

## Chapter 2

# NATIONAL OUTPUT AND EXPENDITURE

### 2.1 Overview

**T**he Sri Lankan economy exhibited its resilience by recording a growth of 3.5 per cent in 2009 despite the challenges emanating from both external and domestic fronts. This was enabled by the steady recovery of the economy since the second quarter of the year reaching a growth of 6.2 per cent in the fourth quarter. The growth in the year was subsequent to 4 consecutive years of robust growth where the annual growth was 6.0 per cent or higher. The challenges faced in achieving this growth in 2009 included the synchronized downturn in major economies and the heightened security concerns with the escalation of the conflict in the North during the first half of 2009 as well as the unfavourable weather related setback in the Agriculture Sector. The improved business confidence following the end to the conflict and the gradual recovery in the global economy are expected to provide a further impetus to the growth prospects of the Sri Lankan economy in 2010.

**In the first half of the year all three sectors contributed to growth, although the Industry and Services Sectors were adversely affected by both the intensified conflict in the North as well as the fallout of the global recession.** The growth registered by the Industry Sector during this

period was 2.4 per cent while the Services Sector registered an even slower growth of 1.1 per cent. The Agriculture Sector posted a growth of 3.7 per cent with the bountiful Maha harvest contributing significantly to this growth. However, growth in this sector in the first half of the year was affected by the poor performance in tea.

**With the end of the conflict and gradual recovery in the global economy, there was a recovery in both the Industry and Services Sectors in the second half of the year.** The growth in the Industry sector accelerated to 5.9 per cent and that of the Services Sector to 5.4 per cent, during the second half of the year. Growth in the second half of the year was driven mainly by the Services Sector which accounted for almost 63 per cent of the total growth. However, due to the lower growth registered in the first half, annual growth in the Services Sector at 3.3 per cent fell short of the growth of 5.6 per cent registered in the previous year. The growth registered in the Industry Sector in 2009 at 4.2 per cent was also lower than the 5.9 per cent growth registered in 2008. Meanwhile, the sharp drop in paddy production in Yala 2009 resulted in growth in the Agriculture Sector dipping to 2.6 per cent in the second half of the year. Accordingly,

Table 2.1

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

Sector	Rate of Change (%)		Contribution to Change in GDP (%)		Share of GDP (%)	
	2008(a)	2009(b)	2008(a)	2009(b)	2008(a)	2009(b)
<b>Agriculture</b>	7.5	3.2	15.1	10.8	12.1	12.0
1. Agriculture, Livestock and Forestry	7.3	2.8	13.2	8.5	10.9	10.9
1.1 Tea	4.2	- 8.9	0.8	- 2.9	1.2	1.0
1.2 Rubber	10.3	7.9	0.4	0.5	0.2	0.3
1.3 Coconut	5.2	5.2	1.2	2.0	1.4	1.4
1.4 Minor Export Crops	- 2.1	5.2	- 0.2	0.7	0.4	0.5
1.5 Paddy	23.1	- 5.1	6.1	- 2.7	1.8	1.7
1.6 Livestock	5.6	6.2	0.8	1.5	0.9	0.9
1.7 Other Food Crops	4.7	7.0	3.0	7.5	3.8	3.9
1.8 Plantation Development	3.5	5.2	0.2	0.4	0.3	0.3
1.9 Firewood and Forestry	7.1	5.9	0.7	1.0	0.6	0.6
1.10 Other Agricultural Crops	2.1	4.9	0.1	0.5	0.4	0.4
2. Fishing	9.9	6.9	1.8	2.2	1.1	1.2
<b>Industry</b>	5.9	4.2	28.3	33.8	28.4	28.6
3. Mining and Quarrying	12.8	8.2	4.1	4.7	2.0	2.1
4. Manufacturing	4.9	3.3	14.6	16.3	17.5	17.4
4.1 Processing (Tea, Rubber and Coconut)	5.3	0.7	0.6	0.1	0.6	0.6
4.2 Factory Industry	5.0	3.4	13.3	15.2	15.8	15.8
4.3 Cottage Industry	4.5	3.3	0.8	1.0	1.1	1.1
5. Electricity, Gas and Water	2.7	3.7	1.1	2.5	2.4	2.4
5.1 Electricity	3.9	3.7	1.4	2.2	2.1	2.1
5.2 Gas	- 10.2	5.4	- 0.3	0.3	0.2	0.2
5.3 Water	3.6	2.9	0.1	0.1	0.1	0.1
6. Construction	7.8	5.6	8.4	10.3	6.5	6.6
<b>Services</b>	5.6	3.3	56.6	55.4	59.5	59.3
7. Wholesale and Retail Trade	4.7	- 0.3	19.4	- 2.1	24.2	23.3
7.1 Import Trade	4.7	- 6.6	7.2	- 16.8	9.0	8.1
7.2 Export Trade	0.9	- 5.2	0.7	- 6.5	4.4	4.1
7.3 Domestic Trade	6.4	7.0	11.5	21.1	10.8	11.1
8. Hotels and Restaurants	- 5.0	13.3	- 0.3	1.4	0.4	0.4
9. Transport and Communication	8.1	6.6	17.5	24.3	13.1	13.5
9.1 Transport	6.3	6.0	11.5	18.5	10.9	11.1
9.2 Cargo Handling-Ports and Civil Aviation	8.0	3.4	0.9	0.6	0.7	0.7
9.3 Post and Telecommunication	22.3	11.7	5.1	5.2	1.6	1.7
10. Banking, Insurance and Real Estate etc.	6.6	5.7	9.5	14.0	8.7	8.9
11. Ownership of Dwellings	1.1	1.3	0.6	1.1	3.1	3.0
12. Government Services	5.7	5.9	7.4	12.8	7.7	7.8
13. Private Services	6.5	5.8	2.6	3.9	2.4	2.4
<b>Gross Domestic Product</b>	6.0	3.5	100.0	100.0	100.0	100.0
Net Factor Income from Abroad	- 131.2	49.7				
<b>Gross National Product</b>	4.6	4.8				

(a) Revised  
(b) Provisional

Source: Department of Census and Statistics

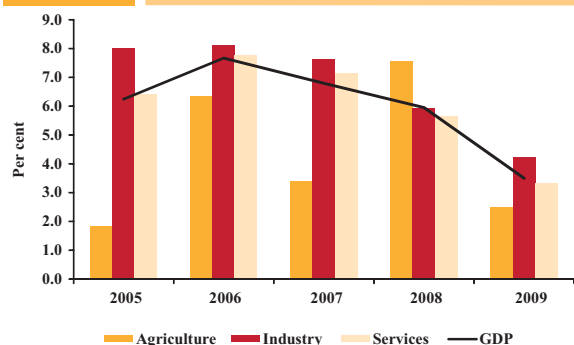
during the year, the Agriculture Sector grew only by 3.2 per cent when compared with a growth of 7.5 per cent registered in 2008. The deceleration in growth in this sector arose mainly from the poor overall performance of the two major crops tea and paddy, and with the high base of 2008.

**The recovery in domestic trade, transport, cargo handling-ports and civil aviation, and hotels and restaurants sub-sectors contributed**

**towards the improved performance in the Services Sector in the second half of the year, while recovery in all major sub-sectors in the Industry Sector contributed towards its better performance.** Among the sub-sectors within the Services Sector that benefited by the end of the conflict and expansion of activities in the North and East were domestic trade and transport. Easing of global recessionary conditions resulted in the

Chart 2.1

Annual Growth Rate



cargo handling-ports and civil aviation sub-sector expanding significantly during the last quarter of the year. There was also a dramatic improvement in the hotels and restaurants sub-sector with expansion of both local and foreign tourist activities with the dawn of peace. Growth in the manufacturing sub-sector improved, with the positive response to increased export demand by the factory industry sub-sector and the robust growth in the food and beverages sector. Improved export demand provided the impetus for the recovery of the gem mining industry as well, in the second half of the year. While several mega construction activities were implemented during the year and construction activities in the East accelerated, the slowdown in housing construction resulted in the growth of the construction sub-sector decelerating.

**Domestic demand grew by 3.4 per cent in 2009, in real terms with the decline in inflation.** This growth stemmed from the moderate growth in consumption demand and the marginal growth in investment demand. Net external demand in real terms decreased, with exports declining at a higher rate than imports. Meanwhile the impressive performance of the stock market, tourism sector and domestic trade consequent to the end of the conflict signaled a gradual revival of domestic economic activities.

**Gross National Product (GNP), defined as GDP adjusted for Net Factor Income from Abroad (NFIA), expanded by 4.8 per cent in real terms,**

**in 2009, compared to an expansion of 4.6 per cent in 2008.** The NFIA which is equivalent to the balance in the income account of the BOP, improved considerably in 2009. The decline in international interest rates led to decrease the interest payments on foreign loans while the significant increase in the foreign reserves generated higher investment income. The combined effect of these led to improve NFIA and in turn the GNP.

**GDP per capita for 2009 was estimated at Rs. 235,945, an increase of 8 per cent over the previous year's Rs. 218,167, which surpasses the inflation rate (3.4 per cent).** Per capita income reached the level of US dollars 2,053 in 2009, compared to US dollars 2,014 in the previous year indicating an overall improvement in living standards.

**In 2009 GDP at current market prices was estimated at Rs. 4,825 billion (US dollars 42 billion) registering an increase of 9.4 per cent.** This nominal increase in GDP was reflected by the real economic growth of 3.5 per cent coupled with a 5.7 per cent increase in the general price level as measured by the GDP deflator.

**Reflecting the impact of the decline in consumption demand for imported goods, domestic savings expanded by 42.2 per cent as against the decline of 2.8 per cent in 2008, and reached Rs.870 billion in 2009.** The expenditure on imports, which includes consumer, intermediate and investment goods, decreased by 23.1 per cent in 2009, when compared to a 22.0 per cent increase in 2008. Accordingly, domestic savings ratio was estimated at 18.0 per cent as against 13.9 per cent in the previous year.

**The national savings ratio improved and stood at 23.9 per cent compared to 17.8 per cent in 2008.** This was due to the favourable performance in NFIA and increase in Net Private Current Transfers from Abroad, which expanded by 21.2 per cent in 2009 and reached US dollars 3 billion, mainly driven by workers' remittances from the Middle East.

## 2.2 Sectoral Output, Policies, Institutional Support and Issues

### Agriculture

**The Agriculture Sector growth slowed to 3.2 per cent in 2009 as against the higher growth of 7.5 per cent in 2008.** This slowdown is due mainly to the poor performance in the tea and paddy sub-sectors, which recorded contractions in production compared to the previous year. Within the export agriculture sector, growth in rubber production was the main contributor towards growth along with minor export crops. Fish production also contributed favourably towards the growth in the Agriculture Sector, particularly with the increase in fishing activities in liberated areas.

### Export Agriculture

**Tea production in 2009 decreased by 9.1 per cent to 290 million kg compared to 2008.** The dry weather conditions in all tea planting districts, especially in the first quarter of 2009, largely impacted on the decline. Lower prices in the last quarter of 2008 due to global financial crisis continued to affect the industry in the first two months of 2009. Some measures adopted by the tea growers, such as pruning of tea bushes during this period, also attributed to the decline in production. Resultantly, tea production in the first quarter of 2009 declined significantly by 42 per cent. However, it turned into a positive growth of 17 per cent in the last quarter of 2009 compared to the same period in 2008. This was due to the favourable weather conditions that

prevailed since the second quarter, improved world demand for tea together with consistent increase in prices, especially from the second quarter, and the effect of the measures adopted by the government and other stakeholders to uphold the industry. Meanwhile, the work stoppages of estate workers, such as work to rule during the latter part of the year, slowed the growth momentum of the tea industry to a certain extent. The decline in tea production in 2009 was felt not only by Sri Lanka but by many other tea producing countries, which resulted in a drop of world tea production by 2.2 per cent compared to that of 2008.

