable proposition, sugarcane availability needs to be improved with a proper cultivation plan, good agricultural practices and the introduction of climate resilient cane varieties that contain a higher level of sugar. Further, immediate action is required to revive the Kantale sugar factory, which was closed for over 25 years.

The Ministry of Agriculture, Rural Economic Affairs, Livestock Development, Irrigation and Fisheries and Aquatic Resources Development and the National Aquaculture Development Authority (NAQDA) carried out a number of policy measures to support the domestic fisheries sector. During 2018, the Ministry continued to discourage fishing activities using destructive fishing methods such as bottom trawling, use of dynamite and monofilament nets in Sri Lankan waters aimed at improving the sustainability of the fisheries sector. Steps were also undertaken to increase fish production from deep sea fishing areas and to enhance fishing activities in the Northern and Eastern parts of the country while strengthening the fishing fleet by installing modern technology in fishing boats. Under the 'Diyawara Diriya' loan scheme, financial support was provided to 97 beneficiaries, incurring a cost of Rs. 236 million during 2018. Construction and upgrading of fishery harbours and anchorages aimed at facilitating deep sea fishing in the Northern Province continued during 2018 with financial support amounting to Rs. 32 billion from the Asian Development Bank (ADB). Meanwhile, the Ministry continued its fisheries sector livelihood development programme and took necessary action to prevent illegal, unreported, and unregulated fishing activities. The marine eco-system survey was successfully conducted in coastal waters of Sri Lanka after four decades with financial assistance from the Norwegian Agency for Development Cooperation (NORAD). The findings of the survey will be used to manage and develop marine resources. Meanwhile, a special programme is being implemented by the NAQDA to support the establishment of fish ponds in estates and aquaculture in estate reservoirs with the involvement of estate communities. Aquaculture in estate reservoirs was carried out in Nuwara Eliya, Kandy and Puttalam districts and around 401,750 fish fingerlings were stocked in estate reservoirs during 2018. In order to promote and develop sea cucumber farming, the NAQDA commenced the construction of a sea cucumber hatchery in Mannar and provided expertise to breed sea cucumber in private hatcheries. During 2018, 105,000 sea cucumber juveniles were produced and 196 metric tons were harvested from ponds and pens. The NAQDA facilitated sea weed farming with community participation in the Northern Province. Further, the NAQDA provided expertise to breed mud crabs in two private hatcheries, and 89,350 crablets were produced. In order to promote local aquaculture and attract foreign and local investment for aquaculture, the NAQDA organised the 'Jalajeewi Udana' aquaculture conference and an investor forum during the period under review.

The Department of Animal Production and Health (DAPH) implemented several development programmes to support the livestock sector. DAPH continued their activities in line with the government policy framework for the development of the dairy sector based on the Livestock Sector Master Plan during 2018. Under the Livestock (Dairy) Breeding Project, implementation of artificial insemination service throughout the country, strengthening and maintenance of artificial insemination centres, progeny testing of bull-calves for natural breeding and pasture development were carried out to upgrade the cattle population in order to increase domestic milk production. The Heifer Calf Rearing Project aimed to support farmers to feed and manage Heifer calves and a total of 25,602 calves have been registered under this project during 2018. Vaccination of animals and mastitis disease control awareness programmes were conducted by DAPH. Meanwhile, seven veterinary service offices are being established throughout the country and the construction of two new veterinary service offices commenced in Pundaluoya in Nuwara Eliya district and Haliela in Badulla district during 2018. Strict quarantine measures and surveillance for the Highly Pathogenic Avian Influenza continued during 2018. Moreover, NLDB introduced European cattle in the coconut triangle farms in 2018 to increase the overall milk production. The modernisation of factories managed by MILCO (Pvt) Ltd. located in Polonnaruwa, Digana and Ambewela was completed in 2018, and this supported the higher processing capacity in local dairy production. Institutional support for livestock development through the improvement of institutions catering to livestock farmers, strengthening of the government veterinary network and improvements in the service delivery system for the livestock farming community are expected to strengthen the livestock sector in future.

Industry

The value added of Industry activities grew marginally by 0.9 per cent in 2018, compared to the growth of 4.1 per cent recorded in 2017. This slowdown in Industry activities was mainly attributable to the contraction in construction and mining activities, which accounted for a significant share of 35.1 per cent of the Industry activities. In the meantime, manufacturing activities recorded a modest growth in 2018. Considering the other Industry activities, electricity related activities, sewerage, waste treatment and disposal activities, and water collection, treatment and supply activities continued the positive growth trend during the year.

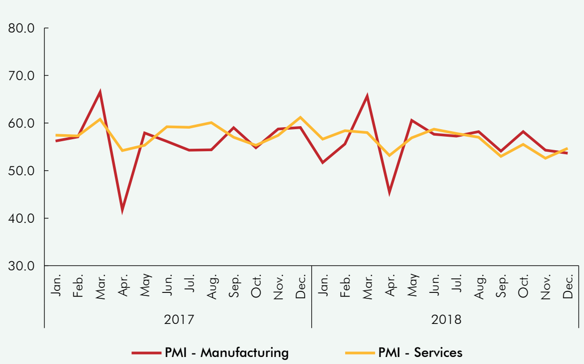
Mining and Quarrying

Mining and quarrying activities contracted by 5.1 per cent in 2018, compared to the growth of 9.1 per cent in 2017. The subdued performance observed in construction activities adversely affected the growth in mining and quarrying activities. Further, the considerable decline in sand mining activities has also contributed to this decline since land reclamation of the Port City development project has reached its final stage. Moreover, the mineral exports volume index recorded a 5.9 per cent decline in 2018, compared to the 18.8 per cent increase recorded in 2017. The gem, diamond and jewellery exports volume index also declined by 13.7 per cent in 2018, compared to 0.3 per cent decline recorded in 2017, reflecting the decline in gem mining activities as well. However, production of phosphate and mineral sands, especially ilmenite and rutile, recorded a growth during the year.

Manufacturing

The value added of manufacturing activities grew by 3.0 per cent in 2018, compared to the growth of 3.3 per cent in 2017. Manufacture of food, beverages and tobacco products, which grew by 5.5 per cent in 2018, compared to the contraction of 0.9 per cent in 2017, benefitting from the substantial recovery in Agriculture activities during the year, mainly contributed to the growth in manufacturing activities. Further, manufacturing of textiles, wearing apparel and leather related products also grew by 3.6 per cent during the year compared to 3.8 per cent growth recorded in 2017, largely supporting the overall growth in manufacturing activities. However, the negative performances in the manufacture of coke and refined petroleum products, manufacture of furniture, manufacture of chemical products and basic pharmaceutical products, manufacture of paper products, printing and reproduction of media products, and manufacture of machinery and equipment dampened the overall growth in manufacturing activities. All the other sub activities of the manufacturing category contributed positively to the overall growth. With respect to manufacturing activities related indicators, the Index of Industrial Production (IIP, 2015=100) compiled by the DCS signalled an expansion in manufacturing activities in 2018, yet at a slower pace, compared to the previous year. Meanwhile, the Purchasing Managers' Index (PMI) for manufacturing activities compiled by the CBSL, on a monthly basis, also indicated an overall expansion in manufacturing activities during the year.

Figure 2.5
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

The manufacturing sector registered a marginal growth in 2018. As per the Index of Industrial Production[2] (IIP), the overall manufacturing sector expanded by 0.8 per cent in 2018, compared to the growth of 2.5 per cent in the previous year. Several large subsectors of the IIP, including the manufacturing of food products, beverages, wearing apparel, rubber and plastic products, coke and refined petroleum products and textiles registered a positive growth during 2018. However, some subsectors of the IIP, including the manufacturing of tobacco products, paper and paper products, chemicals and chemical products, non-metallic mineral products, electrical equipment and furniture products witnessed a decline in production during the period under review.

The manufacture of food products subsector, which accounts for over one third of the IIP, witnessed a marginal growth of 1.0 per cent in 2018, compared to the growth of 3.3 per cent recorded in the previous year. The expansion in the food products subsector was supported by higher production of wheat flour, biscuits, canned fish, black tea and rice. Favourable developments in the

2 The Index of Industrial Production (IIP) is compiled by the Department of Census and Statistics. The base year of the IIP is 2015 and the industries are categorised according to the International Standard Industrial Classification (ISIC) Revision 4.

