2

NATIONAL OUTPUT AND EXPENDITURE

2.1 Overview

Sri Lanka's Gross Domestic Product (GDP) grew by an impressive 8.0 per cent in 2010 over a relatively low growth of 3.5 per cent in 2009. This was the second highest growth rate witnessed during the past six decades and the highest growth rate reported during the past three decades. The domestic economy, which slowed down in 2009 after four consecutive years of 6 per cent or higher annual growth, recovered in the backdrop of the peaceful domestic environment and improved domestic and external conditions conducive for economic growth. Further, the gradual recovery in the global economy together with favourable weather conditions also contributed positively towards a high growth in 2010.

Economic growth during 2010 was broad-based with all major sectors contributing positively towards overall economic growth. Value added growth in the Agriculture sector increased by 7.0 per cent during 2010 supported mainly by the favourable performance in domestic agriculture with the bumper paddy harvest and increased output in vegetables and highland crops together with the significant increase in fish production. Within export agriculture, tea production, which declined in 2009 contributed favourably towards growth in 2010 along with the favourable performance in minor export crops. The Industry sector recorded a growth of 8.4 per cent in 2010 with the higher growth in all sub-sectors. Output in factory industry sub-sector increased at a higher rate along with the significant growth in construction, mining and quarrying and electricity sub-sectors. The Services sector, which slowed down considerably in 2009 with the contraction in external trade activities recovered in 2010 to record an impressive growth of 8.0 per cent. The wholesale and retail trade sub-sector grew with increased domestic demand and gradual recovery in the global economy. Transportation activity expanded with increased economic activity while financial services also grew at a higher rate during the year.

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 (%)	
	2009(a)	2010(b)	2009(a)	2010(b)	2009(a)	2010(b)
Agriculture	3.2	7.0	11.0	10.5	12.0	11.9
1. Agriculture, Livestock and Forestry	2.8	6.4	8.8	8.7	10.9	10.7
1.1 Tea	- 8.4	13.1	- 2.8	1.7	1.0	1.1
1.2 Rubber	7.9	12.7	0.5	0.4	0.3	0.3
1.3 Coconut	5.3	- 14.3	2.0	- 2.4	1.4	1.1
1.4 Minor Export Crops	5.2	37.6	0.7	2.1	0.5	0.6
1.5 Paddy	- 5.1	17.5	- 2.7	3.7	1.7	1.8
1.6 Livestock	6.2	2.9	1.5	0.3	0.9	0.8
1.7 Other Food Crops	7.0	4.4	7.5	2.1	3.9	3.8
1.8 Plantation Development	5.2	5.4	0.4	0.2	0.3	0.3
1.9 Firewood and Forestry	5.9	3.1	1.0	0.2	0.6	0.6
1.10 Other Agricultural Crops	5.1	7.6	0.5	0.4	0.4	0.4
2. Fishing	6.9	12.2	2.2	1.8	1.2	1.2
Industry	4.2	8.4	33.9	30.1	28.6	28.7
3. Mining and Quarrying	8.2	15.5	4.7	4.1	2.1	2.3
4. Manufacturing	3.3	7.3	16.3	16.0	17.4	17.3
4.1 Processing (Tea, Rubber and Coconut)	0.7	5.8	0.1	0.4	0.6	0.6
4.2 Factory Industry	3.4	7.5	15.2	14.8	15.8	15.7
4.3 Cottage Industry	3.3	5.5	1.0	0.7	1.1	1.1
5. Electricity, Gas and Water	3.7	7.8	2.5	2.3	2.4	2.4
5.1 Electricity	3.7	8.2	2.2	2.2	2.1	2.1
5.2 Gas	5.4	4.6	0.3	0.1	0.2	0.2
5.3 Water	2.9	4.5	0.1	0.1	0.1	0.1
6. Construction	5.6	9.3	10.3	7.7	6.6	6.7
Services	3.3	8.0	55.2	59.4	59.3	59.3
7. Wholesale and Retail Trade	- 0.2	7.5	- 1.4	21.7	23.3	23.2
7.1 Import Trade	- 8.2	9.5	- 20.8	9.4	8.0	8.1
7.2 Export Trade	- 2.2	3.4	- 2.7	1.8	4.2	4.0
7.3 Domestic Trade	7.3	7.6	22.1	10.5	11.1	11.1
8. Hotels and Restaurants	13.3	39.8	1.4	2.0	0.4	0.5
9. Transport and Communication	6.3	11.9	23.4	19.9	13.5	13.9
9.1 Transport	5.9	11.4	18.1	15.8	11.1	11.5
9.2 Cargo Handling-Ports and Civil Aviation	0.4	16.8	0.1	1.4	0.7	0.7
9.3 Post and Telecommunication	11.7	13.2	5.2	2.8	1.7	1.8
10. Banking, Insurance and Real Estate etc.	5.7	7.5	14.1	8.4	8.9	8.9
11. Ownership of Dwellings	1.3	0.9	1.1	0.3	3.0	2.8
12. Government Services	5.9	5.4	12.8	5.3	7.8	7.6
13. Private Services	5.8	5.8	3.9	1.8	2.4	2.4
Gross Domestic Product	3.5	8.0	100.0	100.0	100.0	100.0
Net Factor Income from Abroad	49.8	-20.1				
Gross National Product	4.8	7.9				

(a) Revised
(b) Provisional

Source: Department of Census and Statistics

The higher growth of 10.2 per cent in domestic demand during 2010 when compared to the growth of 3.2 per cent in 2009 indicates the contribution of domestic economic activity in achieving the overall growth. Domestic consumption demand grew at a higher rate of 8.4 per cent in comparison to the growth of 3.6 per cent in 2009, and the increase in consumer demand could be attributed to the overall improvement in economic activity, particularly with livelihoods affected by the war returning back to normalcy. Further, expenditure on investment grew at a significant rate of 15.5 per cent in 2010 with higher growth momentum, which would be an essential ingredient in achieving a higher growth in the medium term. The external trade sector, which contracted in 2009 with the global economic slowdown in

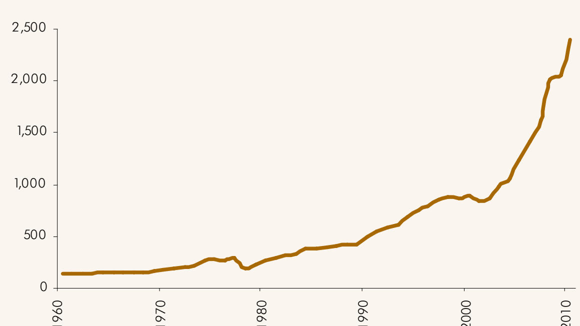
BOX 3

Doubling Per Capita Income

Per capita GDP (PCGDP) is a measure of material living standard of the population in a country. It is estimated as the GDP valued at market prices divided by the mid-year population of the country.[1] For international comparison it is usually expressed in US dollar (USD) terms.

In 1960[2], PCGDP in Sri Lanka was estimated at USD 142 and it took another 15 years to double to USD 281 in 1975. Again 1991 and 2004 were milestone years in terms of PCGDP, which doubled to reach USD 547 and USD 1,062 after 16 years and 13 years, respectively. However, in an environment of higher growth rates of over six per cent with stable macroeconomic conditions, PCGDP doubled in a relatively short time span of four years (between 2004 and 2008) to USD 2,014 in 2008. Further, Sri Lanka has been categorised by the World Bank as a lower middle income country.[3]

Chart B 3.1 Per Capita GDP: 1960 – 2010 (US dollars)



[1] $\text{PCGDP} = \dfrac{\text{GDP (At Current Market Prices)}}{\text{Mid-Year Population}}$

[2] Central Bank commenced publication of GDP from 1959.

[3] According to the World Bank classification, income groups are expressed as low income (less than $995), lower middle income ($996-$3,945), upper middle income ($ 3,946-$12,195) and high income ($ 12,196 or more) based on Gross National Income per capita.

Table B 3.1 Time Taken to Double Per Capita GDP (1960 – 2008)

Year	1960	1975	1991	2004	2008
Per Capita GDP in USD	142	281	547	1,062	2,014
No. of Years to Double (approximately)	-	15	16	13	4

The growth potential of the country has improved immensely with the end of the three decades long conflict, increased investor confidence, major infrastructure development drive raising production capacity of the country and recovery in the global economy. With improved domestic agriculture and appropriate demand management policies, significant price pressure is not expected in the years ahead. Also the fiscal consolidation process would contribute towards demand management while improved investor confidence would induce the flow of foreign investment, which would contribute towards exchange rate stability. Given this scenario in the macroeconomic environment, the country would be able to attain a higher real growth rate of over 8 per cent in the medium term.

PCGDP estimates for the period 2011-2014 are presented in the following table. The assumptions used for this purpose are given in Table 1.5.