**In 2009, Colombo Tea Auctions (CTA) registered the highest ever prices in the centuries long industry in Sri Lanka.** The annual average all tea price at CTA in 2009 increased to Rs. 360 per kg from Rs. 302 per kg in 2008 while the average export price increased by 9.3 per cent to Rs.470 per kg. The phenomenal increase in tea prices was attributable largely to substantial production deficits of black tea (orthodox and CTC tea) locally as well as in global markets.

**Rubber production in 2009 registered a moderate increase of 5.9 per cent.** In 2009, the rubber yield increased by 4 per cent to 1,437 kg per hectare compared to the previous year. Lower prices during the first half of the year due to reduced global demand have had an impact on the rubber production. The decline in prices also resulted in less use of fertiliser. Meanwhile, the decline in crude oil prices reduced the price of synthetic rubber encouraging its use in rubber based industries. Nevertheless, in the second half of 2009, the rubber production in Sri Lanka registered a higher growth of 8.7 per cent over the same period of 2008. Natural rubber prices increased with gradual global economic recovery, especially towards the end of the year, in line with the gradual rise in crude oil prices. The unfavourable weather conditions that developed in the major rubber producing countries, such as Thailand, Malaysia and Indonesia leading to a shortage of world supply, also impacted on the increase in natural rubber prices towards the end of the year.

**Table 2.2**

**Agriculture Production Index  
(1997-2000 =100)**

Item	2008(a)	2009(b)	Change (%) 2008/09
Agriculture and Fishing	124.0	121.9	-1.7
1 Agriculture	125.1	121.5	-2.9
1.1 Agriculture crops	123.2	118.7	-3.7
Tea	111.0	100.9	-9.1
Rubber	134.0	141.9	5.9
Coconut	104.8	99.5	-5.1
Paddy	145.4	137.0	-5.8
Other Crops	123.7	132.6	7.2
1.2 Livestock	142.4	146.6	2.9
2 Fishing	116.9	124.4	6.5

(a) Revised  
(b) Provisional

Source: Central Bank of Sri Lanka

The prices of all varieties of rubber fluctuated sharply during the year with crepe rubber varieties showing a greater degree of volatility. The average prices of RSS 1 and RSS 2 increased by 97 per cent to Rs.286 per kg and 95 per cent to Rs.278 per kg, respectively, in the fourth quarter of 2009 compared to prices of the first quarter. The average prices of crepe rubber varieties, latex crepe and crepe No.1, also increased by 127 per cent to Rs.318 per kg and 128 per cent to Rs.315 per kg respectively, in the fourth quarter compared to that of first quarter of the year.

Coconut production, which showed an impressive performance in the first half of 2009, declined during the second half to register a 5 per cent drop in 2009. Coconut production grew by 18.3 per cent in the first half of 2009 over the same period of 2008 due mainly to the lag effect of favourable weather conditions that prevailed last year. The combination of factors, such as the lag effect of the unfavourable weather conditions, i.e., lower rainfall and higher temperature in the major coconut growing areas in the second half of 2008, and less fertiliser usage in the same period, largely caused the decline in production in the second half of 2009. Meanwhile, during the year, production of coconut oil increased by 28 per cent to 75,490 metric tons (equivalent to 598 million nuts) supported by the significant increase of import duties on palm oil since April 2009. This situation revived the coconut oil industry and a large number of coconut mills started to re-operate during the year. This encouraged the coconut growers to engage in copra and coconut oil industry and also contributed to increase the farm level income with the rise in producer prices of fresh nuts towards the end of the year. In order to further develop the coconut oil industry in the country, a number of areas require a special focus, including improvement of quality of copra, increase in the capacity of existing machineries, use of quality paring for oil extraction and increase in the use of coconut residue to extract the oil.

The production of other export agricultural crops such as cinnamon, cloves and pepper showed mixed performances in 2009. The production of cinnamon and cocoa increased

Table 2.3

## Trends in Principal Agricultural Crops

Category	Unit	2008(a)	2009(b)
<b>1. Tea</b>			
1.1 Production (c)	kg mn	318.7	289.8
1.2 Total Extent	hectares '000	222	222
1.3 Extent bearing	hectares '000	193	193
1.4 Cost of Production (d)	Rs/kg	262.60	269.00
1.5 Average price			
- Colombo Auction	Rs/kg	301.63	360.85
- Export (f.o.b.)	Rs/kg	430.40	470.11
1.6 Replanting	hectares	1,385	1,081
1.7 New planting	hectares	11	12
1.8 Value added as % of GDP (e)		1.6	1.7
<b>2. Rubber</b>			
2.1 Production	kg mn	129.2	136.9
2.2 Total extent (f)	hectares '000	122	124
2.3 Area under tapping (f)	hectares '000	94	95
2.4 Cost of Production	Rs/kg	114.00	115.50
2.5 Average price			
- Colombo Auction (RSS 1)	Rs/kg	269.51	211.65
- Export (f.o.b.)	Rs/kg	278.20	202.23
2.6 Replanting (g)	hectares	6,105	1,002
2.7 New planting (g)	hectares	2,436	1,156
2.8 Value added as % of GDP (e)		0.8	0.5
<b>3. Coconut</b>			
3.1 Production	nuts mn	2,909	2,762
3.2 Total Extent	hectares '000	363	363
3.3 Cost of production	Rs/nut	12.47	9.10
3.4 Average price			
- Producer price	Rs/nut	22.71	18.36
- Export (f.o.b.) (h)	Rs/nut	24.77	18.23
3.5 Replanting / Under Planting (i)	hectares	2,468	3,020
3.6 New planting (i)	hectares	3,682	3,945
3.7 Value added as % of GDP (e)		1.8	1.3

- (a) Revised.  
 (b) Provisional.  
 (c) Including green tea.  
 (d) Includes green leaf suppliers' profit margin.  
 (e) In growing and processing only.  
 (f) Based on rubber land survey -2003 conducted by the Dept. of Census and Statistics & Rubber Development Department.  
 (g) Extents covered by cultivation assistance schemes of the Rubber Development Department.  
 (h) Three major coconut kernel products only.  
 (i) Extents covered by cultivation assistance schemes of the CCB.
- Sources: Sri Lanka Tea Board  
 Tea Small Holdings Development Authority  
 Department of Census and Statistics  
 Rubber Development Department  
 Coconut Cultivation Board  
 Coconut Development Authority  
 Plantation Companies  
 Sri Lanka Customs  
 Central Bank of Sri Lanka

by 5 per cent and 45 per cent, respectively, due mainly to improved export demand together with increased export prices. However, during the year, the production of pepper declined by 5 per cent, cardamom by 10 per cent, coffee by 21 per cent and clove by 63 per cent. The decline in pepper was mainly resulted by poor production in the major pepper harvesting period, i.e., July to August in the districts of Kandy and Matale due to heavy and continuous rainfall as well as substantial decline in export price during the year. The year 2008 brought a boom harvest of clove production that generally

Table 2.4

## Paddy Sector Statistics

Item	Unit	2008(a)			2009(b)		
		Maha	Yala	Total	Maha	Yala	Total
Gross extent sown	hectares '000	582	471	1,053	632	345	978
Gross extent harvested	hectares '000	568	465	1,033	605	338	943
Net extent harvested	hectares '000	508	417	925	539	303	842
Production	mt '000	2,125	1,750	3,875	2,384	1,268	3,652
	bushels '000	101,850	83,871	185,721	114,254	60,755	175,009
Yield (c)	kg/ hectare	4,181	4,195	4,187	4,421	4,187	4,336
Credit Granted	Rs.mn.	788	816	1,605	1,161	685	1,847
Rice imports	mt '000	-	-	84	-	-	52
Paddy equivalent of imports	mt '000	-	-	124	-	-	77

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

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

comes in every four years. Therefore, decline in clove production in the year followed by the boom harvest is largely explained by the life cycle of the crop.

### Domestic Agriculture

**Total paddy production in 2009 declined by 5.8 per cent to 3.65 million metric tons compared to highest ever production of 3.87 million metric tons in 2008.** The decline in paddy production in Yala season by 27.6 per cent, against the extraordinary growth of 51 per cent in 2008 Yala season was instrumental mainly in this overall decline in 2009. This was due mainly to insufficient water for cultivation as a result of delay in the onset of monsoon rains and consequent delay in release of water for cultivation. Nevertheless, the paddy production in 2008/2009 Maha season increased

by 12.2 per cent to around 2.4 million metric tons from the previous Maha season mostly on account of increased extent in cultivation, increased productivity supported by favourable weather during the season.

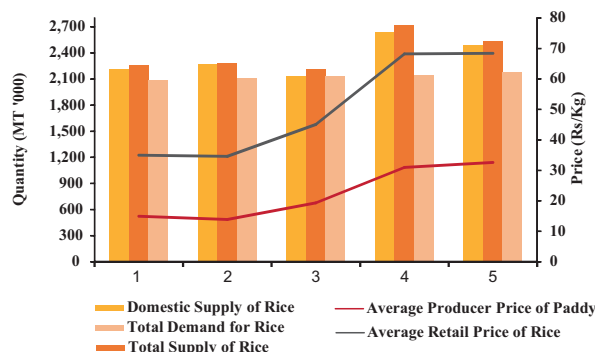
### The production of Other Field Crops (OFC) showed mixed performance during the year.

Maize production increased by around 15 per cent to 129,800 metric tons in 2009 compared to 2008 due to increased producer prices and domestic consumption. During the year, import tax on maize was increased and later, importation was restricted since March 2009 to protect local producers. Big onion production increased by 42 per cent to 81,700 metric tons, due partly to farmers shifting to cash crops, favourable weather and productivity increase. However, potato production declined by 18 per cent to 61,700 metric tons while chillie production declined by 9 per cent to 46,400 metric tons in 2009. The decline in potato production is explained largely by unfavourable weather while decline in chillie production largely on account of late start of cultivation due to insufficient rainfall in the Yala season.

**Sugar production in 2009 declined by 20 per cent to 31,608 metric tons.** This decline in production was largely attributable to low cane supply caused by the drought especially at Pelawatte where sugarcane cultivation is entirely rain fed. The extent of sugarcane cultivation also decreased due

Chart 2.2

## Rice : Supply and Demand



**Table 2.5****Livestock Sector Statistics**

Sub-Sector	2008(a)	2009(b)
1. National Herd (No.) (mn)	1.5	1.4
Neat Cattle	1.2	1.1
Buffalo	0.3	0.3
2. National Milk Production (mn litres)	208.1	233.4
Cow Milk	172.4	184.1
Buffalo Milk	35.7	49.3
3. Milk Products (mn litres)	13.5	23.3
4. Producer Price - Cow Milk (Rs./litre)	29.53	29.53
5. National Egg Production (No) (mn)	1039.8	1,142.2
6. National Poultry Meat Production (mt '000)	101.5	99.28

(a) Revised  
(b) Provisional

Source: Ministry of Livestock Development

to farmers' shifting to other short-term crops such as banana, maize, soya bean and also for paddy. In order to increase the sugar production, it is required to assure a reasonable producer price for sugar cane to attract the farmers. At the same time, action has already been taken to re-commence defunct sugar factories at Hingurana and Kantalai and action needs to be taken to commence other planned sugar factories to increase national sugar production. Meanwhile, Sugar Research Institute (SRI) has introduced four locally bred superior sugar cane varieties in the year for commercial cultivation.