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

Division	2017	2018 (a)	Change (%) 2016/17	Change (%) 2017/18 (a)
1. Manufacture of Food Products (35.2%)	105.0	106.1	3.3	1.0
2. Manufacture of Beverages (3.8%)	91.5	99.8	-11.7	9.1
3. Manufacture of Tobacco Products (1.7%)	106.3	92.7	1.2	-12.9
4. Manufacture of Textiles (3.3%)	106.4	110.2	2.3	3.6
5. Manufacture of Wearing Apparel (19.8%)	110.7	115.1	4.7	3.9
6. Manufacture of Leather and Related Products (0.3%)	111.9	117.0	5.6	4.5
7. Manufacture of Wood and Products of Wood and Cork, Except Furniture; Manufacture of Articles of Straw and Plaiting Material (0.2%)	93.7	98.6	-5.5	5.3
8. Manufacture of Paper and Paper Products (1.7%)	108.4	86.8	-2.3	-19.9
9. Printing and Reproduction of Recorded Media (1.4%)	106.9	106.5	3.2	-0.4
10. Manufacture of Coke and Refined Petroleum Products (7.4%)	94.3	97.5	-4.8	3.4
11. Manufacture of Chemicals and Chemical Products (4.1%)	96.6	92.7	-7.2	-4.1
12. Manufacture of Basic Pharmaceutical Products and Pharmaceutical Preparations (0.1%)	111.1	100.1	1.8	-9.9
13. Manufacture of Rubber and Plastic Products (5.7%)	108.0	112.0	4.2	3.7
14. Manufacture of Other Non-metallic Mineral Products (7.8%)	111.5	108.9	6.5	-2.4
15. Manufacture of Basic Metals (2.4%)	120.8	128.3	11.7	6.2
16. Manufacture of Fabricated Metal Products (Except Machinery and Equipment) (1.3%)	115.8	125.4	16.7	8.3
17. Manufacture of Electrical Equipment (2.0%)	99.9	81.8	1.7	-18.1
18. Manufacture of Machinery and Equipment n.e.c. (0.7%)	112.4	102.0	5.4	-9.2
19. Manufacture of Furniture (0.8%)	105.2	90.6	-3.3	-13.9
20. Other Manufacturing (0.3%)	98.4	95.1	-3.4	-3.4
Index of Industrial Production	105.8	106.7	2.5	0.8

(a) Revised
Source: Department of Census and Statistics

agriculture sector and domestic demand supported the expansion in food manufacturing activities. Meanwhile, the beverages subsector registered a growth of 9.1 per cent in 2018, compared to the contraction of 11.7 per cent recorded in 2017. The reduction of excise tax on strong and mild beer and improved capacity utilisation during the period under review supported the increased production.

The manufacture of wearing apparel, the second largest subsector in the IIP, recorded a growth of 3.9 per cent in 2018, compared to the growth of 4.7 per cent registered in 2017. This growth was partially supported by the favourable impact of the reinstatement of the GSP+ scheme in 2017. Meanwhile, manufacturing of textiles registered a growth of 3.6 per cent during 2018, compared to the growth of 2.3 per cent recorded in the previous year. Both the wearing apparel and textiles subsectors together contributed around 78 per cent of the overall growth in the manufacturing sector in 2018. Although the local apparel and textile industries have the potential to expand further, the lack of economies of scale, infrastructure constraints, and high input costs are adversely affecting the competitive strength of the industry. Moreover, the emergence of relatively new textile manufacturing hubs in the region has continuously challenged Sri Lanka's position in a dynamic global market. Although the reinstatement of the GSP+ scheme has supported export demand in the recent past, the garment industry needs to undertake constructive measures to minimise continued dependence on such schemes, enabling improved resilience towards external vulnerabilities.

The manufacture of other non-metallic mineral products subsector registered a negative growth of 2.4 per cent during 2018, compared to the growth of 6.5 per cent witnessed in 2017. During 2018, the manufacture of porcelain tablewear, roofing tiles, cement and corrugated sheets declined notably, in comparison to the previous period. As glass is an energy intensive industry, rising

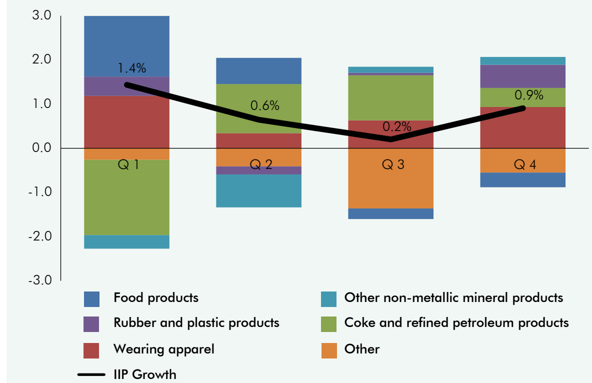
Figure 2.6
Index of Industrial Production (IIP) (2015=100)

Source : Department of Census and Statistics cost of energy especially on LP gas and furnace oil have adversely affected glass production in 2018, along with the introduction of new taxes and levies on beverages and liquor segment. Meanwhile, the decline in demand in construction related raw-material can be attributed to the moderation in construction activities during 2018. Further, the increased cost of production owing to higher domestic market interest rates and increased import cost on clinker, owing to the depreciation of the rupee against the US dollar resulted in a lower demand for cement from the household sector in 2018.

Production of coke and refined petroleum products, which contracted for three consecutive years since 2015, recorded an expansion in 2018. Accordingly, with increased production of auto diesel, furnace oil and bitumen, the manufacture of coke and refined petroleum products subsector registered a growth of 3.4 per cent in 2018, in comparison to the contraction of 4.8 per cent witnessed in 2017. The Ceylon Petroleum Corporation's (CPC) Sapugaskanda oil refinery, which was temporarily shutdown during June 2017, recorded an expansion in production with the completion of the renovation programme in early 2018. Accordingly, the overall output from the Sapugaskanda oil refinery was sufficient to meet around 30-35 per cent of domestic demand, while the remaining demand was met through imports.

Manufacturing of rubber and plastic products continued its growth momentum amidst low rubber prices in the international market and the decline in domestic rubber production. This subsector recorded a growth of 3.7 per cent during 2018, compared to a growth of 4.2 per cent registered in 2017. The

Figure 2.7
Contribution to Year-on-year Change by Major Divisions of IIP in 2018



Source : Department of Census and Statistics

growth in the rubber and plastic subsector was mainly attributed to the increased production of tyres and sheet rubber for export. Although Sri Lanka's solid tyre industry has a significant growth potential, the decline in local raw-material production has limited the expansion of this sector.

Other subsectors in the IIP, including the manufacture of chemicals and chemical products and tobacco products, witnessed a decline in 2018. Accordingly, the manufacture of chemicals and chemical products subsector recorded a decline of 4.1 per cent during 2018, as compared for a decline of 7.2 per cent witnessed in 2017, largely due to decreased production of fertiliser and alkyd resins. Meanwhile, the manufacture of basic metals and the manufacture of fabricated metal products increased by 6.2 per cent and 8.3 per cent, respectively, in 2018, compared to the increase of 11.7 per cent and 16.7 per cent, respectively, in 2017. While the increase in the production of lead and aluminium bars contributed to the expansion in the production of basic metals, the increase in the output of aluminium bars, steel furniture and steel products contributed to the increase in volume

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of the manufacture of fabricated metal products. Meanwhile, production of tobacco products recorded a decline of 12.9 per cent in 2018, compared to the growth of 1.2 per cent witnessed in 2017, largely due to increased cigarette prices. Restrictions on advertising tobacco products and greater awareness of tobacco related health problems also contributed to the reduction in the demand for cigarettes. Meanwhile, the manufacture of leather and related products and manufacture of wood products except furniture that together account for a share of 0.5 per cent of the IIP grew by 4.5 per cent, and 5.3 per cent, respectively, during 2018. While increased production of finished leather contributed to the positive movements in the former category, the latter category grew because of the increase in the production of railway sleepers, saw milling and planning. Meanwhile, production volumes of manufacture of paper and paper products (-19.9 per cent), basic pharmaceuticals products and pharmaceutical preparations (-9.9 per cent), electrical equipment (-18.1 per cent) and furniture (-13.9 per cent) subsectors declined in 2018, compared to the previous year.

While domestic demand has been driving the manufacturing sector, going forward it is expected that global demand would play a larger role in the expansion of the manufacturing sector in the country. Hence, it is important to ensure that Sri Lankan manufacturing exports are competitive on a sustainable basis. As global trade environment is becoming more challenging, with numerous high-technology areas and product branding playing a dominant role in trade, the country needs to support traditional sectors, including textiles, rubber and leather industries along with emerging sectors that are expected to dominate global trade in future.