Table B 3.2 Projections of Per Capita GDP

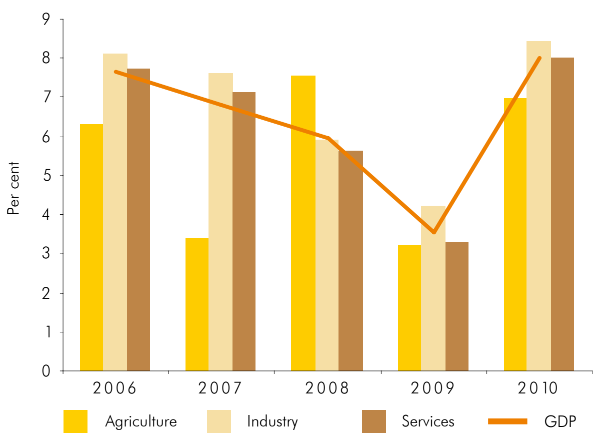
Year	2011	2012	2013	2014
Projected Per Capita GDP in USD	2,794	3,200	3,660	4,190

terms of both imports and exports, grew in 2010. Consequently, net external demand widened due to the higher demand on imports with increased domestic demand.

Gross National Product (GNP), which is defined as GDP adjusted for Net Factor Income from Abroad (NFIA) grew by 7.9 per cent in 2010. NFIA, which improved in 2009 declined in 2010 resulting in the lower growth in GNP when compared to the growth in GDP. Although both the receipts and payments of factor income from aboard grew during 2010, the latter recorded a higher growth resulting in the negative developments in NFIA.

Per capita GDP increased from Rs. 236,445 in 2009 to Rs. 271,259 in 2010 or by 14.7 per cent,

Chart 2.1 Annual Growth Rate



surpassing the inflation rate (5.9 per cent). In US dollar terms the per capita income increased by 16.6 per cent to US dollars 2,399 from US dollars 2,057 in 2009.

At current market prices, GDP expanded by 15.9 per cent to Rs. 5,602 billion (US dollars 49.5 billion) in 2010. The nominal growth in GDP comprises the real GDP growth of 8.0 per cent and the increase in general price levels measured by the GDP deflator, which was 7.3 per cent compared to 5.9 per cent in 2009.

Domestic savings grew at a lower rate of 20.5 per cent during 2010 when compared to the growth of 41.8 per cent in 2009 and is estimated at Rs. 1,045 billion. The lower growth in domestic savings could be attributed to the increased demand for imported goods due to increased growth in consumption expenditure. The value of imports of goods, which include consumption, intermediate and investment goods grew by 30.2 per cent in rupee terms during 2010 over a contraction of 23.1 per cent in 2009. Meanwhile, domestic savings ratio, which was 17.9 per cent in 2009 increased to 18.7 per cent in 2010.

National savings were estimated at Rs. 1,381 billion in 2010 which was a growth of 20.3 per cent over 2009. Although the growth in net private current transfers by 21.2 per cent contributed positively to national savings, the deterioration in NFIA dampened this growth. The net private transfers, in 2010 increased to Rs. 408 billion from Rs. 337 billion in 2009. Accordingly, the national savings ratio stood at 24.7 per cent in 2010 over the corresponding figure of 23.7 per cent in the previous year.

2.2 Sectoral Output, Policies, Institutional Support and Issues

Agriculture

The Agriculture sector grew by 7.0 per cent in 2010 compared to a 3.2 per cent growth in the previous year. This was mainly due to the favourable growth in paddy, tea, and minor export crops along with the significant improvement in the fisheries sector. However, lower than expected coconut and livestock production slowed down the growth momentum of the sector to some extent. Meanwhile, the share of the Agriculture sector in the GDP decreased marginally to 11.9 per cent in manifestation of the growth thrust of other sectors in the economy.

Export Crops

Total tea production in 2010 registered the highest ever annual production growing by 13 per cent to 329 million kg. This manifested a significant recovery from distressed output in 2009 due to the dry weather conditions in the first quarter of 2009. At the same time, the national average yield per ha has increased from 1,435 kg per ha in 2008 to 1,484 kg per ha in 2010. The growth in 2010 was largely attributable to the favourable weather conditions that prevailed in all tea growing districts except during the last two months of the year. This was supplemented by higher prices that continued from the previous year, which induced growers to focus more on better agriculture and processing practices. The continuation of the fertiliser support programme for tea smallholders also helped increase the productivity. The largest contribution of 60 per cent to the national production of tea came from low grown tea, which grew by 13 per cent to 196 million kg in 2010. Meanwhile, medium grown and high grown tea production grew by 22 per cent and 7 per cent to 55 million kg and 78 million kg,

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

Item	2009 (a)	2010 (b)	Change(%) 2009/10
Agriculture and Fishing	122.4	131.6	7.5
1 Agriculture	122.1	130.3	6.8
1.1 Agriculture Crops	119.3	128.1	7.3
Tea	101.4	114.7	13.1
Rubber	141.9	158.7	11.8
Coconut	102.7	83.4	-18.8
Paddy	137.0	161.4	17.8
Other Crops	122.5	129.1	5.4
1.2 Livestock	146.6	150.3	2.6
2 Fishing	124.4	139.7	12.3

(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka

respectively. Tea smallholder sector continued to play a major role in total tea production in Sri Lanka contributing 76.4 per cent to the total tea production in 2010.

In 2010, the Colombo Tea Auction (CTA) recorded the highest prices compared to all other international tea auctions. The annual average of all tea prices at CTA in 2010 increased by 3 per cent to Rs.372 per kg in 2010 from Rs.361 per kg in 2009 while the annual average export price increased by 5 per cent to Rs.494 per kg. The increase in tea prices in 2010 was largely due to the increasing trend of international demand for Sri Lankan origin orthodox teas, which fetched premium prices amidst shortage of global supply of black tea.

The rubber production in 2010 reached 153 million kg registering 12 per cent growth over the previous year. Despite the torrential rainfall during the second and fourth quarters, the production increased consistently largely due to the attractive prices fetched for all varieties of rubber throughout the year. Further, the growth in rubber smallholders sector, which consists of around 127,200 smallholders and 54 per cent of total rubber extent in the country, largely reflects their quick response to higher natural rubber prices. Furthermore, increased extent of tapping rubber plantation in recent times has also been contributing to the growth in production. As a result, national yield of rubber increased by 11.8 per cent to 1,607 kg per ha in 2010. Higher growth is also due to better agriculture practices, such as fertiliser usage, improved techniques of latex tapping and use of rain guards adopted by growers in response to favourable prices. This was further supplemented by the improved extension services of the relevant authorities such as Rubber Development Department and Rubber Research Institute.

The average prices of all rubber varieties remained high in 2010. The annual average price of RSS 1 increased by 91 per cent to Rs.403 per kg, while that of Crepe Rubber No.1 also increased by 113 per cent to Rs.453 per kg, compared to 2009. Meanwhile, the domestic consumption of natural rubber increased to 107,225 mt in 2010 (70 per cent of the total production) from 84,941 mt in 2009 due to increased production of rubber based products. The significant supply shortage of natural rubber in the international market due to adverse weather conditions in major rubber producing countries like Thailand and strong international demand with the global economic recovery and higher oil prices largely helped natural rubber prices to surge.

The coconut production showed a sharp decline by 19 per cent to 2,317 million nuts in 2010. The decline in coconut production has been largely due to the lag effect of low rainfall in 2009 in major coconut growing areas. The decline in coconut production was substantial especially in the last quarter of 2010 where the production declined by 32 per cent to 429 million nuts as against the corresponding quarter of 2009. The use of fertiliser for coconut has also shown a decline in the recent years especially among the smallholder sector, which represents around 80 per cent of the total extent of coconut in the country. Of the total production in the coconut triangle (Puttalam, Gampaha and Kurunegala) in 2010, the highest decline in production (34 per cent) was reported from the Puttalam district where the lowest rainfall was reported in 2009. Further, total coconut production in Kurunegala and Gampaha districts also declined by 24 per cent in 2010. The factors such as decline in productivity resulting from degradation of top soil of many estates and smallholders' lands, less fertiliser usage,