**Total milk production showed an increase by 12.1 per cent to 233 million litres in 2009.** This growth was supported by higher prices and other measures implemented to expand dairy farming. The milk production in 2009 consists of 184 million litres of neat cattle milk (7 per cent growth) and 49.3 million litres of buffalo milk (38 per cent growth). Accordingly, in 2009, an estimated 28 per cent of the total milk requirement of the country (at per capita consumption of 110 ml/day) was supplied locally compared to that of 15 per cent in 2005. The milk products also showed a significant improvement during the year; yoghurt production by 73 per cent and curd production by 28 per cent. During the year, MILCO initiated rehabilitation of their factories at Ambewela, Colombo, Digana and Polonnaruwa and planned to strengthen their island-wide milk collection network.

**In 2009, poultry meat production declined by 3 per cent while poultry egg production increased by 10 per cent.** The decline in parent stock supply in

2008 resulting in a drop of day old chick production in 2009, health related problems reported from some poultry farms and increased prices of animal feed ingredients during the year caused the decline in poultry meat production. Furthermore, the decline in day old chick supply and relatively higher prices due to increased demand for eggs towards the end of the year required the poultry farms to use the existing layer hens for egg production even beyond their culling period. Increased production in Northern and Eastern provinces also attributed to increase in egg production in 2009 to a certain extent.

## Fishing

**The annual fish production increased by 6.5 per cent to 339,730 metric tons in 2009.** The marine fish production grew by 6.8 per cent while inland fish production grew by 4.7 per cent. The growth in the marine sector was primarily driven by coastal fishing which grew by 9.1 per cent in 2009 due mainly to the relaxation of restrictions on fishing in the Northern and Eastern provinces during the year and also due to the successful implementation of fishers' rehabilitation projects in the Eastern province. However, the off shore deep sea fish production increased only marginally by 3.2 per cent. The increased supply of fish from the Northern and Eastern provinces also contributed to low volatility of marine fish prices during the year. The marginal increase in inland fish production was a combined outcome of the increase in the perennial water fish production by 5 per cent and shrimp farming by 60 per cent, and decline in inland culture fish production by 22 per cent. The poor performance of the inland fish production was attributable mainly to dry weather conditions. However, the shrimp farm

**Table 2.6****Fish Production**

Sub-Sector	Metric Tons '000	
	2008(a)	2009(b)
Marine (c)	275	293
Aquaculture and Inland Fisheries	44	47
Total	319	340

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

Source: Ministry of Fisheries and Aquatic Resources

industry recovered from the White Spot disease, which hampered the shrimp industry, in the previous year.

## Forestry

**The Forest Department implemented a participatory forest programme to increase tree cover through community participation.** An amendment has been brought to the Forest Ordinance in 2009 empowering the Conservator General of Forests to enter into agreements with stakeholders to carry out community participatory programmes for the development of forests. Accordingly, home garden development, canal bank planting, tank catchment rehabilitation and rehabilitation of degraded mangrove forest were carried out in Ampara, Trincomalee and Batticaloa districts. In addition, reforestation of 877 hectares was completed in 2009.

**The activities of the Sri Lanka Tea Board (SLTB), Tea Small Holdings Development Authority (TSHDA) and Tea Research Institute (TRI) contributed to increase the production, yields and quality of tea.** During the year, tea replanting subsidy scheme (Rs.200,000 per hectare) and tea fertilizer subsidy scheme (Rs.1,000 per 50 kg) continued for tea small holders through TSHDA at a cost of Rs. 179 million and Rs. 4,621 million, respectively. Accordingly, 777 hectares under tea small holders were replanted during the year. The contribution to the national tea production by the small holder sector in 2009 was 76 per cent which was the highest contribution achieved so far by the sector. Under the interest subsidy scheme introduced to support the affected tea manufactureres due to the global financial crisis, government spent Rs.45 million in respect of 168 factories. In addition, SLTB also carried out wide tea promotional activities with a view to encourage the increase in the exports of value added teas, and establish Sri Lankan tea brands in major tea consuming countries. Moreover, SLTB introduced a project to register the Ozone Friendly Pure Ceylon tea logo in order to promote Ozone friendly pure tea production in Sri Lanka, among the foreign consumers. TRI conducted awareness programmes on integrated pest management to

effectively address food safety issues through satisfying the Maximum Residue Levels (MRL) of made tea, which is also becoming a concern of the consumers of foreign countries.

**The average yield of tea remains lower than that of Sri Lanka's competitors despite the various measures introduced by the government to develop the tea sector in the country.** The present average yield of 1,550 kg per hectare is much lower than the average yield of India (1,800 kg per hectare) and Kenya (2,400 kg per hectare). The senility of the tea bushes is one of the major issues faced by the estates and small holders in the effort to increase productivity. In high grown areas, around 90 per cent of tea bushes are more than 100 years old and in low grown areas, the majority of tea bushes of vegetatively propagated (VP) varieties are older than 30 years. Therefore, it is necessary to carry on the replanting process at least at a rate of 3 per cent each year. Nevertheless, the present rate of replanting of the tea sector (0.7 per cent) is alarmingly low at national level. Therefore, the present replanting schemes need to be extended further. Meanwhile, it is also important to popularise improved clones developed by TRI in the replanting process to increase the resistance of the plant to climatic changes and pest and disease attacks. The projects to strengthen the soil conservation programmes and increase the usage of organic fertiliser are equally important to enhance the productivity.

**The Rubber Research Institute (RRI) and Rubber Development Department (RDD) continually contributed to enhance the rubber productivity over the years through improvement in agronomic practices and technology.** RRI revised its recommended planting density up to 515-520 trees per hectare to prevent over-planting which hinders the productivity while introducing the four days tapping system (D/4) to effectively address the shortage of latex harvesters. RRI also contributed to develop the rubber technology in the year which included, inter alia, adaptation of the single day smoke drying system developed with respect to the larger scale plantation sector, development of low protein concentrated latex to be used in the surgical glove manufacturing industry and introduction of five new high yielding clones.



**Several measures were implemented in 2009 for the development of the Rubber sector.**

Considering the declining of natural rubber prices due to the global financial crisis, the government introduced a guaranteed price scheme in 2009 to assist the rubber growers and ensure that growers at least obtain Rs. 175 per kg for rubber latex. Under this scheme, funds totalling Rs. 25 million were disbursed among 3,131 small rubber holders. Meanwhile, Rs.138 million was granted as subsidy on new plantation of rubber in both traditional areas (715 hectares) and non-traditional areas (441 hectares) while for re-plantation of 1,002 hectares of rubber, Rs. 209 million was also granted as subsidy.

**In 2009, the Coconut Research Institute (CRI), the Coconut Cultivation Board (CCB) and Coconut Development Authority (CDA) implemented several projects to ensure substantial growth in the sector.**

It is reported that in the Southern province around 332,000 coconut palms (15 per cent of the coconut palms in the area) are affected by Weligama Coconut Leaf Wilt Disease (WCLWD) and Leaf Rot Disease (LRD). CRI has taken pertinent measures by working collaboratively with the CCB, to prevent the spread of diseases to other parts of the country while developing strategies for managing the diseases in heavily infected areas. In the meantime, CCB continually conducted development programmes in 2009. Accordingly, 3,020 hectares were replanted, 3,945 hectares of new lands were brought under coconut cultivation and around 1.7 million seedlings were distributed in the year. The study conducted by CDA into the wastage in coconut usage has revealed that around 35 per cent of coconut used for cooking purposes at the household level is wasted due to inefficient extraction methods and this is equivalent to 500-530 million nuts per year.

**Several projects were carried out in order to improve the export crops during the year by the Export Agriculture Department.**

The extension of planting pepper, cocoa, cinnamon and coffee, in the plantation sector as well as Northern and Eastern provinces, provision of high quality planting materials and carrying on extension services were among such projects.

**The paddy sector has seen a resurgence in recent times in response to supportive measures and remunerative prices.**

Paddy purchasing scheme at minimum purchasing prices of Rs. 28 per kg for Nadu and Rs. 30 per kg for Samba was also continued to ensure farmers receive reasonable prices. Under this scheme, the government spent Rs.1,429 million to purchase 50,439 metric tons of paddy in 2009 which helped to keep market prices at the desired level.

**National campaign to increase domestic food production, “*Api Wawamu Rata Nagamu*” continued in 2009.**

Within the year, 75,752 acres of abandoned lands were brought under cultivation and added about 91,000 metric tons of paddy to the national production. Further, 300,000 home gardens were developed across the country under the Home Gardening Development Programme. With a view to reduce post-harvest losses of vegetables and fruits, a total of 45,000 plastic crates were distributed among farmers and other stakeholders.

**The Department of Agriculture (DOA) implemented a number of research and development projects, extension services, seed production and quality improvement programmes during the year.**

A seed production programme was developed by the Rice Research and Development Institute (RRDI) to fulfill the increasing demand for ultra short age (2 1/2 month) varieties. A 3 1/2 month rice variety with a potential yield of above 9 metric tons per hectare resistant to pests and diseases and environmental stresses was released for cultivation. DOA also released several new varieties of other field crops in the year which included two new chillie varieties, “MI green” and “Galkiriyagama selection” and a new improved big onion variety of “Dambulla selection” for general cultivation. One of the remarkable achievements of the Horticulture Crop Research and Development Institute (HORDI) during the year was the biological control of “papaya mealy bug” by releasing an exotic parasitoid which has helped bring down “mealy bug” population significantly.

## Box 3

## Food Security in Sri Lanka

The concept of food security has been generally defined as the availability of “food for all”, both at national and global level. The Food and Agriculture Organization (FAO) has stressed the accessibility for food by defining food security as “access by all people at all times to enough food for an active and healthy life” (1996)<sup>1</sup>. In fact, availability of food within the country or from importing outside is not sufficient, but ability of the people to acquire food is essential to ensure the food security of a country. Further, the intention of food security is to remove hunger and malnutrition from all people in the society. Accordingly, the concept of food security stresses two principles i.e, availability of nutritionally adequate and safe food, and ability to acquire such food.

#### Current position of food security in Sri Lanka

Presently, Sri Lanka produces most of its food i.e, cereals, pulses, fish, meat, vegetables and fruits within the country. In particular, on average around 95 per cent of the total requirement of rice, which is the country’s staple food, is produced in the country and the balance is imported. The requirement of wheat flour is completely met through imports. Almost the entire requirement of fresh fish, which is an important ingredient of the nutrition aspect of food security, is produced within the country, although some fish products, such as canned fish and dried fish, are imported. Total domestic production of milk at present is sufficient only to meet about 30 per cent of the milk requirement of the country. Though the country has a potential to produce maize, gram and other cereals/pulses and other crops, such as potatoes, chillies and big onion within the country, the current levels of local production of such crops is not adequate to meet the national requirement. Consequently, a part of the country’s food requirement is met through imports.<sup>2</sup>

The increase in local production or imports will increase the national food availability. However, household level food security will not be achieved if the poor households are unable to obtain their basic foods due to low income and higher prices of such basic foods. Over the years, Sri Lanka has made a satisfactory progress in alleviating poverty. The Poverty Head Count Ratio has declined to 15.2 per cent in 2007 compared to 22 per cent in 2000. However, poverty in certain areas of the country and the estate sector is as high as 27 to 34 per cent. Hence, Sri Lanka requires continued emphasis on poverty alleviation efforts to improve food security.