Industrial Policies and Institutional Support

Institutional support aimed at improving activities in the industrial sector continued during 2018. The Ministry of Industry and Commerce (MIC) and the Ministry of Development Strategies and International Trade (MODSIT) carried out various initiatives with the aim of promoting the manufacturing sector. The government upon recommendation of the MIC, granted a 75 per cent waiver on the Port and Airport Development Levy (PAL) for the importation of high-tech machinery that are used in manufacturing industries. Meanwhile, the MIC is expected to expand the Achchuveli industrial zone in the Northern Province with Indian investment. In addition, the MIC was in the process of preparing standard operating procedures to support automobile manufacturing, assembly and component manufacturing industries and to attract foreign direct investment (FDI) into the sector. Meanwhile, a web-portal for the Single Window Investment Facilitation Taskforce was launched by the Board of Investment of Sri Lanka (BOI) in May 2018. The BOI also commenced development work in Export Processing Zones (EPZs) including Bingiriya, Mawathagama, Milleniya and Charlie Mount Estate during 2018. A 'Skill Development Task Force' was established by the BOI in collaboration with relevant stakeholders, which plans to carry out measures to improve social acceptance of factory workers, while conducting islandwide job fairs with the Ministry of Labour and Trade Union Relations (MLTUR). Meanwhile, the MLTUR has granted administration relaxation for one year to practice a five day work week for private sector manufacturing industries on the request of employers. It is expected that this initiative would help to improve work life balance while reducing additional costs incurred by employers.

Several other ministries, public institutions, industry chambers and relevant associations continued to implement numerous initiatives to support the manufacturing sector and assist in policy formulation. National Chamber of Commerce (NCC) conducted several seminars and workshops during the period in collaboration with various institutions for the benefit of the business community. Further, the NCC conducted programmes with foreign embassies in Sri Lanka called 'Meet the Ambassador' programme where the business community gets an opportunity to find out more information on trade facilities in those countries and promote their businesses. Meanwhile, as announced in the National Budget 2018, the Sri Lanka Export Development Board (EDB) commenced a programme on market access support in July 2018 that envisages to encourage enterprises interested in expanding their markets through modernisation, upgrading of products and services and increase market access with improved value added products and services from Sri Lanka.

The National Science and Technology Commission (NASTEC) continued to engage in the formulation of policies and plans to support the development of domestic manufacturing industries. Based on policy recommendations given in the National Research and Development Framework (NRDF), a draft policy on basic science research was completed in 2018. This policy aims to give due recognition and emphasis on basic science research in the country. Meanwhile, the Ministry of Science, Technology and Research (MSTR) prepared a national policy document on genome centres and the national genome data repository, based on policy recommendations in the NRDF. The NASTEC is in the process of updating the National Science and Technology Policy, while the MSTR has given inputs to NASTEC for formulating the National Mineral Policy, to create a conducive environment for foreign and local mineral based industries. Meanwhile, several initiatives were taken by the MSTR to support small and medium enterprises (SMEs). Accordingly, the MSTR conducted several technology transfer programmes through Vidatha Resource Centres (VRC) islandwide, to accomplish technology requirements of entrepreneurs and potential entrepreneurs. During 2018, around 3,696 technology transfer programmes were conducted for 140,606 beneficiaries in the fields of electronic, computer, food technology, agriculture, environmental, emerging technologies and other fields. Under technology transfer programmes, the Vidatha Technology Clinic (VTC) was initiated to address technology issues pertaining to entrepreneurs and to provide further assistance for business collaboration among institutes. Meanwhile, the MSTR in collaboration with the Industrial Technology Institute (ITI) and the Sri Lanka Standards Institute (SLSI) issued test reports and quality certificates pertaining to food products to ensure the quality of products reaching the market. Meanwhile, the Sri Lanka Institute of Nanotechnology (SLINTEC) continued its emphasis on research across key sectors including agriculture, apparel, mineral resources and the nano-medicine. The National Science Foundation (NSF) continued to grant several scholarships and research grants to scientists facilitating new product development initiatives during 2018.

The ITI engaged in new product development and process innovations while supporting SMEs through technological enhancements. The ITI carried out technology transfer programmes to develop products that can be manufactured and marketed by Sri Lankan entrepreneurs.

The ITI continued its programme on upgrading food industries by introducing proper plant layout designs to comply with Good Manufacturing Practices (GMP) and ISO standards. Meanwhile, several training programmes were conducted for industry participants, entrepreneurs, exporters on proper post-harvest handling techniques and food processing techniques aimed at increasing export earnings. The ITI also undertook several initiatives to support industries which use Sri Lankan raw material inputs. These initiatives included improvement of thermal conductivity of rubber using graphite-based nano-composite, development of health food and herbal medicinal products, and conversion of readily available Sri Lankan natural quartz to solar grade silicon for applications in electronic industries. Moreover, the Technology and Innovation Support Centres (TISC) at the Coordinating Secretariat for Science, Technology and Innovation (COSTI) supported the SME sector through measures aimed at protecting and managing intellectual property rights. Public Private Partnership (PPP) programmes funded by the National Research Council continued efforts aimed at promoting the SME sector. The National Design Centre and Industrial Development Board (IDB), in collaboration with National Cleaner Production Centre (NCPC) successfully completed the project to facilitate SMEs to obtain ISO 14001 certification through cleaner production practices. Meanwhile, the IDB conducted a national programme named 'Diviyata Udanaya' aimed at developing micro and cottage industries during 2018.

Several training and awareness programmes were conducted by various ministries and relevant institutions to create a conducive environment for SMEs, while improving competitiveness of enterprises. The Ministry of Skills Development and Vocational Training (MSDVT) implemented a quality improvement system in 49 training centres with the appointment of 54 quality ambassadors and the establishment of a national coordinating committee. The MSDVT continued employment linked training programmes and enrolled 2,564 trainees under four priority sectors. The MSDVT also undertook several measures to increase female labour force participation while addressing labour shortage issues mainly in the hotel, tourism and manufacturing industries. Meanwhile, in order to improve early childhood care and female labour force participation, the Ministry of Women and Child Affairs planned to establish around 2,000 day care centres islandwide, while increasing facilities of day care centres connected to government institutions. Meanwhile, the National Productivity Secretariat and the National Enterprise Development Authority (NEDA) conducted several training and awareness programmes during 2018 aimed at empowering SMEs through productivity enhancements, while creating a conducive environment to improve competitiveness of enterprises through effective institutional backing.

The National Gem & Jewellery Authority (NGJA), the institute responsible for the development, promotion and regulation of Sri Lankan gem and jewellery industry, undertook several initiatives to develop the industry during 2018. With the evolving employment opportunities in the field of gem cutting, jewellery designing and manufacturing, the NGJA conducted several special industrial training programmes for stakeholders while addressing the labour shortage in the industry. The NGJA is expected to conduct a National Vocational Qualification (NVQ) level training programme for school leavers through the granting of scholarships. Meanwhile, in order to ensure continued supply of gem stones to the market, the NGJA carried out mobile services to provide a more effective and efficient service to entrepreneurs who are engaged in the mining industry.

Several policy measures were proposed in the Budget 2019 to further strengthen the development of the industrial sector. The 'Enterprise Sri Lanka' programme, which was announced in the Budget 2018 aimed at creating an entrepreneurial society, particularly among youth, by providing access to capital at a concessionary interest rate, was further strengthened in the Budget 2019. In order to address challenges faced by small scale entrepreneurs in providing collateral as demanded by banks, the Budget 2019 proposed to establish a fund under the Central Bank of Sri Lanka, to provide guarantees to the SME sector, farmers and agro-based companies. Amongst other proposals, an Enterprise Innovation Programme, which will support the development of innovative new products and technology by Sri Lankan firms, was proposed and will be implemented over three years. Meanwhile, the government proposed to establish industrial estates under IDB in Kankesanthurai, Manthai East, Paranthan, Kondachi, Kinniya, Samanthurai and Trincomalee. The Budget 2019 also contained several proposals to promote export related industries. These proposed measures are expected to boost domestic industrial sector, while supporting national production. Meanwhile, the ease of doing business ranking, compiled by the World Bank, showed an improvement in business climate in Sri Lanka, as reflected in a ranking of 100 in 2019, compared to the rank of 111 witnessed in 2018. However, further efforts are necessary to implement regulatory reforms aimed at improving the business climate and competitiveness to make doing business easier for entrepreneurs in Sri Lanka.