Table 2.3 Trends in Principal Agricultural Crops

Category	Unit	2009(a)	2010(b)
1.Tea			
1.1 Production (c)	kg mn	291.0	329.0
1.2 Total Extent	hectares '000	222	222
1.3 Extent Bearing	hectares '000	192	190
1.4 Cost of Production (d)	Rs/kg	269.01	313.17
1.5 Average Price			
- Colombo Auction	Rs/kg	360.85	371.54
- Export (f.o.b.)	Rs/kg	470.11	494.39
1.6 Replanting	hectares	1,126	1,274
1.7 New Planting	hectares	12	3
1.8 Value added as % of GDP (e)		1.7	1.6
2.Rubber			
2.1 Production	kg mn	136.9	153.0
2.2 Total Extent (f)	hectares '000	124	126
2.3 Area under Tapping (f)	hectares '000	95	95
2.4 Cost of Production	Rs/kg	115.50	119.83
2.5 Average Price			
- Colombo Auction (RSS 1)	Rs/kg	211.65	403.02
- Export (f.o.b)	Rs/kg	202.23	373.87
2.6 Replanting (g)	hectares	1,002	1,493
2.7 New Planting (g)	hectares	715	1,537
2.8 Value added as % of GDP (e)		0.5	1.0
3.Coconut			
3.1 Production	nuts mn	2,853	2,317
3.2 Total Extent	hectares '000	395	395
3.3 Cost of Production	Rs/nut	9.53	11.27
3.4 Average Price			
- Producer Price	Rs/nut	18.28	23.82
- Export (f.o.b.) (h)	Rs/nut	18.23	25.67
3.5 Replanting / Under Planting (j)	hectares	3,545	2,684
3.6 New Planting (j)	hectares	3,998	2,920
3.7 Value added as % of GDP (e)		1.4	1.4

(a) Revised.
(b) Provisional.
(c) Including green tea.
(d) Includes green leaf supplier's 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
Ministry of Coconut Development and Janatha Estate Development
Plantation Companies
Sri Lanka Customs
Central Bank of Sri Lanka

spreading diseases and fragmentation of coconut lands for alternative land uses appear to have contributed to this decline in national coconut production.

The declined coconut production in 2010 resulted in a severe shortage of nuts for consumption as well as industrial usage and soaring prices to unprecedented level. The coconut oil production declined by 14 per cent to 65,130 mt in 2010. However, the demand for coconut from coconut oil millers remained high in the year partly due to decline in palm oil imports owing to high import duty supported by continuing bullish trend in the international edible oil market. Resultantly, the average price at the Colombo Coconut Auction (CCA) increased to Rs.41 per nut in December 2010 compared to that of Rs.23.50 in December 2009, which compelled the government to take measures to arrest further escalation of coconut prices. Accordingly, the government reduced the tariff on import of edible oil to Rs.15 per kg in November 2010 in addition to raising the cess on exports of coconuts in raw form up to Rs.30 per nut from Rs.2 per nut. Also, the government took a decision to expand the fertiliser support scheme to the coconut sector irrespective of the extent to enhance coconut production.

The production of many export agriculture crops showed a positive trend in 2010. The production of clove increased significantly by 215 per cent while pepper also increased by 10 per cent during the year. The clove production in 2010 recorded the highest ever production with the support of favourable weather conditions in 2009 during the flowering period of clove. Major harvesting season of pepper in major pepper producing districts was delayed from July 2009 to January-February 2010 due to unfavourable weather conditions, thereby increasing pepper production in 2010. Meanwhile, increased average farm gate price by 19 per cent and average auction price by 24 per cent of pepper also helped to sustain the growth in pepper production in 2010. The cinnamon production also increased by 4 per cent induced by increased farm gate prices and auction prices. Notably, cinnamon bark oil exports have increased from 16.8 mt in 2009 to 26 mt in 2010. Further, during the year, Export Agriculture Department implemented several projects to expand export agriculture crops in the Northern and the Eastern provinces through the expansion of their technical services and providing subsidies.

Domestic Agriculture

Total paddy production grew by 17.8 per cent to 4.3 million mt in 2010 compared to 2009. The 2009/2010 Maha production increased by 10 per cent to 2.6 million mt while 2010 Yala

Table 2.4 **Paddy Sector Statistics**

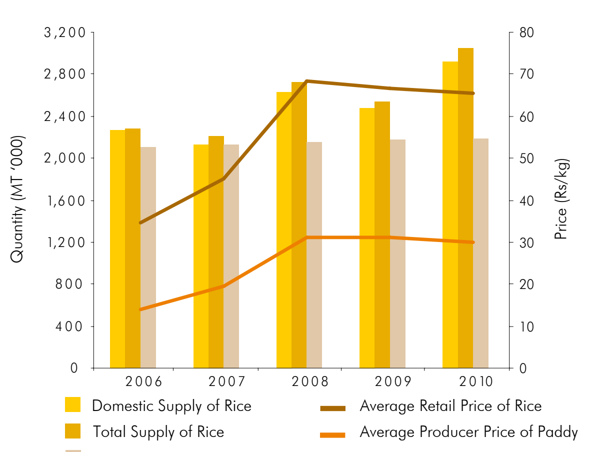
Item	Unit	2009(a)			2010(b)		
		Maha	Yala	Total	Maha	Yala	Total
Gross Extent Sown	hectares '000	632	345	978	646	419	1,065
Gross Extent Harvested	hectares '000	605	338	943	643	416	1,060
Net Extent Harvested	hectares '000	539	303	842	574	376	950
Production	mt '000	2,384	1,268	3,652	2,630	1,671	4,301
	bushels '000	114,241	60,763	175,004	126,029	80,074	206,103
Yield (c)	kg/hectare	4,421	4,187	4,336	4,583	4,444	4,528
Credit Granted	Rs.mn.	1,158	760	1,918	1,402	1,139	2,541
Rice Imports	mt '000			52			126
Paddy Equivalent of Imports	mt '000			76			185

(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

production increased by 31.8 per cent to 1.6 million mt. The increase in paddy production in 2010 is attributed to the increased extent in the Northern and the Eastern provinces and sufficient rainfall and timely release of water for cultivation, and the government policy to bring fallow lands under cultivation. Meanwhile, the paddy production in 2010 was further sustained by the continuation of the fertiliser support scheme and paddy purchasing scheme of the government. Although increased production in both seasons in 2010 resulted in average farm gate paddy prices to decline compared to that of 2009, the intervention by the government through its paddy purchasing programme helped stabilise paddy prices. The government purchased 182,000 mt of paddy at the rate of Rs.28 per kg for Nadu and Rs.30 per kg for Samba during both Maha and Yala seasons. Further, a stock of rice amounting to 125,780 mt imported to meet any shortage of rice in 2009 was also available in the market in 2010.

Chart 2.2 **Rice: Supply and Demand**



The production of Other Field Crops showed a mixed performance during 2010. The production of maize increased by 25 per cent to 161,694 mt in 2010 due to assured market and prices through forward contracts, government commitment to protect local maize growers through increased cess on imports of maize, and introduction of import licensing requirement on maize. Meanwhile, the production of red onion, soya beans, chillies (green) and black gram increased by 34 per cent (61,811 mt), 97 per cent (7,521 mt), 6 per cent (49,003 mt) and 41 per cent (9,991 mt), respectively. However, the production of potatoes, big onion and cowpea decreased by 16 per cent (51,933 mt), 28 per cent (58,930 mt), and 14 per cent (11,609 mt), respectively. The significant increase in cultivation in Puttalam and Jaffna districts largely contributed to the increase in production of red onion while big onion production declined largely due to the reduction in extent under big onion in Matale district, as heavy rainfall caused growers to shift to paddy in the district during the Yala season. The increased production of soya beans has shown the effect of remunerative prices for soya bean in recent times with the emerging demand from soya based product manufactures. In fact, the government also intervened through the Paddy Marketing Board (PMB) to purchase soya bean in 2010 to stabilise soya bean prices due to the excess production. The decline in potato production in the country during the year was caused largely by the shortage of quality potato seeds during the time of cultivation and increase in prices of imported potato seeds.

Sugar production marginally declined by 2.6 per cent to 31,335 mt in 2010. This was mainly due to the decline in the extent under sugar cane cultivation by around 2 per cent in 2010, as the farmers shifted to other crops such as paddy and banana. The present domestic sugar production would be sufficient only to meet 6 per cent of the annual sugar requirement of the country. Presently, the defunct Hingurana Sugar factory is in the process of being revitalised and sugar cane cultivation has commenced while commercial operations is expected to start in 2012. It is necessary that sugar cane growers adopt improved agricultural practices including planting high yielding seed cane and fertiliser application to increase the productivity. Three high yielding sugar cane varieties were released by the Sugar Cane Research Institute in 2010.

Fishing

Fish production in 2010 increased by 12 per cent to 381,630 mt. Marine fish sector contributed to 87 per cent in the total fish production and the balance came from the inland fishing sector. Marine fish production grew by 13 per cent and inland fishery by 10 per cent during the year. Off shore fish production in 2010 was lower than the expected growth due to the impact of adverse weather conditions in the deep sea and slow growth of targeted deep sea fishing fleet. However, significant increase in the fishery activity in the Northern and the Eastern provinces largely contributed to increase the marine fish production in 2010. Fish production in the Northern and the Eastern provinces together increased by 40 per cent to 125,840 mt in 2010. The large number of fishery programmes including distribution of boats and fishing gear and skill development of fishermen under "Nagenahira Navodaya (Eastern Revival)" and "Waddakkil Vasantham (North Spring)" helped speedy recovery of the fishery sector in these provinces. The proper management of reservoirs with community participation, establishment of community based mini-hatcheries, increase of fish seed production and free issue of fingerlings during the year helped to increase the inland and aquaculture fishing in 2010. Despite the increase in total fish production, the average prices of many fish varieties were high in 2010 mainly due to lower than expected performance in the Southern, Western and North Western provinces due to adverse weather conditions and increased fish consumption in the country.