1 World Food Summit, 1996, FAO.

2 Food imports amounted to 7.4 per cent, 8.1 per cent and 9.7 per cent of the total imports in 2007, 2008 and 2009, respectively.

Table B 3.1

Food Balance Sheet with regard to major food commodities

Item	2005			2008		
	Production (Mt '000)	Imports (Mt '000)	Per capita availability ( Kg/per Year)	Production (Mt '000)	Imports (Mt '000)	Per capita availability ( Kg/per Year)
Rice (Paddy)	2,349	76	101	3,875	124	123
Maize	42	147	3	113	83	2
Wheat	-	842	42	-	541	26
Onion	109	121	8	107	174	9
Sugar	54	444	24	38	563	29
Potatoes	79	41	5	75	99	7
Fresh fish	163	4	4	319	9	6
Cow milk	137	-	4	146	-	4
Coconut oil	20	-	1	59	-	2

Source: Department of Census and Statistics

Admittedly, Sri Lanka has better basic health indicators than most countries with comparable income levels. However, some of the indicators of malnutrition are still high in Sri Lanka. The Sri Lanka Demographic Health Survey (2006-07) showed that 18 per cent of children are stunted (below the level of height for age), 15 per cent of children are wasted (below the levels of weight for height), 22 per cent of children are underweight (below the levels of weight for age), and 4 per cent of children are severely underweight among the children under five years<sup>3</sup>. Further, the population below the minimum level of dietary energy consumption is around 51 per cent (2006/2007), which is a significantly higher level<sup>4</sup>.

#### Government policy on increasing food security

In the government’s ten-year policy framework, the need for increasing agricultural production has been identified as a key contributing factor for ensuring food availability and enhancing consumption of calorie and protein of the people. Accordingly, the government implemented a national programme called, “Api Wawamu – Rata Nagamu” (Lets cultivate and uplift the nation) to promote the domestic production ensuring food and nutrition security of the people. Rapid growth of rice production in recent years was a result of the expansion of cultivated area with the assistance of the government under this islandwide programme. In

3 Annual Report of CBSL, 2008 (page 74).

4 Department of Census and Statistics.

2009 alone, 75,752 acres of abandoned paddy lands were cultivated contributing around 91,000 additional metric tons of paddy to the domestic production. Various incentives and concessions have been granted to increase the agriculture produce.

The tax policy has been used to encourage food production through protection, such as restriction of imports of maize as well as encouraging imports through tax exemptions on certain goods as and when necessary i.e, imports of wheat grain. In addition, a purchasing scheme for paddy has been introduced, which ensures a minimum price for farmers thereby encouraging them to engage in paddy cultivation. Floor prices (maximum retail prices) also have been imposed for some essential items, including selected categories of rice and milk powder.

The government has also intervened in food distribution, marketing and storage to prevent the country from moving into a food insecurity situation. This included the maintenance of a buffer stock of rice under its national paddy purchasing programme and through the importation of rice as and when necessary in order to deal with any shortage of rice in the market, expansion of the network of the co-operative societies and establishment of “Lak Sathosa” outlets and economic centres. In addition, the projects, such as “Maga Naguma” and “Gama Naguma” were implemented to improve the rural road network and uplift rural livelihood while directing commercial banks to extend a higher levels of credits to the agriculture sector. Accordingly, in 2009, loans and advances by commercial banks to the agriculture sector increased by 11.5 per cent to Rs. 129.9 billion. A Cabinet Sub-Committee on Food Security and Control of Cost of Living, chaired by H.E. the President was also appointed. The Committee meets regularly to review the food situation of the country, the price movements in the market and other developments to make recommendations to address any issues arising in these areas. The government also promoted home gardening by developing around 300,000 home gardens islandwide in 2009 to enhance the household food security while positively contributing to revitalise defunct agro based industries, such as Hingurana and Kantalai sugar factories, on Public Private Partnership basis, to increase the local production.

Meanwhile, the welfare and support programmes, such as “Samurdhi” income supplementary programmes and many other programmes, including the provision of a nutrition packs for pregnant mothers, fresh milk for mal-nourished children of the age from 2 to 5

years of low income families and the school nutrition programme were implemented to address the issue of malnourishment among the more vulnerable segments in the society.

#### Challenges, issues and way forward

High food prices continuously pose a serious challenge for food security of the households, especially with low incomes, as the low income families spend a relatively higher share of their income on food. If the international crude oil prices increase far too high again, the demand for cereals for production of bio fuel, (non-fossil fuel) would proportionately increase, propelling pressure on world cereal prices causing concerns. The increased energy prices would lead to the increase of the cost of production of agricultural commodities thereby increasing their prices. Further, climate too plays a decisive role in agriculture. Hence, in order face the possible adverse effect of climatic changes, it is necessary to introduce sound water management techniques and popularise new short-term hybrid varieties, especially among small agricultural producers.

With rising incomes, dietary habits of people in emerging economies are expected to shift from staples to livestock products, such as meat and dairy. Sri Lanka is now classified as a lower middle income emerging economy where economic growth could foster urbanisation with people moving from rural areas to cities. Therefore, in order to meet the gap of emerging trends in food consumption and supply, it is essential that the required investments are made in the agriculture and livestock to enhance their production.

Moreover, it is necessary to introduce a proper mechanism to allow the relevant government authorities to continuously assess and maintain sufficient grain stocks in the country, with a view to introduce appropriate and timely measures to meet shortages in the market. Meanwhile, access to irrigated water and other support services, including storage and food processing technologies, transportation facilities, reduction in post-harvest losses, access to bank credit also need to be improved to accelerate growth in the agriculture sector.

The food security of the people/households can be ensured only through a sustainable increase in food production, maintenance of stability of prices and enhancement of income levels of the low income households. The continuation of the present agriculture policy of the government while improving the accessibility of the poorer households for food through socio-economic development programmes should be the key foundation for such an outcome.

**Although farmers gain relatively high financial returns from cultivation of OFC, current production levels are not adequate to meet the demand due to various reasons.** High volatility in prices of these products highlighted the importance of the consistent policy on levels of protection provided for local producers. Low productivity, high cost of production, unavailability of quality seeds, high incidence of pests and diseases, weaknesses in marketing system and lack of storage facilities hindered the growth of the sector. In 2009, the Institute of Post Harvest Technology (IPHT) introduced an improved storage structure for big onions thereby reducing post-harvest losses to 12 per cent as opposed to 30 to 50 per cent losses after three months time in the traditional storage methods.

**The fertiliser support scheme was continued in 2009 covering paddy and small holders of tea and rubber.** All varieties of fertiliser were issued for paddy cultivation at Rs.350 per bag of 50 kg while tea and rubber smallholders were provided with a mixed fertiliser at Rs.1,000 per bag of 50 kg. During the year, the government expenditure on fertiliser subsidy programme amounted to Rs.27 billion (which also included the part of the cost of fertiliser for 2009/2010 Maha season) compared to Rs.26 billion in 2008. The issuance of fertiliser for paddy in 2008/09 Maha season under the programme increased by around 9 per cent to 242,093 metric tons due to increased extent of cultivation and that of in 2009 Yala season decreased by around 32 per cent to 150,375 metric tons due to decreased extent of cultivation. In the paddy sector, it is necessary to streamline the distribution channels of the fertiliser while encouraging the balanced use of fertiliser through effective extension services. However, annual fertiliser issues for the tea sector showed a significant increase of 31 per cent to 172,680 metric tons compared to that of the previous year due mainly to increased fertiliser usage by tea small holders after increase in fertiliser subsidy.

**The government has given special attention to develop the dairy sector and fish production in the former conflict areas.** The Ministry of Livestock Development has launched a short-term and a medium term development program in the

Northern province to encourage the dairy sector. These included provision of animals to farmers, strengthening and re-organization of Livestock Breeder Cooperative Societies (LIBCO), re-establishment of milk collection network, training programmes, veterinary investigation centres, new milk collecting and chilling centres and livestock breeder farms. Several projects were initiated under the “Nagenahira Navodaya (Eastern Revival)” programme, targeting the development of shrimp farming industry. Under “Wadakkil Wasantham (Northern Spring)” programme, the projects such as distribution of boats and fishery gears among resettled fishers, construction of three fish markets in Jaffna, Delft, and Karainagar and development of fishery harbours in Periyathudar and Mannar were completed enabling restoration of the fish industry in the Northern province.

**In both export and domestic agriculture sectors, further emphasis is needed in number of areas.** In the export agriculture sector, the replanting/new planting of tea, rubber and coconut has to be increased as the present intensity of replanting/new planting is not adequate to sustain the sectors in the future. Establishment of stabilisation funds for major agricultural products is also important in view of mitigating the impact of passing future shocks to prices of those products. The improvements of infrastructure facilities, adoption of new technology (better water management methods such as drip irrigation, sprinkling and poly tunnels for selected crops), and farm mechanisation where possible, are also important in order to increase the productivity and investment in the agriculture sector. In order to increase the exports of value addition of agriculture products such as dairy products, fruits, vegetables, as well as fish and fishery products, it is required to invest for improvements in food processing techniques, packaging and post-harvest techniques. There are other areas to be developed on priority basis which include provision of necessary technical knowledge to farmers to enable them to produce quality seeds at their farms as the farmers afford high cost on purchase of good seeds and also make available improved hybrid seeds in the market, improvement of storage techniques of glut harvest to avail the benefit in off seasons and enhancing access to bank credits.

## Industry

The Industry Sector registered a growth of 4.2 per cent compared to 5.9 per cent in 2008. Sub-sectors, namely, mining and quarrying, manufacturing and construction slowed down compared to the previous year. However, the electricity, gas and water sub-sector grew at a higher rate than that of the previous year. The share of the Industry Sector increased marginally to 28.6 per cent in 2009 from 28.4 per cent of GDP in 2008.

The factory industry which accounts for more than 90 per cent of the manufacturing sector output registered a 3.4 per cent growth in 2009 compared with 5.0 per cent in 2008. All major categories of the factory industry except the food, beverages and tobacco products category witnessed lower growth rates in 2009 as a result of the decline in demand for industrial products in both export and domestic markets. The global economic recession has caused the international market demand to shrink substantially. Domestic demand also narrowed mainly due to the contraction of disposable income and slowdown in domestic economic activities. However, the factory industry indicated a modest recovery since the second half of 2009 as a result of the gradual recovery of economies of major export destinations, increase in domestic demand mainly from the newly liberated Northern and Eastern provinces and the emerging conducive economic environment.

Both export and domestic market oriented industries showed mixed performance during 2009. Wearing apparel, rubber based products, diamond processing, gem and jewellery, and machinery and transport equipment which were the major contributors to the output of export market oriented industries recorded a deceleration during 2009, while food and beverages industries which are focused mainly on the domestic market picked up particularly in the second half of 2009. Gradual recovery of the construction sub-sector reflected in the relatively higher output of cement and building material industries in the latter part of 2009.