Electricity, Water and Waste Treatment

The value added of electricity, water and waste treatment activities grew by 4.7 per cent in 2018, compared to 3.9 per cent growth recorded in 2017. Electricity related activities as the main contributor to this category grew by 4.1 per cent in 2018, compared to 2.6 per cent growth recorded in 2017. In this regard, total electricity generation recorded a 4.0 per cent growth during 2018, compared to 3.7 per cent growth recorded in the previous year. The growth in electricity generation was mainly driven by significant growth of 68.4 per cent recorded in the hydropower generation, which was supported by favourable weather conditions that prevailed during the year, compared to 12.1 per cent contraction recorded in 2017. In line with the increase in hydropower generation in 2018, fuel oil and coal based power generation contracted by 28.1 per cent and 6.7 per cent respectively, in 2018, compared to the growth rates of 13.1 per cent and 1.1 per cent, respectively, recorded in the previous year. Meanwhile, the value added of water collection, treatment and supply activities grew by 4.0 per cent in 2018, compared to 4.6 per cent growth recorded in 2017. An expansion in water supply activities was reflected by the total number of consumer accounts of the National Water Supply and Drainage Board (NWS&DB), which increased by 4.9 per cent in 2018, compared to 6.1 per cent growth recorded in 2017. Further, the units of water distributed by the NWS&DB increased by 4.8 per cent in 2018, compared to 3.0 per cent growth recorded in 2017. In the meantime, value added of sewerage, waste treatment and disposal activities grew by 7.0 per cent during the year, compared to 7.9 per cent growth recorded in the previous year.

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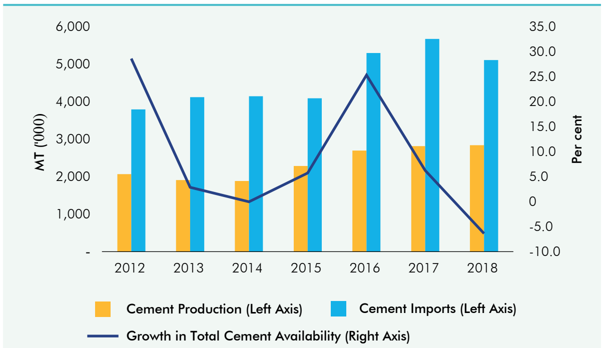
Construction

The value added of construction activities recorded 2.1 per cent contraction in 2018, against 4.3 per cent growth observed in 2017. The subdued performance of large scale construction activities, especially related to infrastructure development projects during the year, slowed down the overall construction activities. Reflecting a setback in construction activities, the total cement availability contracted by 6.3 per cent in 2018, compared to 6.3 per cent growth recorded in 2017. In this regard, the local cement production grew marginally by 0.8 per cent in 2018, compared to 4.6 per cent growth in 2017, while cement imports recorded a substantial contraction of 9.9 per cent during the year, compared to 7.1 per cent growth during the previous year. Further, the building material imports volume index also declined by 3.7 per cent during the year, compared to 6.8 per cent increase recorded in the previous year. The growth in credit to the private sector granted by Licensed Commercial Banks (LCBs) for construction activities also slowed down to 14.1 per cent in 2018, compared to 22.5 per cent growth recorded in 2017. Particularly, the growth in credit granted for personal housing construction activities by LCBs slowed down to 13.1 per cent in 2018, from 21.4 per cent growth recorded in 2017.

Figure 2.8
Cement Availability



Source : Central Bank of Sri Lanka

Services

The value added of Services activities expanded during 2018, registering a growth of 4.7 per cent, in comparison to 3.6 per cent growth recorded in 2017. This growth in Services activities was primarily driven by the robust growth in financial services. Further, the improvement in other personal services and the continuous expansion observed in wholesale and retail trade activities contributed to the growth in Services activities. Moreover, the growth in transportation activities, real estate, insurance, accommodation, professional services, education, telecommunication, human health and IT programming activities supported the growth performance in Services activities. However, public administration services and, programming and broadcasting activities contracted in 2018, dragging down the expansion in Services activities. The expansion witnessed in Services activities was also portrayed in PMI for Services activities, compiled by the CBSL on a monthly basis, which denoted an expansion in Services activities throughout the year.

Wholesale and Retail Trade

The wholesale and retail trade activities continued its expansion in 2018, registering a growth of 5.0 per cent in value added terms, compared to 3.8 per cent growth recorded in 2017. Recovery in domestic agriculture production provided impetus to the agriculture related trade activities. However, the continuous depreciation of the local currency exerted some pressure on import trade activities particularly during the latter part of the year as reflected by trade volume indices. Accordingly, the import volume index increased at a slower pace of 1.8 per cent in 2018, compared to 8.1 per cent increase recorded in 2017. Considering the sub categories of import volume index, the consumer goods import volume index increased by 9.6 per cent in 2018, compared to 6.9 per cent increase recorded in 2017, which was largely backed by the surge in vehicle imports during the first half of the year amidst the notable decline in food and drink imports. Meanwhile, the intermediate goods imports volume index increased at a slower pace of 2.3 per cent in 2018, compared to 11.3 per cent increase in 2017. However, the investment goods imports volume index declined by 0.3 per cent in 2018, in comparison to 0.1 per cent decline recorded in 2017. In the meantime, the export volume index increased only by 0.5 per cent in 2018, compared to 7.6 per cent increase recorded in 2017, largely driven by the contraction in agricultural exports, particularly tea and rubber related exports, and the moderation in industrial exports.

Transportation and Storage

The value added of transportation of goods and passengers, including warehousing activities grew by 2.8 per cent in 2018, in comparison to 3.2 per cent growth recorded in 2017. Considering the transportation related indicators, the passenger kilometers operated by the transportation service providers recorded a considerable increase during the year. Accordingly, related to the land transportation, the total passenger kilometers operated by the Sri Lanka Transport Board and the private sector bus operators increased by 6.7 per cent in 2018, compared to 1.4 per cent contraction recorded in 2017. Further, the passenger kilometers operated by the Sri Lanka Railways also grew by 2.9 per cent in 2018, compared to 1.1 per cent growth recorded in 2017. Moreover, transport related new services that are equipped with platforms that facilitates the real time connection of customers with hiring vehicles also have added value to the transportation services. Related to air transportation, the total passenger kilometers flown by Srilankan Airlines grew by 14.2 per cent in 2018, compared to 10.2 per cent growth recorded in 2017, reflecting an expansion in air transportation activities. Further, the freight ton kilometers flown by Srilankan Airlines grew by 9.0 per cent in 2018, compared to 9.8 per cent growth recorded in 2017. Considering the water transport activity related indicators, the container traffic (Twenty Foot Equivalent Units - TEUs) and cargo handled by Sri Lankan ports grew by 13.5 per cent and 11.8 per cent respectively, in 2018, in comparison to respective growth rates of 8.3 per cent and 8.5 per cent in 2017. In the meantime, the value added of postal and courier activities grew by 1.3 per cent in 2018, compared to 3.9 per cent growth recorded in 2017.

Accommodation and Food Service Activities

The value added of accommodation, food and beverage service activities grew by 5.5 per cent in 2018, compared to 5.0 per cent growth recorded in 2017. The boost in tourism related activities might have stimulated this expansion during the year. Accordingly, tourist arrivals recorded a substantial growth of 10.3 per cent in 2018, compared to 3.2 per cent growth recorded in 2017. Further, reflecting the favourable developments in the tourism industry, the earnings from tourism increased to US dollars 4.4 billion, recording a substantial growth of 11.6 per cent in 2018. Moreover, the pickup in private consumption expenditure on restaurants and hotels as shown in Gross Domestic Expenditure reflects the increased demand for accommodation and restaurant facilities, which might have provided impetus to the expansion in accommodation and food service activities during the year. However, the room occupancy rate in graded hotel establishments approved by the Sri Lanka Tourism Development Authority (SLTDA) slightly decreased to 72.8 per cent in 2018, in comparison to 73.3 per cent recorded in 2017.

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Information and Communication

The information and communication activities grew by 8.9 per cent in 2018, in value added terms, compared to 9.5 per cent growth recorded in 2017. This growth was mainly stimulated by the considerable expansion in telecommunication activities, which grew significantly by 9.4 per cent in 2018, compared to 12.2 per cent growth recorded in 2017. When considering the number of telephone connections in the country, the cellular subscribers as well as the fixed access wireline connections continued its growing pace amidst the decline observed in fixed access wireless connections. In the meantime, the internet services also expanded at a higher pace with the rising demand for data. Accordingly, email and internet services of both fixed and mobile broadband categories recorded noteworthy growth during the year. Meanwhile, IT programming consultancy and related activities grew at a higher pace of 10.8 per cent in 2018, compared to 4.2 per cent growth recorded in 2017. The growing demand for IT services together with the digitalisation initiatives introduced in several sectors might have contributed to the expansion in IT related services in the economy. However, programming and broadcasting activities, and audio video productions activities contracted by 7.0 per cent in 2018, compared to 0.9 per cent marginal contraction recorded in 2017.