Table 2.5 Fish Production

Metric Tons '000

Sub-Sector	2009(a)	2010(b)
Marine (c)	293	330
Aquaculture and Inland Fisheries	47	51
Total	340	381

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

Source: Ministry of Fisheries and Aquatic Resources

Livestock

Total milk production showed an increase by around 6 per cent to 247 million litres in 2010. The milk collection of major milk product manufactures in the country increased by 10 per cent to 137.6 million litres in 2010 from 125.4 million litres in 2009 supported by the increase in milk collection centres in the country from 2,673 in 2009 to 2,895 in 2010. Moreover, the increase in the number of chilling centres of major milk product manufactures during the post-conflict period, the increase in the number of places of production of value added milk products in the country, the increase in the liquid milk sales outlets of both the government and private sector also reflected the recent progress in the dairy sector. Accordingly, domestic milk production as a percentage of total national requirement of milk increased to 30 per cent in 2010 from that of 28 per cent in 2009. The government's target is to reach self-sufficiency in milk production by 2020.

Table 2.6 Livestock Sector Statistics

Sub-Sector	2009(a)	2010(b)
1. National Herd (No.) (mn)	1.5	1.6
Neat Cattle	1.1	1.2
Baffalo	0.4	0.4
2. National Milk Production (mn litres)	233.4	247.6
Cow Milk	184.1	191.9
Baffalo Milk	49.3	55.6
3. Milk Products (mn litres)	23.3	17.8
4. Producer Price - Cow Milk (Rs./litre)	29.53	32.48
5. National Egg Production (No) (mn)	1,142.2	1,139.9
6. National Poultry Meat Production (mt '000)	99.28	104.16

(a) Revised
(b) Provisional

Source: Ministry of Livestock Development

The average producer price of liquid milk was Rs.32.50 per litre (Fat/SNF=3.8/8.3) in 2010 compared to that of Rs.29.50 per litre in 2009, which also helped encourage milk production.

In 2010, chicken meat production increased by around 5 per cent while egg production slightly declined by 0.2 per cent. The cost of production of chicken meat and eggs increased with higher feed prices, as maize prices rose due to the shortage of maize supply in 2009 Yala season amidst restriction on maize imports. As prices of chicken meat and eggs increased substantially, around ten million eggs and 500 mt of chicken meat were imported by "Lak Sathosa" in the middle of festive demand in December 2010 and January 2011 to stabilise the prices.

Forestry

The total forest cover by end 2010 in Sri Lanka was 1,934,062 ha as identified by the Forest Department. The identified mangroves extent was 15,545 ha in 2010 compared to 8,815 ha in 2009. During the year, the Forest Department carried out reforestation in 873 ha. Moreover, the assisted re-planting programme under the World Food Programme, which commenced in 2009 continued successfully in 2010. Accordingly, home garden development, agro forestry woodlots, canal bank planting, tank catchment rehabilitation and the rehabilitation of degraded mangrove forest were carried out under this programme in Ampara, Trincomalee, Vavuniya and Batticaloa districts.

The government policy on the agriculture as envisaged in the "Mahinda Chinthana Vision for Future" focuses on several targets. These include achieving food security of the people, ensuring higher and sustainable income and remunerative prices for farmers, uninterrupted access to competitive markets both in Sri Lanka and abroad, farm mechanisation, expanding the extent under cultivation, reducing wastage in transit and ensuring environmental conservation, introducing efficient farm management techniques and using high yielding seeds and improved water management. In line with this policy, the government has identified several strategies and programmes, which include promoting paddy as a national crop, achieving self-sufficiency in other field crops, exploring the full potential of fruits and vegetables and exporting preserved fruits and vegetables, establishing best quality production centres for floriculture products and herbal farms for better health, strengthening input delivery system, farmer friendly agriculture lending, links between producers and consumers and crop diversification through multiple cropping and inter-cropping, promoting low cost locally produced fertiliser and promoting natural drinks.

In 2010, the activities of Sri Lanka Tea Board (SLTB), Tea Research Institute (TRI) and Tea Small Holdings Development Authority (TSHDA) were directed mainly on improvement of productivity, quality and value addition of Sri Lanka tea. With a view to increasing tea production, new planting, re-planting and re-filling by corporate and smallholder sectors were promoted and the fertiliser subsidy for smallholders was continued. In order to encourage tea re-planting and new planting, the subsidy was increased by Rs.50,000 per ha to smallholder tea growers. Meanwhile, under the tea smallholders land rehabilitation programme, tea re-plantations were carried out in 1,972 ha during the year. Under SLTB, a fund for tea promotion and marketing was established in November 2010 to promote Sri Lanka tea globally and funds will be raised through a specific levy of Rs.3.50 per kg introduced by SLTB. With a view to increasing high value added tea exports under

Sri Lankan brand names, the cess on export of bulk tea was also increased to Rs.10 per kg from Rs.4 per kg. Action has also been taken to utilise a large area of tea lands for re-plantation under regional plantation companies.

Coconut Research Institute (CRI), Coconut Development Authority (CDA) and Coconut Cultivation Board (CCB) continued their developmental activities in the coconut sector in 2010. The emergence of an incurable disease namely, Weligama Coconut Leaf Wilt Disease (WCLWD) in the Southern province has created an alarming situation as a possible threat to country's coconut industry. In this connection, 18,109 affected coconut palms were destroyed during the year and at the same time, arrangements were made to distribute seedlings in WCLWD affected areas as a first step to introduce resistant / tolerant coconut varieties. A new division for oil palm research was established at CRI to help the plantation companies growing oil palm. This would encourage the oil palm cultivation domestically to bridge the gap between demand and supply of edible oil. Minimum land size required for the coconut plantation subsidy scheme was reduced from half an acre to quarter acre. In the meantime, in order to enhance the coconut cultivation in identified 70,000 acres in the Northern and the Eastern provinces, steps have been taken to establish a seed garden in Kilinochchi. Further, to ensure the coconut sector development, the government has established a new Cabinet Ministry. Meanwhile, with a view to raising coconut production to 3,500 million nuts per year over the medium term from the current level, measures such as subsidies for replanting and new planting, promoting inter-cropping and productivity improvements in the coconut sector were taken during the year. Seedling production at the government farms has also been planned to increase up to 4 million to facilitate this target. "Kapruka Village Society" is another step introduced to increase awareness about coconut cultivation and products among the people.

Rubber Research Institute (RRI) implemented several measures to improve the production and productivity during the year. After assessing current clonal composition in the country, RRI took measures to cultivate high yielding clones with improved secondary characters such as high timber volume and disease resistance. In order to expand the rubber cultivation to non-traditional areas, pilot projects on rubber cultivation were initiated in Vavuniya, Mullaitivu and Kilinochchi districts and a new sub-station was established at Monaragala to facilitate Uva-Wellassa rubber growers. Meanwhile effective, close and continuous extension services were carried out throughout the year. The subsidy for re-planting and new planting for rubber has also increased promoting rubber cultivation in areas like Monaragala, Vavuniya and Mullaitivu districts. To encourage the value added exports of rubber, the export cess on raw rubber was also increased from Rs.4 per Kg to Rs.8 per Kg in 2010.

Several measures were introduced in the government Budget 2011 to increase the supply of high quality seeds and planting material. Accordingly, it was proposed to develop the existing nineteen government seed farms and all unutilised lands in agricultural research centres as a national priority under a three year seed farm development programme from 2011 under Public-Private Partnership (PPP) basis. Further, in order to promote floriculture, particularly in Avissawella, Gampaha and Kegalle districts, it was proposed to establish a special incentive package to establish nurseries to produce high quality flowers and ornamental plants.

National campaign on agriculture "Api Wawamu Rata Nagamu" which was introduced in 2007 successfully continued for the third consecutive year in 2010. In 2010, a total of 18,511 acres of fallow lands were brought under paddy cultivation in addition to 75,752 acres of fallow lands cultivated in 2009. In 2010, under the home gardening development programme 375,000 home gardens were developed. Under the community based seed development programme, 42,325 kg of other field crop seeds such as maize, red onion, cowpea, and chillies were distributed among the farmers in 2010. The present post-harvest losses of vegetables and fruits are as high as 30 to 40 per cent in Sri Lanka. In order to reduce this post harvest loss, a total of 142,500 plastic crates were distributed among the farmers, traders and collectors during the last three years at subsidised rates including 20,700 of such crates distributed in 2010. Furthermore, there was a significant improvement in the production of organic fertiliser in 2010 largely due to extensive training / awareness programmes by the relevant authorities and remunerative prices for such fertiliser in the year.