Table 2.7

### Value Added in Industry (2002 Constant Prices)

Category	Rs. million		Change %	
	2008(a)	2009(b)	2008(a)	2009(b)
1. Food, beverages and tobacco products	174,794	185,142	5.2	5.9
2. Textile, wearing apparel and leather products	87,215	87,762	3.1	0.6
3. Wood and wood products	1,085	1,125	2.3	3.7
4. Paper products, publishing and printing	1,598	1,635	6.3	2.3
5. Chemical, petroleum, coal, rubber and plastic products	58,650	59,706	6.4	1.8
6. Non-metallic mineral products	15,306	14,794	5.2	-3.3
7. Basic metal products	958	965	3.0	0.7
8. Fabricated metal products, machinery and transport equipment	31,702	32,794	5.6	3.4
9. Manufactured products not elsewhere specified	1,907	2,004	11.2	5.1
<b>Total</b>	<b>373,215</b>	<b>385,927</b>	<b>5.0</b>	<b>3.4</b>

(a) Revised  
(b) Provisional

Source: Department of Census and Statistics

The food, beverages and tobacco products category which contributes more than 46 per cent of the factory industry output increased by 5.9 per cent in 2009 compared with 5.2 per cent growth in 2008. All major industries under the food, beverages and tobacco products category contributed to this output, supported largely by the expansion of markets in the Northern and Eastern provinces and the improved performance of the tourism sector. Biscuit, beverages, milk and coconut based products and processed food manufacturing industries continuing their market expansion initiatives during 2009, introduced a range of value added high quality products to attract the local and export markets. Under the “*Sahalata Multhana*” programme, the Ministry of Industrial Development (MID) implemented a rice flour production promotion programme to raise locally produced rice consumption and to promote rice flour based bakery products. The capacity in the dairy industry expanded through modernising factories and opening new factories and milk collecting centres in the Northern and Eastern provinces. The output of liquor and tobacco products continued to decline in line with the government’s anti-alcohol and anti-tobacco initiatives. Food and beverages industries are expected to grow at a faster pace in

2010 and beyond with the acceleration of tourism activities and market expansion.

**Export oriented textile, wearing apparel and leather products industry category recorded a marginal growth in 2009.** The decline in international demand adversely affected the small and medium scale garment manufacturers. Cautious lending of banks, high interest rates and bank collaterals also affected these industries. Meanwhile, major players in the apparel industry were able to remain competitive in the export markets during 2009 by maintaining the reputation for high quality products, producing world trade brands and meeting deadlines in supplying goods. Increased focus on green products, strong concentration on niche markets and gradual recovery of the global economic environment contributed to recover the apparel industry towards the latter part of 2009.

**The chemical, petroleum, coal, rubber and plastic products category registered a lower growth of 1.8 per cent in 2009 compared with 6.4 per cent growth in 2008.** The low performance of this category was driven mainly by the slowdown in the output of rubber based products which is the largest sub-category and the second largest export market oriented industry. The global economic recession and escalation of cost of production leading to reduced competitiveness were the major impediments that affected the performance of the rubber based industry. The demand for solid tyres recorded a significant decline mainly due to the poor performance of the USA factory industry. Meanwhile, slowdown of the construction sub-sector affected the output of the plastic, PVC and paint industries in 2009. However, the output of rubber based products improved in the fourth quarter of 2009 with the gradual global economic recovery. Recognising the potential of rubber based products, the world's fourth largest tyre manufacturing company has invested in Sri Lanka as a joint venture project with a local solid tyre manufacturer.

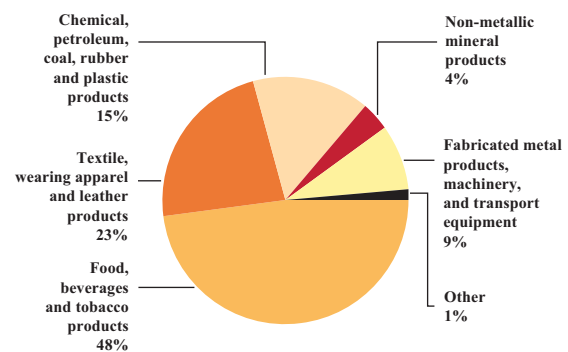
**The output of non-metallic mineral products category which was mainly contributed by the cement and building materials industries registered a negative growth of 3.3 per cent in 2009 due to the slowdown in the construction sub-sector.** To regain market, the ceramic and tile

industry launched a range of products to capture niche markets concentrating more on elegance and sophistication. The continuation of rehabilitation and reconstruction activities in the Northern and Eastern provinces, implementation of major infrastructure projects, recovery of private construction activities and reduction of cost of borrowings will give a fillip to the growth prospects of these industries. The narrowed demand for tableware and processed diamonds in 2009 is expected to improve with the recovery of the economic recession in the major trading partners' countries.

**The growth of fabricated metal products, machinery and transport equipment category slowed down in 2009.** The output of the sector which consists of ship and boat building, electric and electronic assembling industries was affected by the deepened economic slowdown of major trading partners' economies and declined domestic demand. The fishing boats manufacturing industries benefited in the latter part of the year with the increased demand from Northern and Eastern provinces. The increasing trend of global trading activities is expected to facilitate the growth momentum of ship building and repairing industry in the future. Automobile assembling industry which is a growing industry under this category introduced solar charging electric motor cycles, initially to the domestic market in 2009. Industrial diversification and more investment is essential for the growth of the electric and electronic industry which has ample potential in both international and domestic markets.

Chart 2.3

Composition of Value Added in Industry - 2009 (2002 Constant Prices)



**The public sector industrial output recorded a deceleration in 2009 compared with 2008 due mainly to low output of petroleum refinery of the Ceylon Petroleum Corporation (CPC).** The CPC has been the main contributor of public sector output for many years and contributed more than 95 per cent of the public sector output in 2009. However, National Paper Company, State Timber Corporation and Sri Lanka Rubber Manufacturing and Export Corporation registered positive growth during 2009. With the government policy of restructuring public sector industries, the Ministry of Nation Building assisted the technological improvement and streamlined the operational structure of the National Paper Company, while the defunct paper factories were reopened to cater to the paper needs of state institutions. The output of Lanka Mineral Sands Limited was affected by the decreased demand in the global market.

**The ex-factory profit ratio in the non-BOI private sector industries further decreased by 2.1 per cent in 2009.** The decline in profitability in 2009 was mainly driven by decline in sales amidst increased cost of raw materials, finance and wages. Major players in the industrial sector have taken measures to minimise the cost of production through improved productivity and efficiency, streamlining operations, optimising marketing costs, and outsourcing some supporting facilities. Since the third quarter of 2009, the profit level of the industries began to recover with the improvement of both export and domestic

markets. To contain the wage bill, industrialists had postponed new recruitments, reduced the number of contracts and limited overtime work while adopting productivity improvements. As a percentage of total cost of production of the factory industry, cost of power and fuel decreased by 2.8 per cent with the reduction of usage and fuel prices and domestic raw material cost increased by 0.9 per cent in 2009.

**To face challenges posed by uncertain global situations most of Sri Lankan manufacturers have taken timely and proactive action by focusing on new and niche markets and diversifying products.** Manufacturers particularly in the apparel sector have taken measures to differentiate their products by adhering to eco friendly manufacturing practices and international labour standards. As the excessive reliance on non-reciprocal trade arrangements is not sustainable, industrialists need to enhance competitiveness by raising productivity and efficiency in production.

**The government actively engaged in the development of the industrial sector in 2009, focusing more on regional industrialisation and the development of small and medium scale industries.** Continued support has been given for equitable industrial development by providing fiscal concessions, financial and technical assistance, upgrading infrastructure facilities, establishing Industrial Estates covering all districts, while focusing to reopen defunct factories especially in the Northern and Eastern provinces. Several special programmes

Table 2.8

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

Category	Total Cost of Production (Rs. million)		Total Value of Production (Rs. million)		Factory Profit Ratio (percentage)	
	2008(b)	2009(c)	2008(b)	2009(c)	2008(b)	2009(c)
1. Food, beverages and tobacco products	120,090	131,619	140,703	154,492	14.7	14.8
2. Textile, wearing apparel and leather products	32,209	35,591	36,789	40,284	12.4	11.6
3. Wood and wood products	2,479	2,791	2,812	3,166	11.9	11.9
4. Paper products, publishing and printing	8,058	8,945	9,200	10,203	12.4	12.3
5. Chemical, petroleum, coal, rubber and plastic products	62,234	72,067	73,519	84,767	15.3	15.0
6. Non-metallic mineral products	38,388	44,914	44,872	51,962	14.4	13.6
7. Basic metal products	4,026	4,492	4,689	5,209	14.2	13.8
8. Fabricated metal products, machinery and transport equipment	24,077	27,810	28,034	32,183	14.1	13.6
9. Manufactured products not elsewhere specified	4,855	5,467	5,546	6,234	12.5	12.3
<b>Total</b>	<b>296,416</b>	<b>333,695</b>	<b>346,164</b>	<b>388,501</b>	<b>14.4</b>	<b>14.1</b>

(a) Based on information received from 515 non-BOI private sector firms

(b) Revised

(c) Provisional

Source: Central Bank of Sri Lanka

Table 2.9

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

Category	Power & Fuel		Wage		Raw Material		Interest	
	2008	2009(b)	2008	2009(b)	2008	2009(b)	2008	2009(b)
1. Food, beverages and tobacco products	4.1	3.8	10.5	10.7	40.1	40.8	1.8	2.1
2. Textile, wearing apparel and leather products	5.4	5.2	15.4	15.5	13.6	13.8	3.0	3.4
3. Wood and wood products	10.0	10.2	16.5	16.7	33.3	33.6	4.8	5.0
4. Paper products, publishing and printing	4.8	4.9	13.2	13.3	19.8	20.2	3.9	4.2
5. Chemical, petroleum, coal, rubber and plastic products	7.5	7.1	13.8	13.9	31.2	31.5	4.2	4.4
6. Non-metallic mineral products	21.6	21.4	15.4	15.5	29.8	30.1	4.1	4.5
7. Basic metal products	10.6	10.3	11.3	11.1	36.5	36.4	2.8	2.9
8. Fabricated metal products, machinery and transport equipment	5.9	5.7	12.8	12.9	27.4	27.6	4.7	5.2
9. Manufactured products not elsewhere specified	5.9	5.8	12.3	12.2	34.8	35.0	1.9	2.1
<b>Total</b>	<b>7.2</b>	<b>7.0</b>	<b>12.7</b>	<b>12.8</b>	<b>33.2</b>	<b>33.5</b>	<b>3.0</b>	<b>3.3</b>

(a) Based on information received from 515 non-BOI private sector firms

Source: Central Bank of Sri Lanka

(b) Provisional

were implemented by the government such as “Gamata Karmantha” and “Nipayum Sri Lanka - 300 Enterprise Programme” focusing regionalising the industrial base. As at end 2009, 132 projects have been approved under the “Gamata Karmantha” programme, of which 46 industries are in commercial operations and 33 industries are at various stages to start operations. Industrial sector development in the newly liberated Northern and Eastern provinces was carried out through the “Wadakkil Wasantham” and “Nagenahira Navodaya” special programmes implemented by the government for development of Northern and Eastern provinces.

**The establishment of Industrial Estates and Special Economic Zones are in progress to promote local and foreign investments in the regions.** The work relating to the establishment of Industrial Estates under the Regional Industrial Development Programme which was initiated by the MID is rapidly progressing. Infrastructure development work of Trincomalee (Kappalthurei) Industrial Estate was completed in 2009 and infrastructure development works of the Buttala Industrial Estate is near completion. Meanwhile, a considerable portion of infrastructure development of Embilipitiya and Galigamuwa Industrial Estates have been completed, and preliminary work of Pallegodawatta (Matugama) and Madampe Industrial Estates are under way. The Ministry of Enterprise Development and Investment Promotion has also completed the preliminary work of the Textile Processing Zone in Horana and commenced

the preliminary work of five Special Economic Zones in Ampara, Batticaloa, Hambantota, Puttalam and Trincomalee.