Financial, Insurance and Real Estate Activities including Ownership of Dwellings

The value added of financial, insurance and real estate activities including ownership of dwellings activities expanded by 8.2 per cent in 2018, in comparison to 6.7 per cent growth recorded in 2017. The continuous growth momentum in financial service activities and auxiliary financial services, which recorded a 11.8 per cent growth in 2018, compared to 9.4 per cent growth recorded in 2017, largely supported this expansion. Considering the financial services related indicators, the gross loans and advances in banks and non-bank financial institutions grew by 19.6 per cent and 8.7 per cent respectively, in 2018, compared to 16.1 per cent and 10.2 per cent growth, respectively, recorded in 2017. Further, the deposit base of banks and non-bank financial institutions grew by 14.8 per cent and 4.4 per cent respectively, in 2018, compared to respective growth rates of 17.5 per cent and 29.4 per cent recorded in 2017. In the meantime, real estate activities including ownership of dwellings grew by 3.8 per cent in 2018, in comparison to 4.7 per cent growth recorded in 2017. Meanwhile, insurance, reinsurance and pension funds related activities grew substantially by 10.0 per cent in 2018, compared to 2.1 per cent growth recorded in 2017. The premiums earned and the claims incurred by the insurance industry recorded an increase in 2018, reflecting the favourable developments in the insurance related activities.

Professional Services and Other Personal Service Activities

The value added of professional services and other personal services expanded by 4.7 per cent in 2018, compared to 3.3 per cent growth observed in 2017. The expansion in other personal service activities was the key contributor to the growth within the segment, supported by the favourable contribution from professional services. Accordingly, other personal service activities grew at a higher rate of 4.8 per cent in 2018, in comparison to 3.2 per cent growth recorded in 2017, reflecting the increasing demand for such services. In the meantime, professional, scientific, technical, administration and support service activities continued its positive growth, recording an increase of 4.1 per cent in 2018, compared to 4.3 per cent growth recorded in 2017, strengthening the growth within the segment.

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

The public administration, defence, education, human health and social work activities grew marginally by 0.9 per cent in 2018, in value added terms, compared to 1.2 per cent contraction recorded in 2017. The slower growth within the segment was largely attributable to the contraction observed in public administration, defence and compulsory social security activities, which recorded a decline of 0.6 per cent in 2018, compared to 4.8 per cent decline recorded in 2017. Further, human health activities, residential care and social work activities recorded a slower growth of 2.2 per cent in 2018, compared to 7.2 per cent growth recorded in 2017. Meanwhile, education services grew by 3.4 per cent in 2018, in comparison to the marginal growth of 0.5 per cent recorded in 2017.

2.5 Expenditure

Gross Domestic Expenditure (GDE) which is the combination of consumption and investment expenditure at current prices, grew by 7.9 per cent in 2018, compared to 11.7 per cent growth recorded in 2017. Accordingly, GDE amounted to Rs. 15,511.8 billion in 2018. This was supported by the growth in both consumption and investment expenditure which grew by 8.3 per cent and 6.8 per cent respectively, in 2018, compared to the respective growth rates of 10.3 per cent and 15.8 per cent recorded in 2017. Considering the constant prices, GDE grew by 3.2 per cent in 2018, compared to 3.8 per cent growth recorded in 2017. In this regard, investment expenditure grew by 6.6 per cent in 2018, compared to 8.2 per cent growth recorded in 2017. However, consumption expenditure at constant prices recorded a slow growth of 1.6 per cent in 2018, compared to the growth of 1.8 per cent recorded in 2017. Considering the growth rates of consumption and investment expenditure, in terms of current and constant prices, it indicates that the price pressure largely impacts consumption expenditure than the investment expenditure in 2018. Meanwhile, export of goods and services at current prices recorded a growth of 13.2 per cent in 2018, in comparison to 14.6 per cent growth in 2017, while import of goods and services grew by 12.4 per cent in 2018, compared to 13.4 per cent growth recorded in 2017. Since the import of goods and services represents a higher value in absolute terms than export of goods and services, net external demand at current prices contracted by 10.3 per cent in 2018, compared to 10.1 per cent contraction recorded in 2017. At constant prices, export of goods and services grew marginally by 0.5 per cent in 2018, compared to 7.6 per cent growth recorded in 2017 while import of goods and services recorded a slower growth of 1.8 per cent in 2018, in comparison to 7.1 per cent growth recorded in 2017. Accordingly, net external demand at constant prices contracted at a slower pace of 3.5 per cent in 2018, compared to 6.5 per cent contraction recorded in 2017. Reflecting the above developments, GDP at current prices which consists of GDE adjusted for net external demand, amounted to Rs. 14,449.9 billion in 2018 recording a growth rate of 7.7 per cent, compared to 11.9 per cent growth in 2017. At constant prices, GDP grew by 3.2 per cent in 2018 in comparison to 3.4 per cent in 2017.

Consumption

The consumption expenditure at current prices, accounted for around 78.8 per cent of the aggregate expenditure of the economy, and expanded by 8.3 per cent in 2018, compared to 10.3 per cent growth recorded in 2017. The increases observed in both private and government consumption expenditure contributed towards this growth. Accordingly, private consumption expenditure grew by 7.4 per cent, accounting for 88.6 per cent of the total consumption expenditure in 2018, compared

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Table 2.10
Aggregate Demand (a)

Item	Current Market Prices (Rs.mn)			Constant (2010) Prices (Rs.mn)		
	2016 (b)	2017 (b)(c)	2018 (c)	2016 (b)	2017 (b)(c)	2018 (c)
A. Domestic Demand						
Consumption	9,529,202	10,513,141	11,381,403	7,036,082	7,160,351	7,277,006
(% Change)	14.0	10.3	8.3	6.9	1.8	1.6
Gross Domestic Capital Formation	3,341,171	3,867,947	4,130,406	3,156,162	3,416,093	3,642,658
(% Change)	-2.1	15.8	6.8	5.0	8.2	6.6
Total Domestic Demand	**12,870,372**	**14,381,088**	**15,511,809**	**10,192,244**	**10,576,444**	**10,919,663**
(% Change)	**9.3**	**11.7**	**7.9**	**6.3**	**3.8**	**3.2**
B. External Demand						
Export of Goods and Services	2,540,049	2,909,720	3,292,414	1,593,234	1,714,147	1,722,612
(% Change)	10.4	14.6	13.2	-0.7	7.6	0.5
Import of Goods and Services	3,414,338	3,872,521	4,354,292	2,749,649	2,945,752	2,997,547
(% Change)	9.2	13.4	12.4	7.9	7.1	1.8
Net External Demand	**-874,289**	**-962,801**	**-1,061,878**	**-1,156,414**	**-1,231,605**	**-1.274,935**
(% Change)	**-6.0**	**-10.1**	**-10.3**	**-22.6**	**-6.5**	**-3.5**
C. Total Demand	11,996,083	13,418,287	14,449,931	9,035,830	9,344,839	9,644,728
(% Change)	**9.5**	**11.9**	**7.7**	**4.5**	**3.4**	**3.2**

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

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

to 10.2 per cent growth recorded in the previous year. Meanwhile, the government consumption expenditure grew by 15.0 per cent in 2018, compared to 11.4 per cent in 2017. Both collective and individual consumption expenditure of the government, which grew by 19.8 per cent and 4.6 per cent respectively, in 2018 contributed to this growth.