During the year, institutions under the Department of Agriculture (DOA) continued to conduct programmes in line with the the government policy to improve the domestic agriculture sector in the country. During the year, Rice Research Institute (RRI) introduced two new high yielding rice varieties namely, BG 366 and LD 408 with realisable yield potential of 9 mt per ha and 7 mt per ha, respectively, which are more resistant to pests and diseases. Since chemical control is costly and pollutes the environment, developing resistance varieties for pests and diseases is the best option as it is environmentally friendly and no additional cost is involved in managing such incidents. In the Other Field Crop sector, release of new potato variety (golden star) tolerant to diseases such as “late bright” was one of the significant improvements reported in the year. Further, in the horticulture sector, a cherry type new tomato variety (lanka cherry) and a new banana variety (millewa selection) were also released for commercial cultivation. Further, seed paddy production programmes under DOA also showed a significant improvement in 2010, which further supported the expansion of agriculture in 2010. Accordingly, the seed paddy production under DOA improved up to 4,476 mt in 2010 compared to that of 2,900 mt in 2009.

Improving of the dairy sector has been a priority area in the agriculture policy of the government. The expenditure on the import of milk and milk products increased to US dollars 258.75 million (76,010 mt) in 2010 from US dollars 165.67 million (65,246 mt) in 2009 mainly due to the increase in international market prices. On this background, the government increased the producer price of milk by Rs.3 to Rs.33 per litre with effect from June 2010 to encourage the domestic milk production. In March 2011, Milco increased its purchase price to Rs.50 per litre which would provide strong support to boost the milk collection in the country. Further, during 2010, some amendments were brought to the Animal Act No. 29 of 1958 to deal with matters pertaining to animal identification, animal welfare, animal transportation, etc. In addition, removal of tariffs on the importation of dairy animals for breeding purposes and dairy equipment in relation to milk processing were also implemented in line with the government policy to strengthen the dairy sector. The activities such as rounding up displaced cattle in the conflict affected areas and handing over such animals to farmers in those areas, expansion of dairy villages and increase in artificial insemination and pasture development programmes helped to increase the dairy animal population in the country. A total of 190,771 artificial inseminations were carried out in cattle and buffaloes in 2010, which is 10 per cent increase from that of 2009. The national cattle population increased by 3 per cent to 1,169,670 in 2010 from 1,136,860 in 2009.

The Agriculture sector in the country requires special attention in several areas to accelerate its growth. Measures to increase the competitiveness of the Agriculture sector through improvement in the productivity and increase in value addition in both domestic and export agriculture are necessary in anticipation of further integration of the country with the world through trade agreements in future. In this regard, the adoption of improved agriculture and manufacture practices, the adoption of capital intensive methods where possible, the reduction of post-harvest losses and the provision of appropriate technical services could be identified as areas for improvement. Moreover, it is imperative to introduce measures to encourage private sector investment in large scale farming, which would also promote investments in the food processing industry.

Industry

The Industry sector recorded the highest sectoral growth of 8.4 per cent in 2010 over the moderate growth of 4.2 per cent in the previous year. All sub-sectors contributed favourably towards this impressive performance in the Industry sector. The higher growth in factory industry sub-sector together with the expansion in construction were the major contributors to growth in the sector. The share of the Industry sector in the total GDP increased marginally to 28.7 per cent in 2010 from 28.6 per cent in 2009.

The factory industry, accounting for approximately 55 per cent of the total industry output, recorded a growth of 7.5 per cent during 2010 compared to 3.4 per cent in 2009. This growth was achieved from improved performance in all categories of factory industry resulting from enhanced economic activity in both domestic and international markets. Increased demand from post-conflict Northern and Eastern provinces, considerably lower interest rates, low inflation and enhanced business and consumer confidence created a conducive economic environment for growth in domestic market oriented industries. Export market oriented industries benefited from increased demand from major trading partner economies with the gradual recovery of the global economy, expansion in product portfolios, well articulated branding and market diversification strategies. These competitive measures adopted by export market oriented industrialists assisted them to retain the existing market share as well as to capture new market segments in international markets. Within the export market oriented industries, textile, wearing apparel and leather products category, was able to face the withdrawal of GSP+ concession from August 2010, by way of adopting productivity improvement and cost saving strategies.

The growth in factory industry output was reflected in both domestic and export market oriented industries. Growth in food, beverages and tobacco products category, which accounts for nearly 48 per cent of the total factory industry output was driven by expansion of markets in post-conflict Northern and Eastern provinces and increased tourism activity during the year. The non-metallic mineral products category was also a main driver of output growth with high demand for cement and building materials. Several other domestic market oriented industries, comprising glass, ceramic based products, cables, wires, iron, steel sheets and paints reflected favourable growth rates during 2010. The growth in export market oriented industries was driven by textile, apparel, petroleum, rubber, machinery and equipment sub-categories. Textile, wearing apparel and leather products category, which took longer than anticipated to recover from the global economic crisis, showed signs of recovery from the fourth quarter of 2010. Other major contributors to the increased output in export market oriented industries were tableware, floor and wall tiles, ship building and repairing, transport equipment and machinery.

The food, beverages and tobacco products category, which benefited from the expansion in domestic market, recorded a growth of 6.8 per cent in 2010 compared to 5.9 per cent in 2009. The main industries that contributed towards the growth included, processed food, beverages, bakery products and poultry feed. Increase in production capacity in the private sector was initiated by manufacturers in the dairy, sugar and salt sectors. Value added tea production also recorded a substantial growth boosted by record high prices for 'Ceylon Tea' in international markets during 2010. Sri Lankan tea manufacturers continued shifting to value added tea by supplying large quantities of tea bags, packets, instant tea powder, green tea and flavoured tea to international markets.

The processed food manufacturing sub-category played a major role in the growth of food, beverages and tobacco products category. Expansion in the export market was boosted by higher output in processed food comprising tropical fruits, vegetables, grains, spices, condiments and sea food. The domestic processed food market also benefited from increased tourist activity, changing

Table 2.7 Value Added in Industry (2002 Constant Prices)

Category	Rs. million		Change %	
	2009	2010(a)	2009	2010(a)
1. Food, beverages and tobacco products	185,142	197,731	5.9	6.8
2. Textile, wearing apparel and leather products	87,762	92,293	0.6	5.2
3. Wood and wood products	1,125	1,193	3.7	6.0
4. Paper products, publishing and printing	1,635	1,742	2.3	6.5
5. Chemical, petroleum, coal, rubber and plastic products	59,706	66,990	1.8	12.2
6. Non-metallic mineral products	14,794	16,328	-3.3	10.4
7. Basic metal products	965	1,028	0.7	6.5
8. Fabricated metal products, machinery and transport equipment	32,794	35,482	3.4	8.2
9. Manufactured products not elsewhere specified	2,004	2,138	5.1	6.7
Total	**385,927**	**414,925**	**3.4**	**7.5**

(a) Provisional

Source: Department of Census and Statistics

consumption patterns and expansion of major supermarket chains and retail outlets island wide. Food processing industries continued to attract international buyers by obtaining internationally recognised safety and hygienic standards and by providing training for technical grade employees. Even though Sri Lanka is the largest supplier of cinnamon and many other spices to the world market, value addition of spices remained at considerably low levels. However, the industry continued to expand into new markets in Europe, Japan and USA by adopting innovations such as mechanised drying and grinding in value added processing of spices.

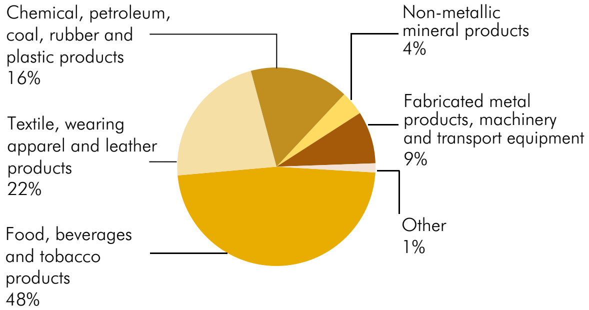
The textile, wearing apparel and leather products category grew by 5.2 per cent during 2010 compared to 0.6 per cent in 2009. Despite numerous challenges to this industry, such as, high level of competition from regional manufacturers, withdrawal of GSP+ concession, high cost of skilled labour and imported raw materials, the industry remained competitive in export markets by producing high quality state-of-the-art products to major Western clothing brands. The strategies adopted by launching campaigns on the themes of ‘Ethically Manufactured Garments’, ‘Garments without Guilt Certification’ and ‘Sustainable Environmental Friendly Manufacturing’ assisted major textile manufacturing industries to maintain its reputation for supplying high quality finished products to the international market.