**Institutional support continued for the development of the industrial sector in 2009.** The Board of Investment (BOI) continuously carried out the implementation of “Nipayum Sri Lanka” regional industrialisation program and under which 58 new industries were established, 18 sick industries were revived and 5 industries were expanded while approval was granted for 8 industries to relocate them outside Colombo and Gampaha districts. Further, the Export Development Board (EDB) arranged trade fairs, exhibitions, training programmes and various other activities to promote industries focusing the export market.

Table 2.10

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

Category	1995=100		
	2008	2009(b)	Change (%)
1. Food, beverages and tobacco products	142.4	146.0	2.5
2. Textile, wearing apparel and leather products	125.7	127.6	1.5
3. Wood and wood products	111.0	114.0	2.7
4. Paper products, publishing and printing	111.4	114.0	2.3
5. Chemical, petroleum, coal, rubber and plastic products	155.4	159.4	2.6
6. Non-metallic mineral products	122.7	123.8	0.9
7. Basic metal products	109.6	110.8	1.1
8. Fabricated metal products, machinery and transport equipment	135.8	139.1	2.4
9. Manufactured products not elsewhere specified	120.3	122.9	2.2
<b>Total</b>	<b>132.1</b>	<b>134.7</b>	<b>2.0</b>

(a) Based on information received from 515 non-BOI private sector firms

Source: Central Bank of Sri Lanka

(b) Provisional



EDB has also taken initiatives to establish Agro Export Zones in all nine provinces as enunciated in Budget 2009 to increase the value addition of the agriculture based industries. In 2009 the Joint Apparel Association Forum (JAAF) conducted the Phase III of its “Garments without Guilt” (GWG) global marketing campaign which is the first Asian brand to win the Global Effie Award. The Apparel Innovation and Training Centre (AITC) located at the MAS Fabric Park, Thulhiriya continued to engage in human resource development in the apparel industry. The National Gem and Jewellery Authority (NGJA) finalised all the arrangements to establish the Gem Testing Laboratory to issue testing reports differentiating natural gems from heat treated stones and certifying rare gemstones in accordance with international standards. With the realisation of the importance of the development of the Gem and Jewellery sector, 50 per cent of foreign exchange income in bank accounts was permitted to be used for the importation of raw material while a credit guarantee scheme was introduced by the CBSL to encourage banks to extend credit facilities to the gem and jewellery industries.

**The MID, with assistance of consultancy services of Industrial Services Bureau continued the second phase of its Productivity Improvement Programme in 2009.** The National Productivity Secretariat carried out its annual competition on productivity. The Ministry of Labour Relation and Manpower initiated action to formulate a methodology in concurrence with stakeholders to grant relief through the proposed Unemployment Benefit Insurance Scheme (UBIS) as an urgent remedial measure to address the loss of employment arising from the global financial crisis.

**The government has taken timely measures in the face of the global economic crisis to provide a special stimulus package for industrial and other affected sectors.** Accordingly, the Economic Service Charge imposed on industrial establishments for manufacturing high value added products for exportation was removed for a period of one year. Rubber product manufacturers were granted concessions to purchase rubber latex at a guaranteed price of Rs.150 per kg from rubber

growers. In addition, exporters in the apparel and leather products sector who maintained employment, export earnings and value addition at least at a level equivalent to 2008 were granted an export subsidy. Further, the fuel adjustment levy charged by the Ceylon Electricity Board (CEB) was removed in 2009.

**Investment on innovations and usage of new technologies is imperative to boost the growth of the industrial sector.** Setting up the Sri Lanka Institute of Nanotechnology (SLINTEC) as a collaborative effort by the government and the private sector will add value to Sri Lankan products and enhance their competitiveness in the international market. These initiatives are aimed at transforming academic knowledge in research and development into innovative commercially viable products and services.

**Institutional facilitation for Small and Medium Enterprises (SMEs) development continued in 2009.** Asian SME summit 2009 was held to identify the issues and challenges faced by the SMEs and to make recommendations for the development of the SME sector. The Federation of Chambers of Commerce and Industries of Sri Lanka (FCCISL) continued to provide a wide range of services for the SMEs to be competitive, socially responsible and environmentally friendly and a programme named “Enterprise Sri Lanka” was launched to provide support services to SMEs through one-stop-shops in Colombo and outstations. The International Finance Corporation (IFC) in collaboration with the District Chamber of Commerce is in the process of instituting business cells known as “Small and Medium Enterprise Development Cells” in rural parts of Sri Lanka to develop business skills.

**With the liberation of the Northern and Eastern Provinces, SME development has become more important to uplift the living standards of people in those areas.** The CBSL introduced a special loan scheme, “Awakening North”, to provide financial assistance to entrepreneurs in the Northern Province to resume economic activities. Meanwhile, the National Chamber of Commerce of Sri Lanka (NCCSL) distributed machinery and

equipment in the Northern Province to expand and to generate new employment opportunities. The Industrial Development Board (IDB) conducted a training programme for SMEs in Jaffna to improve the production process. There are tremendous opportunities to expand micro finance activities in Northern and Eastern provinces to start up and expand SMEs.

**Various institutions including Lankaputhra Development Bank (LDB) which was established for the purpose of facilitating SME development continued to provide financial and technical assistance to the SME sector.** The LDB in collaboration with the IDB launched a low interest “*Lakkam*” Loan Scheme for village level SMEs or self-employment ventures. The LDB also introduced another loan scheme to empower young entrepreneurs in the SME sector known as “*Siyapath Pubuduwa*”. Under the Trade Finance Facilitation Programme of the Asian Development Bank (ADB), facilities are available for trade financing for local firms and entrepreneurs in the SME sector. Further, the reduction in interest rates in line with the low inflation also helped SMEs to access financial assistance from the banking sector.

**Growth in the mining and quarrying sub-sector was 8.2 per cent in 2009 as compared to a higher growth of 12.8 per cent in 2008.** The gem mining sector contracted by 17.2 per cent while other mining activities expanded by 18.1 per cent in value added terms. The deceleration in gem mining was reflected in the contraction of 10.1 per cent in gem exports in volume terms, as indicated by the indices compiled by CBSL, which is attributable to the unfavourable demand conditions that prevailed in the international markets.

**The adverse developments in the international markets for export agricultural products, and the drop in tea production due to unfavourable weather conditions resulted in the growth in the export processing sub-sector falling to 0.7 per cent.** In the previous year the corresponding growth was 5.3 per cent.

**Cottage industry sub-sector, which grew by 4.5 per cent in 2008, registered a growth of 3.3 per cent in 2009.** The drop in small scale construction activities, handloom and tailoring activities, the decreased demand for paddy milling activities, caused by the contraction in paddy production, and the deceleration in overall economic activities in general, negatively affected the expansion in this sector.

**Electricity, gas and water sub-sector, which grew by 2.7 per cent in 2008, recorded a higher growth of 3.7 per cent in 2009. Within this sector, the electricity sub-sector grew by 3.7 per cent.** Although, high value adding hydro power generation contracted by 5.6 per cent, this growth stemmed from the impact of the low price level of fuel that prevailed during the period, which led to an increase in value addition in thermal power generation which grew by 3.7 per cent. Value added in the gas sub-sector grew by 5.4 per cent. Gas sales increased by 6.4 per cent compared to a contraction of 12.0 per cent in 2008. Water sub-sector grew by 2.9 per cent in 2009 as against 3.6 per cent in 2008, with water distribution increasing by 2.0 per cent in volume terms in 2009.

**During 2009, the construction sub-sector grew by 5.6 per cent, which is a deceleration compared to the growth of 7.8 per cent in 2008.** The sub-sector expanded with positive contributions from public sector mega construction projects such as Norochcholai and Upper Kotmale power plants, road network development projects such as the Colombo – Katunayake and Southern Expressways and construction of several flyovers and other rural road development projects under the “Maga Neguma” programme. However, the deceleration in housing construction was reflected in the drop in the volume of building material imports by 24.1 per cent in 2009 as per CBSL trade indices. The level of bank credit granted for housing purposes also registered a decrease of 1.5 per cent. Contractions of 14.9 per cent in cement imports and 7.4 per cent in domestic cement production reflected the overall slowdown in construction activities.

## Services

**The Services Sector, which consists of the largest share of 59.3 per cent of GDP grew by 3.3 per cent compared to 5.6 per cent in 2008.** The slowdown in the Services Sector was due mainly to the set-back in external trade activities, particularly the contraction in the import trade sub-sector.

**The wholesale and retail trade sub-sector contracted marginally by 0.3 per cent compared to the growth of 4.7 per cent in 2008.** This slowdown stemmed from the set-back in the external trade sector, where the import trade sub-sector contracted by 6.6 per cent and the export trade sub-sector contracted by 5.2 per cent. The slowdown in the external trade activities was due mainly to the unfavourable demand conditions due to the global economic crisis. Expansion in the domestic trade sub-sector was however sustained.

**Import trade sub-sector contracted by 6.6 per cent compared to an expansion of 4.7 per cent in the previous year.** This contraction was reflected in imports of consumer goods by 5.0 per cent, intermediate goods by 13.8 per cent and investment goods by 6.4 per cent in volume terms as indicated by CBSL trade indices. Imports of consumer goods amounted to 19.6 per cent of total imports. Within the intermediate goods category, which registered the sharpest contraction, imports of crude oil and wheat grew at 11.5 per cent and 11.7 per cent, respectively, in volume terms in contrast to all other sub-categories in intermediate goods which exhibited negative growth during the year. Meanwhile, investment goods amounted to only 22.0 per cent of total imports. Imports of building material and transport equipment contracted by 24.1 per cent and 1.2 per cent, respectively, during the year as per CBSL trade indices.

**Due to the adverse developments in international markets, the export trade sub-sector contracted by 5.2 per cent compared to a marginal growth of 0.9 per cent in 2008.** Agricultural exports contracted by 5.9 per cent in volume terms, particularly due to the contraction in tea exports. Industrial exports registered a negative growth of 13.9 per cent, due to contraction of textile and garment and other industrial

export volumes by 4.0 per cent and 31.4 per cent, respectively. Mineral export volumes decreased by 8.8 per cent particularly due to the contraction of 10.1 per cent in gem exports in volume.

**Domestic trade sub-sector expanded by 7.0 per cent compared to that of 6.4 per cent in 2008.** This growth was partly due to robust demand for domestically produced goods along with the increase in economic activities in the Northern and Eastern provinces, particularly after the end of the conflict.

**The hotels and restaurants sub-sector started to flourish with the end of the conflict registering a growth of 13.3 per cent in 2009, as against a contraction of 5.0 per cent in 2008.** Expansion in both local and foreign tourist activities were observed during the year with growth rates of 18.8 per cent and 2.0 per cent in local and foreign guest nights respectively. Overall, tourist arrivals grew by 2.1 per cent compared to a contraction of 11.2 per cent in 2008.

**Transport and communication sub-sector grew by 6.6 per cent compared to 8.1 per cent in 2008.** All three sub-sectors, namely, transport, cargo handling in ports and civil aviation and post and telecommunication contributed to this growth positively, although with lower growth rates than those of the previous year.

**The expansion of the transport sub-sector was 6.0 per cent compared to the expansion of 6.3 per cent registered in 2008.** This growth stemmed from the expansion of 4.3 per cent and 6.0 per cent in value addition in the railway sub-sector and the passenger and goods transport sub-sector, respectively. The growth in transport sub-sector was reflected in the increase in fuel consumption as indicated by a growth of 5.4 per cent in petrol sales and 6.0 per cent in auto diesel sales. However, new registrations of motor vehicles contracted further by 23.1 per cent following the contraction of 0.9 per cent and 11.0 per cent recorded in 2007 and 2008, respectively. Growth in the rail transport sector also slowed down with a contraction of 2.2 per cent in passenger kilometres operated by Sri Lanka Railways, despite the recommencement of operations on certain sectors in the Northern and Eastern provinces.