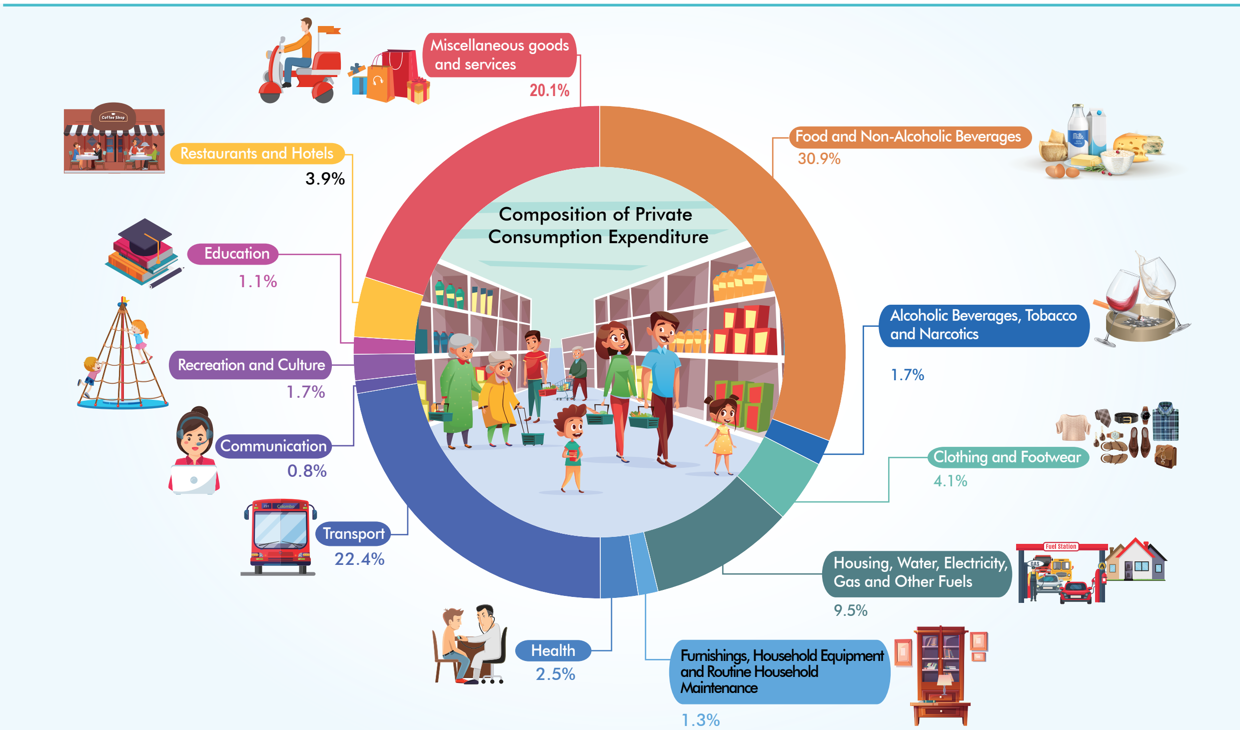
Private Consumption Expenditure (PCE)

PCE on food and non-alcoholic beverages at current prices grew by 6.1 per cent in 2018, compared to 6.2 per cent growth in 2017. Considering the import of food and beverages, a decline of 7.5 per cent was observed in 2018, compared to 18.4 per cent increase recorded in 2017 as per the imports rupee value index. This was also in line with the expansion in domestic agriculture production and the growth in food related manufacturing activities. The increase in food production has also resulted in a marginal decline of 0.2 per cent the National Consumer Price Index (NCPI, 2013 = 100) related to food and beverages category in 2018, compared to an increase of 11.3 per cent in 2017.

PCE on clothing and footwear at current prices grew by 4.2 per cent in 2018, against 0.4 per cent contraction in 2017. Considering the supply side developments, the manufacture of textiles, wearing apparel and leather related products expanded at a slower pace in 2018, compared to the previous year. On the other hand, the clothing and footwear category of the NCPI increased to 4.0 per cent in 2018, from 3.2 per cent in 2017, reflecting the increased price pressure of this category with the slowdown in supply. However, import indices related to the clothing and accessories in rupee value terms decreased by 10.6 per cent in 2018, compared to 5.6 per cent increase observed in 2017, while a surge in unit prices of imports could be seen partly due to rupee depreciation.

Housing, water, electricity, gas and other fuels related PCE at current prices increased by 7.2 per cent in 2018, compared to 6.5 per cent recorded in 2017. Reflecting the increase in water consumption, the units of water distributed to the domestic sector increased at a higher rate of 4.6 per cent in 2018, compared to 3.1 per cent growth in 2017. Meanwhile, electricity sales to the domestic sector increased by 3.9 per cent in 2018, compared to 4.4 per cent expansion in 2017. However, tariffs

Figure 2.9 **Private Consumption Expenditure (at Current Market Prices)**



Source : Department of Census and Statistics

on electricity and water remained unchanged during the year. Meanwhile, the prices of diesel, petrol and domestic liquid petroleum gas increased during 2018 contributing to the increase in household nominal expenditure of this category. In the meantime, the NCPI of housing, water, electricity, gas and other fuel based category increased slightly to 1.3 per cent in 2018, from 0.9 per cent in 2017.

PCE on transport activities at current prices grew by 13.2 per cent in 2018, compared to 24.0 per cent growth in 2017. The expansion in PCE on transport activities at current prices can be partly attributable to the upsurge in transportation costs. Particularly, passenger transport fares on bus services were increased in 2018, increasing the household nominal expenditure on transport. Further, the passenger transport fares on railways also increased during the year. Reflecting these developments, the NCPI related to transport activities increased to 8.4 per cent in 2018, from 5.9 per cent in 2017.

PCE on health activities at current prices grew by 4.1 per cent in 2018, albeit at a slower pace, compared to 7.4 per cent growth recorded in 2017, while PCE on education activities increased by 9.8 per cent in 2018, compared to 8.4 per cent growth recorded in 2017. The NCPI related to the health category decreased to 7.6 per cent in 2018, from 9.9 per cent in 2017, reflecting the relative slowdown in price pressure of this category, thereby, contributing to minimize the health expenditure in nominal terms. However, the prices of education services based on the NCPI increased to 6.0 per cent in 2018, from 4.1 per cent in 2017, thereby increasing the nominal expenditure on education services. A relatively lower shares of household consumption expenditure on these categories could be seen partly duee to the higher contribution from the government in providing education and health services for free of charge.

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

Category	As a Percevetage of Total PCE (%)			Growth (%)	
	2016 (b)	2017 (b)(c)	2018 (c)	2017 (b)(c)	2018 (c)
1. Food and Non-alcoholic Beverages	33.8	32.6	32.2	6.2	6.1
2. Alcoholic Beverages, Tobacco and Narcotics	1.8	1.7	1.7	6.5	8.4
3. Clothing and Footwear	4.9	4.4	4.3	-0.4	4.2
4. Housing, Water, Electricity, Gas and Other Fuels	10.3	10.0	9.9	6.5	7.2
5. Furnishings, Household Equipment and Routine Household Maintenance	1.5	1.4	1.4	5.9	0.9
6. Health	2.7	2.7	2.6	7.4	4.1
7. Transport	19.7	22.1	23.3	24.0	13.2
8. Communication	1.0	1.0	0.9	6.9	-4.3
9. Recreation and Culture	1.9	1.8	1.8	4.8	6.0
10. Education	1.2	1.2	1.2	8.4	9.8
11. Restaurants and Hotels	4.0	4.0	4.1	11.9	10.0
12. Miscellaneous Goods and Services	20.5	20.8	20.9	11.6	8.2
13. Direct Purchases Abroad by Residents	2.8	2.7	2.8	8.5	10.7
14. Less: Direct Purchases in Domestic Market by Non-residents	6.1	6.4	7.1	16.6	18.9
Total Private Consumption Expenditure	**100.0**	**100.0**	**100.0**	**10.2**	**7.4**

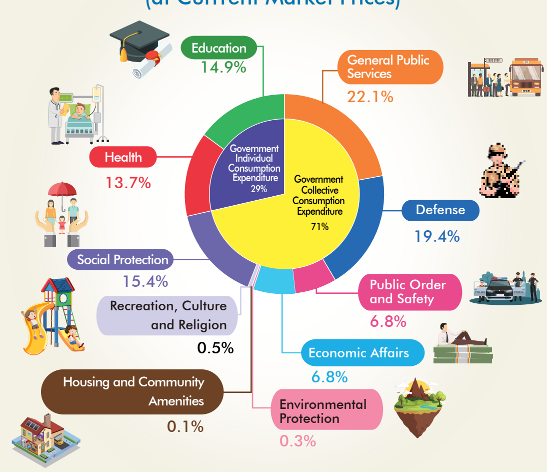
(a) Based on the GDP estimates (base year 2010)
(b) Revised
(c) Provisional

Source: Department of Census and Statistics

Government Consumption Expenditure (GCE)

The GCE, which consists of collective final consumption expenditure (71.4 per cent of GCE) and the individual final consumption expenditure (28.6 per cent of GCE) of the government, expanded at a higher rate in 2018 compared to the slow growth in the previous year, despite the continued fiscal consolidation efforts taken by the government. The collective final consumption expenditure, which consists of government expenditure on services such as defence, general public services, social protection, economic affairs and public order and safety, expanded at a higher rate of 19.8 per cent in 2018, compared to 12.9 per cent growth in 2017. This growth was mainly attributable to the increased government expenditure on general public services, which grew by 112.3 per cent in 2018, compared to 43.2 per cent growth recorded in 2017. Reflecting this, the government recurrent expenditure on salaries and wages, and other purchases of goods and services grew by 6.5 per cent in 2018, compared to 1.4 per cent growth recorded in 2017, as per the government financial statistics. Meanwhile, the individual final consumption expenditure of the government, which consists of government expenditure on health and education services, grew by 4.6 per cent in 2018, compared to 8.4 per cent growth in 2017. Increase in government involvement in providing these

Figure 2.10
Composition of Government Consumption Expenditure (at Currrent Market Prices)



Source : Department of Census and Statistics services could be observed in the institutional sector classification of the economy where the government sector contribution to the health and education services increased in 2018.