Increased focus on improved management skills, high productivity and quality were the primary drivers for the growth in the textile, wearing apparel and leather products category during 2010. Apparel industry also focused on exploring niche markets in the Asian region in order to diversify their export destinations. New innovations in the apparel industry included the launching of Re-Engineered Design (RED) products by using waste fabric of local apparel industries, up-cycling and converting them into a fashionable clothing line catering to Western clothing brands. Although, there was a concern that exports would be negatively affected with the withdrawal of the GSP+ concession from August 2010, a significant increase in export earnings from textile and apparel category was observed with the European and US clothing retailers placing increased orders in the last quarter of 2010.

The chemical, petroleum, coal, rubber and plastic products category recorded a growth of 12.2 per cent in 2010 compared to 1.8 per cent in 2009. The rubber based industry, recorded a high growth during the year with increased demand for natural and synthetic rubber based products. The recovery in the automobile industry in developed and emerging markets had a direct impact on the price of natural rubber in the world market. Recovery in the European and US economies also contributed towards a significant growth in solid tyre manufacturing. The PVC and paint industries benefited from increased construction activity in the domestic market during the year.

The output of the non-metallic mineral products category increased by 10.4 per cent in 2010 compared to a negative growth of 3.3 per cent in 2009. Growth in cement, tile and roofing sub-categories was driven by increased construction in the private sector as well as continuation of government infrastructure projects, coupled with rehabilitation and reconstruction projects in the Northern and Eastern provinces. Export demand for high quality porcelain products and tiles increased with the gradual recovery in economic activity of major export destinations in

Chart 2.3 Composition of Value Added in Industry - 2010 (2002 Constant Prices)



European and US markets. Tableware exporters further strengthened their position in the international market with the introduction of premium products such as 'Bone China Tableware', which is considered as the most expensive tableware in the world. Porcelain manufacturers further enhanced their production line by commissioning international tableware designers to develop new surface designs and shapes. Growth in tourism activity coupled with refurbishment of existing hotels and construction of new hotels contributed towards increasing the demand for high quality tableware products in the domestic market. Increased demand for beverages, mainly from the conflict affected provinces, resulted in an increase in glass manufacturing in 2010.

The fabricated metal products, machinery and transport equipment category registered a growth of 8.2 per cent during 2010 compared to 3.4 per cent in 2009. The ship and boat building sub-category, which accounts for a significant portion within the fabricated metal products category, recorded a high growth despite the continuing recession in the global shipping industry during 2010. Sri Lankan ship and boat builders were able to cater to a large number of international orders within the year, particularly in supplying medium scale vessels. Furthermore, they were able to construct ocean passenger vessels and ventured into construction and repairing of tug-supply vessels, dredgers and multi-purpose vessels in 2010.

The boat building industry showed signs of recovery with the opening up of the Northern and Eastern sea fronts. Demand for locally manufactured commercial and leisure boats, small and medium scale luxury yachts increased during 2010. Key leisure boat manufacturers continued their presence in international markets particularly in Europe, Mauritius, Solomon Islands, Singapore and the Middle East. The emerging tourism industry, mainly in the sea fronts of Northern and Eastern provinces, is expected to generate an increasing demand for leisure boats as well as vessels for sea excursions.

The public sector industrial output declined further mainly due to the low production of Ceylon Petroleum Corporation (CPC), which contributed to more than 95 per cent of the public sector output in 2010. The production of CPC declined by 13 per cent owing to pre-scheduled closure of its refinery for two months. The production of Lanka Mineral Sands Ltd. increased by 53 per cent within the year to reach 39 per cent of total capacity. Lanka Salt Ltd. and Lanka Phosphate Ltd. also recorded positive growth rates during 2010. Other state enterprises that recorded negative growth rates included, Sri Lanka Rubber Manufacturing and Export Corporation Ltd., National Paper Company Ltd. and Sri Lanka Ayurvedic Drugs Corporation. The State Resources and Enterprise Development Ministry has already taken measures to streamline several loss making and defunct state owned enterprises into viable ventures through structural improvements.

The ex-factory profit ratio of non-BOI private sector industries increased by 2.1 per cent in 2010 compared to a decline in the previous year. The increase in profitability was mainly attributed to the conducive business environment that prevailed during 2010. Increased sales resulting from favourable domestic factors contributed towards higher sales revenue, while the reduction in interest cost, use of alternative energy sources and increase in productivity contributed positively towards improving the ex-factory profit ratio. Cost of both imported and domestic raw materials increased resulting from increased domestic and international demand. A notable decline was observed in interest cost from 3.3 per cent in 2009 to

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)	
	2009 (b)	2010 (c)	2009 (b)	2010 (c)	2009(b)	2010 (c)
1. Food, beverages and tobacco products	132,956	146,456	155,992	172,283	14.8	15.0
2. Textile, wearing apparel and leather products	36,214	41,236	40,885	46,965	11.4	12.2
3. Wood and wood products	2,835	3,205	3,216	3,642	11.8	12.0
4. Paper products, publishing and printing	9,123	10,273	10,415	11,742	12.4	12.5
5. Chemical, petroleum, coal, rubber and plastic products	72,273	83,398	85,106	98,563	15.1	15.4
6. Non-metallic mineral products	45,628	53,621	52,747	62,161	13.5	13.7
7. Basic metal products	4,498	5,042	5,220	5,864	13.8	14.0
8. Fabricated metal products, machinery and transport equipment	28,206	32,356	32,678	37,578	13.7	13.9
9. Manufactured products not elsewhere specified	5,514	6,411	6,295	7,335	12.4	12.6
Total	337,247	381,998	392,554	446,133	14.1	14.4

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

2.6 per cent in 2010. The decline in productivity due to low demand during 2009 in the textile, wearing apparel and leather products category witnessed a recovery with majority of textile factories operating at full capacity during the last quarter of 2010.

The government continued its commitment towards the development of regional industries through the *"Gamata Karmantha"* programme providing incentives to industries located in regional areas. The Ministry of Industry and Commerce (MIC) continued with this programme creating employment in rural areas and avoiding further concentration of industries in Colombo and Gampaha districts. The Domestic Industries Approval Committee (DIAC) of MIC approved 111 projects during 2010 of which, 58 industries were in commercial operation and 11 projects were in different stages of implementation.

The Industrial Estate Development programme of MIC continued in 2010 to promote local investments in regional areas. During 2010, 451 plots from a total of 608 plots were allocated, of which 270 industries were in commercial operation and 33 factories were under construction. The development work of Industrial Estates in Buttala, Embilipitiya and Galigamuwa was completed to commence new ventures, while construction of Industrial Estates in Pallegodawatta and Madampe was in progress. Further, preliminary work was commenced on proposed Industrial Estates at Katana, Pallekele and Kurunegala. This programme also aims to develop the Northern and Eastern provinces parallel to the *"Nagenahira Navodaya"* (Eastern Revival) and *"Wadakkil Wasantham"* (Northern Spring) programmes and has initiated preliminary construction work on proposed Industrial Estates in Batticaloa, Mannar and Vavuniya, while construction of six model factory buildings was nearing completion at Trincomalee (Kappalthurei) Industrial Estate.

The Board of Investment (BOI) continued with the "*Nipayum Sri Lanka - 300 Enterprises Programme*" during 2010 focusing on regionalising the industrial base of the country. Under this programme, 260 projects have received approvals out of which, agreements were signed for 224 projects. Further, 132 projects have commenced commercial operations while 36 projects were under construction. Majority of investments were in the tourism, wearing apparel and textile product categories.

The government continued its efforts to promote the Small and Medium Enterprise (SME) sector creating employment and income generating opportunities. The National Enterprise Development Authority (NEDA), continued its efforts in formulating policies for the development of this sector. The World Bank continued to support in strengthening the SME sector under the 'Pilot Crisis Response Facility' (PCRF) during 2010. The PCRF scheme facilitates licensed commercial banks in offering SME sector financing through

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	
	2009	2010 (b)	2009	2010 (b)	2009	2010 (b)	2009	2010 (b)
1. Food, beverages and tobacco products	3.8	3.8	10.7	10.8	40.8	41.2	2.1	1.6
2. Textile, wearing apparel and leather products	5.2	5.4	15.5	15.6	13.8	14.1	3.4	2.8
3. Wood and wood products	10.2	10.5	16.7	17.2	33.6	34.0	5.0	3.8
4. Paper products, publishing and printing	4.9	5.1	13.3	13.6	20.2	20.7	4.2	3.2
5. Chemical, petroleum, coal, rubber and plastic products	7.1	7.3	13.9	14.3	31.5	32.3	4.4	3.0
6. Non-metallic mineral products	21.4	21.6	15.5	15.9	30.1	31.0	4.5	3.0
7. Basic metal products	10.3	10.6	11.1	11.4	36.4	36.8	2.9	1.9
8. Fabricated metal products, machinery and transport equipment	5.7	5.8	12.9	13.0	27.6	29.2	5.2	3.4
9. Manufactured products not elsewhere specified	5.8	6.0	12.2	12.3	35.0	35.3	2.1	1.5
Total	7.0	7.2	12.8	13.0	33.5	33.8	3.3	2.6

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

refinancing, partial credit guarantee of loans and technical assistance. Budget 2011 has also proposed to provide relief to SMEs that were adversely affected during the global financial crisis by exempting SMEs operating on sub-contract basis from Economic Service Charge (ESC) and by providing a concessionary income tax rate of 10 per cent.