**Cargo handling-ports and civil aviation sub-sector registered a growth of 3.4 per cent amidst the slowdown in external trade activities.** This was a deceleration compared to the growth of 8.0 per cent in 2008. The Colombo port handled 3.5 million Twenty-Foot Equivalent Container Units (TEUs) and this was a contraction of 6.0 per cent. Total cargo handled also decreased by 3.6 per cent. However, with the expanded operations in the ports during the fourth quarter, the sub-sector indicated signs of recovery.

**Post and telecommunication sub-sector posted a growth of 11.7 per cent in 2009 as against the growth of 22.3 per cent in value added terms registered in 2008.** This growth was driven by the initiatives taken by service providers to introduce value added services, competitive rates and penetration into liberated areas, amidst strong competition. The total number of telephone connections (including mobile and CDMA), increased by 19.6 per cent during the year, while the number of mobile telephone connections grew by 25.9 per cent. The telephone density, (the number of connections per 100 persons) rose to 85 from 72 in 2008.

**The Banking, insurance and real estate sub-sector grew by 5.7 per cent compared to 6.6 per cent in 2008.** This growth was achieved amidst

overall domestic economic slowdown caused by the global economic crisis and the volatility in the sector created by the failure of some unauthorized financial institutions. However, the volatile nature of the market smoothed during the latter part of the year with the gradual build-up of investor confidence following the dawn of peace in the country. A considerable number of branches and service outlets were opened by banks to ensure access to financial services to the people of the liberated areas. Interest rates were brought down to encourage investment and increase liquidity in the markets.

**Government services sub-sector expanded by 5.9 per cent compared to 5.7 per cent in 2008.** Recruitment to the armed forces, police and education sector were the major contributors towards this growth.

**Growth in private services sub-sector was 5.8 per cent as against 6.5 per cent in 2008.** This slight decline in growth was a consequence of the general slowdown in the economy.

### 2.3 Expenditure

**The aggregate demand generated by domestic economic activity is measured by Gross Domestic Expenditure (GDE), which is the sum of consumption and investment expenditure**

Table 2.11

## Aggregate Demand

Item	Current Market Prices (Rs.mn)			Constant (2002) Prices (Rs.mn)		
	2007	2008(a)	2009(b)	2007	2008(a)	2009(b)
<b>A. Domestic demand</b>						
Consumption	2,949,712	3,799,084	3,955,355	1,781,906	1,922,875	2,002,435
( % Change )	20.9	28.8	4.1	4.5	7.9	4.1
Gross domestic capital formation	1,000,323	1,215,247	1,183,654	630,882	657,364	666,817
( % Change )	21.7	21.5	-2.6	8.0	4.2	1.4
<b>Total domestic demand</b>	<b>3,950,035</b>	<b>5,014,331</b>	<b>5,139,009</b>	<b>2,412,788</b>	<b>2,580,240</b>	<b>2,669,252</b>
( % change )	21.1	26.9	2.5	5.4	6.9	3.4
<b>B. External demand</b>						
Exports of goods and services	1,041,932	1,095,679	1,030,861	756,022	758,972	665,575
( % change )	17.7	5.2	-5.9	7.3	0.4	-12.3
Imports of goods and services	1,413,278	1,699,328	1,344,785	936,154	973,711	885,523
( % change )	16.9	20.2	-20.9	3.7	4.0	-9.1
<b>Net external demand</b>	<b>-371,344</b>	<b>-603,649</b>	<b>-313,924</b>	<b>-180,132</b>	<b>-214,739</b>	<b>-219,948</b>
<b>C. Total demand</b>	<b>3,578,688</b>	<b>4,410,682</b>	<b>4,825,085</b>	<b>2,232,656</b>	<b>2,365,501</b>	<b>2,449,304</b>
( % change )	21.8	23.2	9.4	6.8	6.0	3.5

(a) Revised  
(b) Provisional

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

### **(Gross Domestic Capital Formation) of the private and public sectors of the economy.**

During 2009, GDE or total domestic demand was estimated at Rs. 5,139 billion, at current market prices, reflecting an increase of 2.5 per cent whereas in 2008 the corresponding increase was 26.9 per cent. The slowdown in domestic demand shows that the impact of the improvement in consumer and investor confidence in a conducive macro-economic environment in the aftermath of the conflict will be only felt by the economy with a lag. Therefore, a significant expansion was not visible in domestic demand, due to lag effect and consequences of global economic downturn, although the country recorded a 24 year low inflation which could have stimulated consumption in general. Reflecting the significant drop in overall price levels in the economy, the slowdown in domestic demand was more prominent in nominal terms than in real terms. The GDP at market prices, which is the sum of the GDE and net exports, was estimated at Rs. 4,825 billion, an increase of 9.4 per cent, when compared to the previous year.

### **Consumption**

**Total consumption expenditure, which is the sum of private and public consumption, was estimated at Rs. 3,955 billion at current market prices, and grew by 4.1 per cent compared to the expansion of 28.8 per cent registered in the previous year.** Private consumption grew marginally by 0.6 per cent compared to 28.4 per cent in 2008. Public consumption grew by 19.3 per cent, albeit a deceleration compared to that of 30.6 per cent in the previous year. Private Consumption Expenditure (PCE) as a percentage of GDP decreased to 64.3 per cent from 70.0 per cent in 2008 while the share of government consumption increased from 16.2 per cent to 17.6 per cent in 2009.

**The share of expenditure on food, beverages and tobacco in PCE increased to 38.2 per cent in 2009 from 37.8 per cent in 2008.** PCE on food, beverages and tobacco grew by 1.7 per cent compared to that of 18.5 per cent in 2008. This slower growth is attributable to the effect of deceleration in the level of price increases for the food and beverages category to 2.8 per cent in

2009, from 30.5 per cent in 2008 as per the sub-index of Colombo Consumers' Price Index (CCPI). Expenditure on clothing and footwear contracted by 1.5 per cent compared to an increase of 14.2 per cent in 2008, in nominal terms.

**Expenditure on housing, water, electricity, gas and other fuels also contracted by 5.1 per cent in nominal terms.** This was due to the decline in crude oil prices resulting in lower fuel prices in the domestic market in 2009 than in 2008.

**Spending on furnishing, household equipment and routine maintenance activities which grew by 20.0 per cent in the previous year, decelerated to 3.1 per cent in nominal terms.** The sub-index of this expenditure category in the CCPI has increased by 9.1 per cent in 2009 as against 14.6 per cent in 2008, indicating that prices have increased at a slower rate in 2009 than in 2008.

**During 2009, expenditure on health services and education have increased by 20.4 per cent and 9.4 per cent, respectively.** As in the previous years, shares of these two sectors in total expenditure still remain at low levels compared to almost all other expenditure categories; it was 2.2 per cent for health services in 2009 as compared to 1.8 per cent in 2008, and 0.1 per cent for education in both 2008 and 2009, which reflects the impact of free health care and education facilities provided by the government to the general public.

**Expenditure on transport which grew at a very high rate of 45.9 per cent in 2008, contracted by 2.5 per cent consequent to the considerable downward price revisions of petrol and diesel, leading to low costs in transportation activities.** The share of PCE on this expenditure category decreased marginally from 21.8 per cent to 21.1 per cent. Downward price revisions of fuel and bus fares in the last quarter of 2008 had a significant impact on easing the expenditure throughout 2009 as well.

**Public sector consumption expenditure which grew by 30.6 per cent in 2008 increased by 19.3 per cent in 2009.** This deceleration was due to the lower level of inflation as reflected by the growth of the GDP deflator.

Table 2.12

## Composition of Private Consumption Expenditure at Current Market Prices

Item	Share of Total PCE (%)			Rate of Change (%)	
	2007	2008(a)	2009(b)	08/07	09/08
1. Food, Beverages and Tobacco	41.0	37.8	38.2	18.5	1.7
2. Clothing and Footwear	6.4	5.7	5.6	14.2	-1.5
3. Housing, Water, Electricity, Gas and Other Fuels	11.1	12.7	12.0	47.4	-5.1
4. Furnishings, Household Equipment and Routine Maintenance of the House	6.2	5.8	5.9	20.0	3.1
5. Health	1.7	1.8	2.2	40.8	20.4
6. Transport	19.2	21.8	21.1	45.9	-2.5
7. Leisure, Entertainment and Culture	3.6	3.6	2.9	29.4	-18.5
8. Education	0.1	0.1	0.1	14.2	9.4
9. Hotels, Cafes and Restaurants	1.6	1.5	1.5	17.9	2.3
10. Miscellaneous Goods and Services	4.2	4.9	5.5	48.7	13.9
11. Expenditure Abroad of Residents	8.9	7.7	8.1	10.5	5.9
12. Less: Expenditure of Non - Residents	3.8	3.3	3.1	9.9	-5.0
<b>Total Private Consumption Expenditure</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>28.4</b>	<b>0.6</b>

(a) Revised  
(b) Provisional

Source: Department of Census and Statistics

## Investment

**Investment expenditure (Gross Domestic Capital Formation) at current market prices was estimated at Rs.1,184 billion, a drop of 2.6 per cent in nominal terms over that of 2008.** In real terms, the investment expenditure grew only by 1.4 per cent whereas the corresponding growth in 2008 was 4.2 per cent. The slowdown in Investment expenditure was partly due to the decline in investment with the world economic down-turn. In 2009, though the economy grew by 3.5 per cent in real terms, the investment ratio declined by 3.1 percentage points to 24.5 per cent signifying the slowdown in total investment.

**Private sector investment which includes investments in public corporations accounted for 73 per cent of the total investment and contracted by 6.9 per cent in 2009 as against a 15.1 per cent growth in 2008.** The contraction in private sector investment can be attributed to many factors including the relatively low real growth in some sectors of the economy, volatility in international trade, uncertainty that prevailed in the first half of the year due to the intensification of the conflict and the excess capacity available in industries due to the sluggish international demand in line with the global economic downturn. However, a favourable trend in private investment was observed in the second half of the year as indicated by a better

performance in private sector credit, improvement in Foreign Direct Investment inflows and a noticeable increase in the imports of investment goods during that period.

**Foreign Direct Investment (FDI) inflows declined during 2009 by 32 per cent compared with 2008 with an investment commitment of US dollars 601 million.** The main contribution to FDIs in the manufacturing sector during 2009 was attracted by textile, wearing apparel and leather products sub-sector.