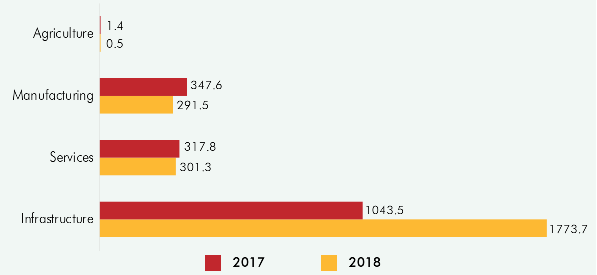
Investment

Investment expenditure at current prices grew by 6.8 per cent in 2018, compared to 15.8 per cent growth recorded in 2017. The moderate growth in investment expenditure was mainly driven by the slowdown in investment on construction activities, which is the largest category of the investment expenditure. This slowdown was also observed in the importation of investment goods including building materials and in the credit granted by the LCBs to the private sector for construction activities. Further, investment on machinery and equipment and weapon systems also slowed down during the period. As reflected by the business surveys conducted by the CBSL, the moderate growth in investment expenditure could be partly attributable to firms' decisions to delay investment on capital goods, in response to the increase in operational costs, which arose from the rupee depreciation. Further, the policy and political uncertainty that prevailed in the domestic market had also impacted on their investment decisions. As per the government financial statistics, a contraction could also be observed in government investment expenditure. However, investment on transport equipment, and information and communication technology (ICT) equipment grew at higher rates in 2018, compared to the previous year, while investment in the areas of cultivated biological resources and intellectual property also contributed to the overall growth in investment activities. Meanwhile, changes in inventories and acquisition less disposals of valuables recorded a growth of 34.5 per cent, compared to the significant growth of 140.0 per cent observed in 2017. In this regard, changes in inventories recorded a substantial expansion, while acquisitions less disposals of valuables witnessed a contraction.

Foreign Direct Investment (FDI) inflows, including loans received by companies registered under the Board of Investment (BOI), amounted to US dollars 2,366.9[3] million during 2018, in comparison to US dollars 1,710.3 million registered in 2017, recording a significant growth of 38.4 per cent. The notable increase in FDI inflows during the period under review was largely supported by higher FDI inflows to infrastructure related projects, which registered a growth of 70.0 per cent in 2018, compared to the previous year. Nearly 75 per cent of total inflows (US dollars 1,773.7 million) during the period 2018 was on account of the infrastructure sector related projects on port container terminals, telephone and telecommunication networks. Inflows to the Hambantota port (US dollars 827.6 million) accounted for around 35 per cent of total inflows. FDI inflows to the manufacturing sector registered a decline of 16.1 per cent (US dollars 291.5 million) while contributing 12.3 per cent to total inflows. Meanwhile, FDI inflows to the services sector that accounted for 12.7 per cent of total FDI inflows, witnessed a decline of 5.2 per cent (US dollars 301.3 million) over the previous year.

3 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.

Figure 2.11
Foreign Direct Investment of BOI Enterprises (a)
(US$ million)



(a) including loans

Source : Board of Investment of Sri Lanka

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.)	
			2017 (a)			2018 (b)				
	2017 (a)	2018 (b)	Foreign	Local	Total	Foreign	Local	Total	2017 (a)	2018 (b)
BOI (Under Act No. 4 of 1978)										
Projects Approved	183	143	367,977	226,549	594,526	175,987	210,294	386,281	37,141	24,682
Under Section 17 (c)	149	128	363,781	225,803	589,584	174,417	207,211	381,628	35,115	24,313
Under Section 16	34	15	4,196	746	4,942	1,570	3,083	4,653	2,026	369
Projects Contracted Under Section 17 (c)	104	94	234,454	195,362	429,816	75,260	146,145	221,404	25,984	22,977
Realised Investment Under Section 17 (d) (e)	1,908	1,953	1,601,805	969,609	2,571,413	2,013,978	1,287,831	3,301,809	n.a.	n.a.
Projects in Commercial Operations (d)	2,359	2,300	397,212	511,811	368,676	397,409	523,946	921,355	359,269	357,086
Under Section 17 (c)	1,724	1,708	372,889	502,639	335,181	372,930	514,774	887,704	326,992	327,606
Under Section 16	635	592	24,322	9,172	33,495	24,479	9,172	33,651	32,277	29,480
MIC										
Companies Registered (d)	2,514	2,674	-	-	205,231	-	-	206,565	311,001	314,230

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

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

The value of total investments of projects approved under Sections 16 and 17 of the BOI Act in 2018 is estimated at Rs. 386.3 billion. Investment value of project approvals for sectors including non-metallic mineral products, fabricated metal products, machinery and transport equipment recorded an increase in 2018 compared to the previous year. However, estimated investment in approved projects in the food, beverages and tobacco, textile, wearing apparel and leather products, services, chemicals, petroleum, coal and rubber and plastic products sectors declined during the period under review, compared to 2017. The estimated investment value of projects contracted under Section 17 during 2018 was Rs. 221.4 billion, reflecting a decline of 48.5 per cent over the previous period. Estimated investment in projects that commenced commercial operations under Sections 16 and 17 of the BOI Act amounted to Rs. 921.4 billion as at end 2018. The cumulative realised investment of the BOI by end 2018 was Rs. 3,301.8 billion.

Availability and Utilisation of Resources

At current prices, the available resources of the economy, which consist of both domestic and external resources, expanded by 8.8 per cent amounting to Rs. 18,804.2 billion in 2018, in comparison to 12.2 per cent growth recorded in 2017. The domestic resources, which consists

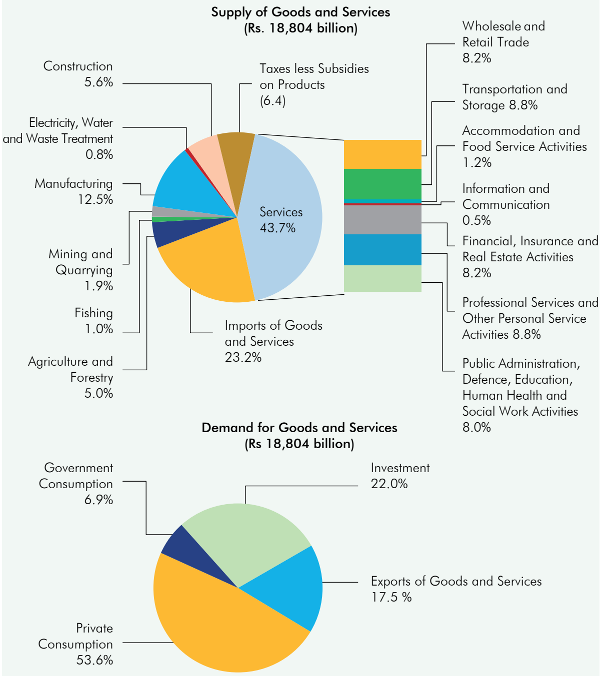
Table 2.13
Total Resources and Their Uses at Current Market Prices (a) (b)

Item	Percentage Share %		Growth %	
	2017 (c)	2018	2017 (c)	2018
A. Resources	77.6	76.8	11.9	7.7
Gross Domestic Product	22.4	23.2	13.4	12.4
Import of Goods and Services	**100.0**	**100.0**	**12.2**	**8.8**
Total				
B. Utilisation				
Consumption	60.8	60.5	10.3	8.3
Gross Fixed Capital Formation	20.5	19.7	10.7	4.3
Changes in Inventories and Acquisition less Disposals of Valuables	1.8	2.3	140.0	34.5
Export of Goods and Services	16.8	17.5	14.6	13.2
Total	**100.0**	**100.0**	**12.2**	**8.8**

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

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

Figure 2.12
The Economy in 2018 (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

of GDP and the external resources that comprise imports grew at a slower pace in 2018, compared to the previous year reducing the resource availability of the country. In the meantime, the resource availability at constant prices increased only by 2.9 per cent in 2018, compared to 4.3 per cent growth recorded in 2017. This slowdown was observed in the availability of both domestic and external resources during the year.