Several incentives were proposed from the Budget 2011, to major foreign exchange earning industries, which significantly contribute towards value addition in the factory industry sub-sector. Machinery and equipment used in the manufacture of textile, leather, footwear and bags and manufacture of grain mixed bakery products were exempt from import duties and Value Added Tax (VAT), while customs duty on selected raw materials of bakery products was reduced. Incentives were also given to promote entrepot trade involving import, processing and re-export as well as transshipment activity. To facilitate continuous growth in the apparel sector, leading buyers in the textile industry were encouraged to establish their headquarters in Sri Lanka by exempting their foreign exchange earnings from income tax.

Budget 2011 also proposed incentives to encourage local brand names and high domestic value addition industries while various other incentives were provided for economically important and emerging industries. It was proposed to impose a cess on all exports in raw and semi-processed form to encourage value added exports from Sri Lanka, while export of finished goods was exempt from cess. Income tax was lowered from 15 per cent to 10 per cent for industries with domestic value addition in excess of 65 per cent and Sri Lankan brand names with patent rights reserved in Sri Lanka. Customs duty on certain glass and plastic bottles used for packing pharmaceutical products including Ayurvedic preparations was reduced, while import of raw materials for manufacture of pharmaceutical products was exempt from Nation Building Tax (NBT). However, tax on profit of firms engaged in manufacture and distribution of tobacco and liquor products was increased to 40 per cent.

Several institutional reforms were proposed to improve ease of doing business in the country. The government proposed to modernise

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

1995 =100

Category	2009	2010 (b)	Change (%)
1. Food, beverages and tobacco products	146.0	150.1	2.8
2. Textile, wearing apparel and leather products	127.6	132.2	3.6
3. Wood and wood products	114.0	117.1	2.7
4. Paper products, publishing and printing	114.0	116.8	2.5
5. Chemical, petroleum, coal, rubber and plastic products	159.4	165.6	3.9
6. Non-metallic mineral products	123.8	127.3	2.8
7. Basic metal products	110.8	113.6	2.5
8. Fabricated metal products, machinery and transport equipment	139.1	144.2	3.7
9. Manufactured products not elsewhere specified	122.9	125.9	2.2
Total	134.7	138.8	3.0

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

BOX 4 Using Nanotechnology for Developing the Industrial Sector

Nanotechnology is a new invention, which has the ability to produce unique products with new features by changing the existing form of such products. This involves the manipulation of matter on the scale of atoms and molecules by changing the inherent features of material through re-engineering the composition at the molecular level. Likewise, nanotechnology applications can be found in many areas in the Industrial sector.

Examples of nano applications

Today many countries use nanotechnology in the development of the industrial sector to manufacture new and innovative products in a cost effective manner. For example, with the use of nanotechnology, ordinary textile and fabric are converted into textile that do not absorb liquids and other substances giving it the unique feature of resistance from spills and stains. Similarly, the very high water repellency found on the Lotus flower, known as the lotus effect is seen developed in paints with the use of nanotechnology ensuring dust and water repellent properties in keeping walls of buildings clean for longer periods. Likewise, the difficulty of cleaning windows of sky scrapers is solved by using nanotechnology to produce glass with self-cleaning coating surfaces that do not accumulate dust and other tiny particles. These are only a few examples of how nanotechnology can be applied in the Industrial sector.

The national nanotechnology initiative

The government considering the importance of nanotechnology in industrial development, decided to build a nanotechnology Park in 2007. This initiative is aimed at facilitating research to take advantage of the Nanotechnology that was creating a revolutionary breakthrough around the world. In 2008, the private sector, having identified the potential benefits of early exploitation of this technology showed a keen interest in investing in this field and as a result, partnered with the government to establish the Sri Lanka Institute of Nanotechnology (SLINTec). The SLINTec as a public-private partnership, is committed to undertake sustainable research focusing on projects that are economically, environmentally and socially sustainable. In its first year of operations, SLINTec has been able to acquire 5 international patents compared with Sri Lanka's past record rate of 1-1.5 international patents per year. International Patents acquired in 2010 include carbon nanotubes, nano fertiliser and nano rubber while field testing has already commenced as the first step to commercialising some of these products. The areas of research and development carried out were in the sectors of textile and apparel products, rubber based products, fertilisers and mineral products such as graphite and ilmenite.

Potential nano applications and their progress

The textile and wearing apparel sector, which is the major export oriented factory industry, promise immense potential in making revolutionary gains with the use of nanotechnology in its products as well as in the production mechanism. Accordingly, research and development was carried out on nano textiles to be manufactured in Sri Lanka, where some products are currently being developed to the commercialisation stage. The use of nanotechnology in reducing the carbon footprint of garment manufacturing and also in garments' dyeing processes, are also currently in the stage of development for commercialisation, which promise considerable value addition to the "Green Garments" attached to Sri Lankan apparel exports. Another typical use of nanotechnology that demonstrates a favourable economic impact to Sri Lanka is nano fertiliser which can be used in commercial crops. Nano fertiliser which is currently being field tested has a unique characteristic of high absorption efficiency which would result in lower fertiliser quantities required per arable unit of land. Similarly, the exportation of nano carbon tubes and nano titanium dioxide in place of the raw minerals that are exported currently, promise a notable increase of our export earnings. Rubber based products industry, which is Sri Lanka's second largest export oriented factory industry, also has immense potential to increase its foreign exchange earnings by inculcating nano rubber to its products such as solid tyres and rubber gloves.

The way forward

One of the main drawbacks encountered in going forward with this venture is the lack of funds. However, the high initial investment required to put up nanotechnology plants could be justified by the high economic benefits and shorter pay back periods. Hence, private sector participation is largely encouraged to make correct and timely investments. The formation of public-private partnerships may help minimise burden on government budget and expedite commercialisation of research findings in going forward with this venture.

the Board of Investment (BOI) registration process by establishing an electronic data interchange system. Likewise, BOI set up a 'one stop shop facility' and 'sector teams' to identified thrust sectors to provide a sector-wise guidance for investors as well as to fast track the approval process and the commencement of businesses, moving away from its previous policy of country based investments to sector based investments.

The government continued to implement its industrial policy during 2010 through various line ministries and proposed several policy reforms from the Budget 2011. Initiatives were taken by the government to attract new investments through the BOI towards efficient utilisation of existing Export Processing Zones (EPZs). Accordingly, in allocating vacant positions in the 12 existing EPZs, preference was given to value added, large scale investments in priority sectors. Meanwhile, foreign companies and Sri Lankan companies were granted permission to borrow from foreign sources from November 2010.

The government, along with many institutions, carried out various measures to facilitate innovative industrial products to the international market. Some of these measures include, environmentally friendly industrial development policies to promote green products as well as emphasis on obtaining local and international patents. The government launched the *"Haritha Lanka"* programme under which industries were required to be resource efficient, environmentally friendly and socially responsible. The government also signed the 'Green Industry Declaration' in order to be competitive in the global market. The Ceylon Chamber of Commerce (CCC) continued with its 'Switch Asia' project to promote Sustainable Consumption and Production of SMEs in the food and beverages industry category.

The government, with the participation of the private sector, has taken initial measures to set up a nanotechnology park by establishing the Sri Lanka Institute of Nanotechnology (SLINTec). SLINTec follows a policy of carrying out research and development on projects which are environmentally, economically and socially viable, harnessing the talents of researchers to acquire intellectual property rights. Budget 2011 also provides incentives for industries with local patent rights by reducing the income tax rate from 15 per cent to 10 per cent, while targeting to increase the national research and development expenditure in both public and private sectors to 2 per cent of GDP.

The Export Development Board (EDB) along with other government and private institutions actively took part in promoting industrial exports of Sri Lankan manufacturers. Industry promotions in the export markets focused on adding value through branding of processed food items on propositions of 'Ethically Processed', 'Rain Forest Alliance', 'Ozone Friendly' and 'Geographical Indicator' schemes to attract niche markets. The EDB continued to promote locally manufactured products through 'Trade Fair Participations' and 'Contact Buyer Seller Investor Meetings', while the BOI and other government ministries organised foreign investment promotion missions as well as hosting and facilitating foreign delegations visiting Sri Lanka.