**The investment commitment of the approved projects under the BOI Act increased by 15.2 per cent to Rs.563 billion in 2009, despite a decrease in the number of projects.** Of the total number of projects approved, 129 projects were fully foreign owned, 81 were joint ventures and the rest were locally owned. There were 22 projects approved for expansion with an investment commitment of Rs.17 billion in 2009. The services sector attracted 255 projects and continued to be the major recipient of investment while the manufacturing sector accounted for the balance. Hotels and restaurants, information technology and computer software development, power generation, housing and property development, educational and training institutions, trading houses and agriculture related projects were the major recipients under the services sector. Under the manufacturing sector,

Table 2.13

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

	No. of projects		Envisaged and Actual Investment (Rs.million)						Employment (No.)	
	2008(a)	2009(b)	2008(a)			2009(b)			2008(a)	2009(b)
			Foreign	Local	Total	Foreign	Local	Total		
<b>BOI (Under Act No.4 of 1978)</b>										
Projects Approved	502	418	341,652	147,160	488,812	454,770	108,228	562,997	61,068	129,059
Under Section 17 (c)	453	380	337,927	146,145	484,072	440,878	107,672	548,550	57,718	127,230
Under Section 16	49	38	3,725	1,015	4,740	13,892	556	14,447	3,350	1,829
Projects Contracted Under Section 17 (c)	241	177	73,938	108,359	182,297	373,957	48,495	422,452	29,711	108,195
Realised Investment Under Section 17 (d)	1,989	1,922	440,408	261,416	701,824	494,461	276,732	771,193	458,165	474,128
Commercial Operations (d)	2,557	2,490	242,222	3,885,067	4,127,289	258,643	3,889,782	4,148,425	392,509	381,424
Under Section 17 (c) (d)	1,767	1,726	224,513	3,875,028	4,099,541	240,271	3,879,874	4,120,145	357,844	346,536
Under Section 16 (d)	790	764	17,709	10,039	27,748	18,372	9,908	28,280	34,665	34,888
<b>MID</b>										
Projects Registered (d)	1,751	1,876	n.a	n.a	130,357	n.a	n.a	139,120	282,706	292,168

(a) Revised

(b) Provisional

(c) Includes expanded projects

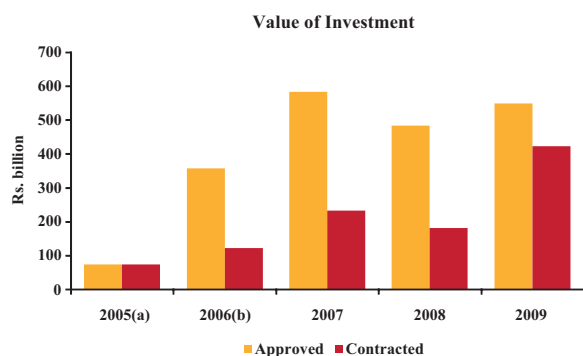
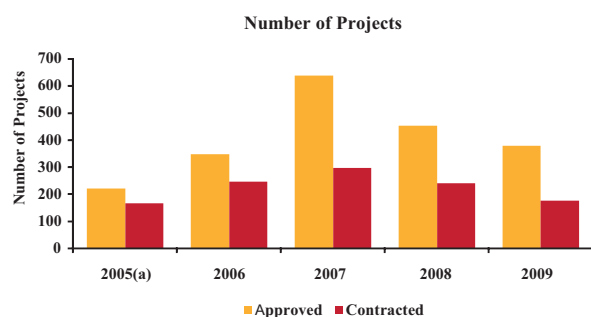
(d) Cumulative as at end of year

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

fabricated metal products, machinery and transport equipment sub-sector absorbed the largest share of approved projects in 2009. The accumulated realised investment of the BOI by end 2009 was Rs.771 billion.

Chart 2.4

## Investment in Approved and Contracted BOI Projects



(a) Excluding expanded projects

(b) Excluding local investment on Mihini Lanka (Pvt) Ltd.

**Contracted investment under Section 17 of the BOI Act increased significantly in 2009.** Of the 177 projects contracted in 2009, 86 projects were in the services sector (Rs.148 billion), 77 were in the manufacturing sector (Rs.259 billion) while 14 projects were expansions. Fabricated metal products and transport equipment sub-sector attracted more than 55 per cent of the contracted investment in 2009.

**The cumulative investment commitment of the BOI industries which have commenced commercial operations increased marginally by 0.5 per cent in 2009.** Of this, the locally owned investment commitment accounted for 94 per cent as at end 2009. There were 1,349 new projects which commenced commercial operations under Section 17 of the BOI Act outside Export Processing Zones and Industrial Parks as at end 2009.

**Industries registered under the MID as at end 2009 increased to 1,876 with an investment commitment of Rs.139 billion.** More than 80 per cent of the registered industries under the MID were located in the Colombo and Gampaha Districts and attracted more than 90 per cent of the total investment. Industries related to food, beverages and tobacco products; chemical, petroleum, coal, rubber and plastic products and textile, wearing apparel and leather products absorbed around 65 per cent with an investment commitment of Rs.90 billion.

As government investment grew moderately by 11.3 per cent in nominal terms despite the high base (due to a 48 per cent growth in the previous year), the government investment to GDP ratio showed a marginal growth from 6.5 per cent in 2008 to 6.6 per cent in 2009. As in previous years, the government continued to engage in investment activities mainly in the infrastructure development programs including “Uthuru Wasanthaya” and “Negenahira Navodaya” which were focused on enhancing the living standards of the people, particularly, in the newly liberated areas in North and East.

### Availability and Utilisation of Resources

The total resources available to the economy indicated by GDP (domestic resources) and import of goods and non-factor services (foreign resources) in 2009 increased by 1.0 per cent over the previous year to Rs. 6,170 billion for 2009. Around 78.2 per cent of the resources amounting to Rs. 4,825 billion was domestic and 21.8 per cent amounting to Rs. 1,345 billion was foreign. During 2009, availability of foreign resources dropped by 20.9 per cent when compared to the growth of 9.4 per cent in domestic resources. The reduction in total resource availability in real terms by 0.1 per cent in 2009 was the combined outcome of lower real economic growth and a decline in the imports of goods and services.

Table 2.14

### Total Resources and Their Uses at Current Market Prices

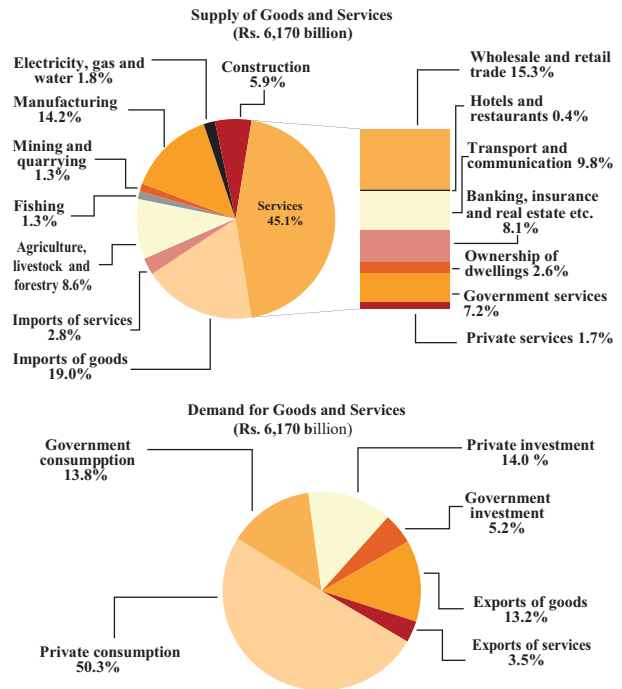
Item	Percentage Share		Percentage Growth	
	2008(a)	2009(b)	2008(a)	2009(b)
<b>A. Resources</b>				
Gross domestic product	72.2	78.2	23.2	9.4
Imports of goods and services	27.8	21.8	20.2	-20.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>22.4</b>	<b>1.0</b>
<b>B. Utilisation</b>				
Consumption	62.2	64.1	28.8	4.1
Gross domestic fixed capital formation	18.3	18.6	26.1	2.9
Private	14.0	13.6	19.4	-1.7
Government	4.3	5.0	53.9	17.6
Change in stocks	1.6	0.6	-13.6	-63.8
Export of goods and services	17.9	16.7	5.2	-5.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>22.4</b>	<b>1.0</b>

(a) Revised  
(b) Provisional

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

Chart 2.5

### The Economy in 2009 (at current prices)



Of the utilisation, the share of consumption improved from 62.2 per cent in 2008 to 64.1 per cent showing a growth of 4.1 per cent (28.8 per cent in 2008) and the share of fixed capital formation increased marginally from 18.3 per cent to 18.6 per cent showing a growth of 2.9 per cent (26.1 per cent growth in 2008) in nominal terms. Subsequently, the exports of goods and non-factor services dropped by 5.9 per cent while its relative share dropped by 1.2 percentage points to 16.7 per cent reflecting the growth in consumption.

Of the total supply of goods and services at current prices, domestic services with a 45.1 per cent share, out-performed domestic goods, with sub-sectors such as domestic trade, banking insurance and real estate and transport and telecommunication contributing significantly. The domestic services and domestic goods expanded by 10.2 per cent and 8.3 per cent, respectively, in 2009 as against year 2008. The share of imported goods contracted from 25.0 per cent in 2008 to 19.0 per cent in 2009. However, the share of imported services remained at the same level of 2.8 per cent as in the previous year.



Table 2.15

## Consumption, Investment and Savings at Current Market Prices

Item	Rs. Million		% Change		Per cent of GDP	
	2008(a)	2009(b)	2008(a)	2009(b)	2008(a)	2009(b)
1. Gross domestic product at market prices	4,410,682	4,825,085	23.2	9.4	100.0	100.0
2. Consumption expenditure	3,799,084	3,955,355	28.8	4.1	86.1	82.0
Private	3,085,296	3,103,806	28.4	0.6	70.0	64.3
Government	713,788	851,549	30.6	19.3	16.2	17.6
3. Investment	1,215,247	1,183,654	21.5	-2.6	27.6	24.5
Private	929,115	865,077	15.1	-6.9	21.1	17.9
Government	286,132	318,577	48.3	11.3	6.5	6.6
4. Domestic savings	611,598	869,730	-2.8	42.2	13.9	18.0
Private	700,048	1,046,661	1.9	49.5	15.9	21.7
Government	-88,450	-176,931	-53.3	-100.0	-2.0	-3.7
5. Domestic savings - investment gap	-603,649	-313,924	-62.6	48.0	-13.7	-6.5
6. Net factor income from abroad	-105,031	-55,814	-168.9	46.9	-2.4	-1.2
7. Net private current transfers from abroad	277,711	336,578	13.3	21.2	6.3	7.0
8. National savings	784,278	1,150,494	-6.1	46.7	17.8	23.9

(a) Revised  
(b) Provisional

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

On the demand side, the share of consumption in current terms stood at 64.1 per cent, capital formation at 19.2 per cent, and exports at 16.7 per cent. Of the total domestic demand, the private sector accounted for around 78 per cent of consumption and 73 per cent of investment, lower shares than in the previous year, following the considerable expansion in government investment and consumption.

### Savings

Both domestic savings and national savings grew at significantly higher rates compared with that of 2008, particularly due to the slow growth in the overall consumption expenditure resulted by the relatively low commodity prices in the wake of the global economic downturn. As a result, the resource gap, the domestic savings-investment gap as a ratio of GDP, stood at 6.5 per cent compared to 13.7 per cent recorded in 2008. The decline in the resource gap was in line with the improvement in current account deficit in the BOP.

Domestic savings, which include private savings and government savings, were estimated

at Rs. 870 billion for 2009, an increase of 42.2 per cent over the previous year. The increase in domestic savings was mainly due to the improvement in private savings during the year. Private savings improved by 49.5 per cent, while government savings which is defined as the current account balance of the government budget, remained negative and deteriorated further, with 100.0 per cent growth, compared to 2008.

National savings, the sum of domestic savings, net foreign private transfers and net factor income from abroad, were estimated at Rs. 1,150 billion in 2009 recording an improvement of 46.7 per cent over the previous year. The national savings ratio (national savings/GDP) rose by 6.1 percentage point to 23.9 per cent in 2009. The improvement in national savings can be attributed to the favourable performance of both net factor income from abroad and net private transfers. NFIA remained negative, but improved during the year with a drop in factor payments. Net private current transfers, which consist of worker remittances, increased by 21.2 per cent to Rs. 337 billion in 2009.