The available resources at current prices were utilized for consumption, investment and export purposes during the year. The majority of the resources were utilized for consumption purposes, which accounted for 60.5 per cent of the total resource utilization in 2018, slightly decreasing from 60.8 per cent recorded in 2017. Meanwhile, the share of resources utilized for investment purposes decreased to 22.0 per cent in 2018, compared to 22.4 per cent recorded in 2017. In the meantime, the share of resources utilized for export purposes slightly increased to 17.5 per cent in 2018, from 16.8 per cent in 2017. The resource utilization at constant prices grew moderately, with the slowdown in consumption, investment and exports during the year.

Savings

Domestic savings of the economy at current prices recorded a slower growth of 5.6 per cent amounting to Rs. 3,068.5 billion in 2018, compared to 17.8 per cent recorded in 2017.

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

Item	Rs. million		Growth (%)		As a per cent of GDP (%)	
	2017 (c)	2018	2017 (c)	2018	2017 (c)	2018
1. Gross Domestic Product at Market Price	13,418,287	14,449,931	11.9	7.7	100.0	100.0
2. Consumption Expenditure	10,513,141	11,381,403	10.3	8.3	78.3	78.8
Private	9,382,467	10,081,223	10.2	7.4	69.9	69.8
Government	1,130,674	1,300,180	11.4	15.0	8.4	9.0
3. Investment	3,867,947	4,130,406	15.8	6.8	28.8	28.6
4. Domestic Savings	2,905,146	3,068,528	17.8	5.6	21.7	21.2
Private	3,001,308	3,238,268	18.2	7.9	22.4	22.4
Government	-96,162	-169,740	-34.1	-76.5	-0.7	-1.2
5. Domestic Savings - Investment Gap	-962,801	-1,061,878	-10.1	-10.3	-7.2	-7.3
6. Net Primary Income from Rest of the World (d)	-352,856	-391,934	-10.4	-11.1	-2.6	-2.7
7. Net Current Transfers from Rest of the World	964,316	999,504	2.6	3.6	7.2	6.9
8. National Savings	3,516,606	3,676,098	13.9	4.5	26.2	25.4

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

This could be partly attributable to the slower growth in private savings which grew by 7.9 per cent in 2018, compared to 18.2 per cent expansion observed in 2017. The increase in government recurrent expenditure surpassed the government revenue, resulting in an increase in government dis-savings during the period, dampening the growth in domestic savings. Accordingly, domestic savings as a percentage of GDP decreased to 21.2 per cent in 2018, compared to 21.7 per cent in 2017.

National savings at current prices grew at a slower pace of 4.5 per cent amounting to Rs. 3,676.1 billion in 2018, compared to 13.9 per cent growth in 2017. This was mainly attributable to the slowdown witnessed in the domestic savings and the continuous contraction in net primary income from the rest of the world, in rupee terms, even though net current transfers from rest of the world, in rupee terms, recorded a growth during the year, largely supported by the increase in workers' remittances. Accordingly, national savings as a percentage of GDP decreased to 25.4 per cent in 2018, from 26.2 per cent in 2017. Meanwhile, due to the relatively higher growth in investment expenditure, the national savings-investment gap broadened to 3.1 per cent of GDP in 2018, from 2.6 per cent of GDP in 2017.

2.6 Income

The aggregate of income components which is equal to the total gross value added of the economy at current prices grew by 8.8 per cent in 2018, compared to 10.7 per cent growth in 2017. The Gross Operating Surplus (GOS) which is the largest income generating component of the economy at current prices grew by 7.8 per cent in 2018, compared to a growth of 12.6 per cent in 2017, accounting for 62.8 per cent of GDP. This was mainly attributable to the expansion in Net Operating Surplus (NOS), the main income component in GOS which grew by 8.3 per cent in 2018, compared to a growth of 12.1 per cent in 2017. Further, the other two sub components of GOS, consumption of fixed capital and mixed income grew by 7.5 per cent and 4.5 per cent, respectively, in 2018, compared to growth rates of 17.7 per cent and 10.5 per cent, respectively, in 2017. Meanwhile, Compensation of Employees (CE) at current prices accounted for 28.6 per cent of GDP, recording a growth of 11.1 per cent in 2018, compared to a growth of 7.0 per cent in 2017. However, the other income component, which is the taxes less subsidies on production at current prices grew by 0.7 per cent in 2018 against a contraction of 7.4 per cent in 2017, accounting for 0.3 per cent of GDP.

According to the institutional sector classification of income generation, HH and NPISH sector provided the highest contribution to the total gross value added of the economy at current prices. When considering

Figure 2.13
Income Components of the Economy
(at Current Market Prices)

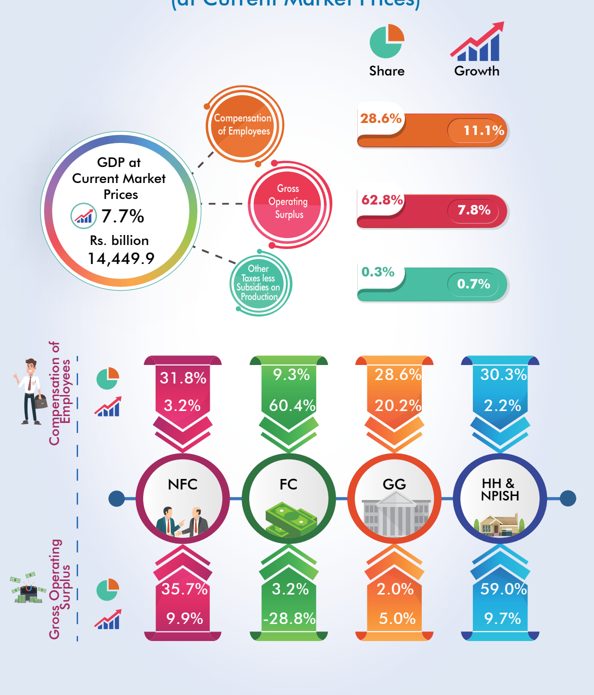


Table 2.15
Income Components by Institutional Sector at Current Market Prices (a) (b)

Item	Percentage Share (%)									
	2017 (c)					2018				
	Non-Financial Corporations	Financial Corporations	General Government	Households and Non-Profit Institutions Serving Households	Total Economy	Non-Financial Corporations	Financial Corporations	General Government	Households and Non-Profit Institutions Serving Households	Total Economy
Compensation of Employees	**34.2**	**6.4**	**26.5**	**32.9**	**100.0**	**31.8**	**9.3**	**28.6**	**30.3**	**100.0**
Gross Operating Surplus	**35.1**	**4.9**	**2.1**	**58.0**	**100.0**	**35.7**	**3.2**	**2.0**	**59.0**	**100.0**
Net Operating Surplus	38.5	5.9	0.6	55.0	100.0	39.1	3.7	0.7	56.5	100.0
Mixed Income	-	-	-	100.0	100.0	-	-	-	100.0	100.0
Consumption of Fixed Capital	42.2	2.6	13.6	41.6	100.0	43.1	2.8	12.6	41.5	100.0
Other Taxes less Subsidies on Production	**91.0**	**8.7**	**-**	**0.3**	**100.0**	**91.1**	**8.6**	**-**	**0.3**	**100.0**
Gross Value Added at Basic Price	**35.0**	**5.4**	**9.5**	**50.1**	**100.0**	**34.7**	**5.0**	**10.3**	**49.8**	**100.0**

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

Source: Department of Census and Statistics

the sectoral contribution to GOS at current prices, the HH and NPISH sector represented 59.0 per cent of GOS, recording a growth of 9.7 per cent in 2018. This was followed by the NFC sector, which accounted for 35.7 per cent of GOS and grew by 9.9 per cent in 2018. With regards to CE at current prices, the HH and NPISH sector accounted for 30.3 per cent of CE and grew at a slower pace of 2.2 per cent in 2018. Further, the NFC and GG sectors accounted for 31.8 per cent and 28.6 per cent of CE at current prices, respectively, in 2018 and recorded growth rates of 3.2 per cent and 20.2 per cent, respectively. Moreover, the FC sector contributed for 9.3 per cent of CE at current prices and registered a growth of 60.4 per cent in 2018. The major contributor to other taxes less subsidies on production was NFC sector which accounted for 91.1 per cent of this component recorded a marginal growth of 0.7 per cent in 2018.