Mining and quarrying sub-sector grew by 15.5 per cent in 2010 compared to a lower growth of 8.2 per cent in the previous year. The growth in both gem and other mining contributed towards the expansion in the sector. The continued growth in other mining sub-sector by 17.5 per cent over the growth of 18.1 per cent in 2009 was the major contribution towards growth in this sector. The demand emanating from increased construction activity sustained the higher growth while the increased output from mineral sands, graphite and phosphate was also reflected in the growth in other mining activity. Meanwhile, the gem mining sub-sector, which contracted by 17.2 per cent in 2009, grew by 7.9 per cent in 2010. This was supported by the recovery in the demand for gems in the international market as reflected by a growth of 2.6 per cent in the volume of gem exports.

Processing sub-sector showed a positive growth of 5.8 per cent in 2010 compared to a marginal growth of 0.7 per cent in 2009. This was largely due to the improvement in tea production particularly during the first nine months of 2010, which impacted favourably on the value added growth in the processing sub-sector together with the increased output in rubber production. But the contraction in coconut production impacted negatively on its growth.

The growth rate of cottage industry sub-sector stood at 5.5 per cent in 2010 as against 3.3 per cent in 2009. The growth in the sub-sector could be attributed to increased demand for paddy milling with higher paddy output, improved demand for small scale building material products and expansion in self-employment activity.

Electricity, gas and water sub-sector recorded a higher growth of 7.8 per cent in 2010 as against the 3.7 per cent growth in 2009. This notable growth was gained with the acceleration of activity in all three sub-sectors. Electricity, which is the largest contributor in this sub-sector, grew by 8.2 per cent as increased hydro power generation, made possible by the improved weather conditions lowered the demand for thermal power generation. This performance was evidenced in the increase in the share of hydro power to 52.6 per cent of total electricity in 2010 compared to the corresponding figure of 39.3 per cent in the previous year. Meanwhile, the demand for electricity from domestic, commercial and industrial sectors increased indicating the growing economic activities of the economy. The gas sub-sector recorded a 4.6 per cent of growth in 2010 over a 5.4 per cent expansion in 2009. The water sub-sector, which grew by 2.9 per cent in 2009 continued to grow by 4.5 per cent in 2010.

The construction sector expanded significantly by 9.3 per cent in value added terms in 2010 compared to a lower growth of 5.6 per cent in 2009. Increased activity in construction was depicted by the growth in domestic production of building material by 12.0 per cent during the year. Further, cement availability grew by 18.1 per cent in 2010 compared to a contraction of 11.1 per cent in the previous year. The increased involvement in the private sector was reflected in the growth of private sector credit for construction purposes by 19.3 per cent during the year. Meanwhile, government construction projects related to roads, ports, power sector, irrigation and water resources and housing together with other small scale construction also contributed favourably to the growth in value added in the construction sector. The construction sector expanded with the acceleration of the ongoing road development projects such as expressways, inter-regional national highways and mega power projects initiated to meet the rising demand for electricity. Further, port development projects together with construction of houses and reconstruction work done in newly liberated areas boosted construction activity.

Services

The Services sector recorded a growth of 8.0 per cent in 2010 and accounted for 59.3 per cent of total GDP. The higher growth in the sector was supported mainly by the recovery in trade activities from the contraction in 2009. Meanwhile, hotels and restaurants and transportation sub-sectors also recorded impressive growth during the year.

The expansion in wholesale and retail trade activities was evidenced by the growth of 7.5 per cent during the year. The sector, which had a negative contribution to growth in the previous year rebounded in 2010 with a 21.7 per cent contribution to GDP growth. The acceleration in export and import activities with the gradual recovery in international markets after the set-back in the previous year, as well as the growth in domestic trade, positively impacted towards the improvement in the sector.

Import trade recorded a higher growth of 9.5 per cent in value added terms in 2010 compared to the contraction of 8.2 per cent in 2009. This was indicated by the volume growth of 20.6 per cent of consumer goods category, which includes food items and other consumer goods such as motor vehicles. The growth rate of intermediate goods category stood at 13.0 per cent despite the decline in textile and crude oil imports. The growth in this category was supported by the increase in imports of fertiliser, other petroleum and other imports during the year. Meanwhile, investment goods imports grew by 7.3 per cent in volume terms with the contribution of transport and machinery equipment imports during the year.

The export sub-sector grew by 3.4 per cent in 2010 over the contraction of 2.2 per cent in the previous year benefiting from the developments in the international market. In this sub-sector agricultural exports grew by 9.7 per cent in volume terms mainly due to the expansion of exports in tea and other agricultural products, which grew by 11.4 per cent and 20.1 per cent, respectively. The growth in industrial exports was sustained by petroleum and other industrial products while textile and garment exports declined in volume terms during the year. Further, mineral exports expanded by 3.0 per cent in volume terms compared to the contraction of 8.8 per cent in the previous year.

Domestic trade activity registered a healthy growth of 7.6 per cent in 2010 compared to a growth of 7.3 per cent in the previous year. This was a result of the acceleration of domestic demand in the environment of emerging economic activity throughout all regions with the restoration of peace in the country.

Hotels and restaurants sector recorded a significant growth rate of 39.8 per cent in 2010 as against 13.3 per cent growth in 2009 consequent to the peaceful environment that prevailed in the country. Local and foreign tourist activity accelerated as reflected in tourism industry related indicators such as tourist arrivals, which increased by 46.1 per cent in 2010 as against a marginal increase of 2.1 per cent in 2009. Further, total guest nights, which include both foreign and local tourists, also rose by 42.3 per cent in 2010.

Transport and communication sector recorded a 11.9 per cent of growth in 2010, compared to 6.3 per cent growth in the previous year. A healthy growth was evident in all three sub-sectors namely, transport, cargo handling-ports and civil aviation, and post and telecommunications.

The growth in the transport sub-sector was 11.4 per cent in 2010, which is the highest growth rate recorded by the sector during the last three years. This significant growth was reflected in the expansion shown in passenger kilometres operated by cluster bus companies. Fuel consumption grew with increased demand for transport services amidst relatively stable prices that prevailed during the year. This was reflected by the increase in petrol sales by 14.3 per cent and diesel sales by 1.2 per cent in 2010. Meanwhile, new vehicle registration also rose by 76.0 per cent in 2010 as a result of downward revision in the government tariff on vehicle importation. Air travel sub-sector also spurred by the significant upturn in the tourism sector.

The cargo handling-ports and civil aviation sub-sector expanded substantially with a growth of 16.8 per cent in contrast to the marginal growth of 0.4 per cent registered in the previous year. This expansion was backed by the increase in both transshipment and cargo handling, which grew by 18.0 per cent and 26.7 per cent, respectively, during 2010. Further, the Colombo port handled the highest recorded volume of 4.1 million Twenty-Foot Equivalent Container Units (TEUs) during the year.

Post and telecommunication sector grew by 13.2 per cent in 2010 continuing its favourable contribution towards overall growth. This growth was reflected by the expansion in telecommunication subscriber-base by 17.6 per cent in 2010. Fixed access subscriber-base, which includes CDMA connections grew by 3.9 per cent, while the mobile subscriber-base increased by 20.9 per cent to 17.2 million denoting the improvement of accessibility and affordability owing to the expansion of the sector. Meanwhile, the activity in postal services declined during the year with the development of new technology in other communication services.

The banking, insurance and real estate sub-sector expanded by 7.5 per cent over the growth of 5.7 per cent in 2009. The increase in profitability through income from loans and advances and other investments owing to the moderate interest rates and consequently, rebounded credit flows to the private sector during the year supported the sectoral growth along with the better performance shown in foreign exchange market activities in the banking sector. Moreover, widening of financial services through opening up new branches and service outlets and other services continued. Meanwhile, insurance and leasing sector also grew substantially in line with the developments in areas such as new vehicle registration. The real estate activity retained its competitive position during the period.

The government services sub-sector registered a moderate growth of 5.4 per cent compared to the growth of 5.9 per cent in 2009. Improvement and expansion of government services mainly contributed to the growth in the sector.

The private services sub-sector recorded a 5.8 per cent growth as in the previous year. The growth of the sector emanated mainly from areas of private education and health services while other private sector services also emerged with the revival of economic activity.

2.3 Expenditure

Gross Domestic Expenditure (GDE), which measures the aggregate demand generated by domestic economic activity, in terms of consumption and investment, was estimated at Rs. 6,114 billion for 2010. The total demand represented by GDE grew by 18.7 per cent in 2010 over a growth of 2.7 per cent in 2009. The higher growth momentum in GDE indicates the improvement in economic activities during 2010 over the slowdown in both consumption and investment activities in the previous year. The positive impact of the peaceful environment together with the pent-up demand from liberated areas in terms of both consumption and investment expenditure can be attributed to the expansion in domestic demand. GDP at market prices given by GDE adjusted for net exports was estimated at Rs. 5,602 billion in 2010, an increase of 15.9 per cent compared to 2009. This increase in GDP comprised the real growth of 8.0 per cent and the price growth of 7.3 per cent, as measured by the implicit deflator for GDP.

Consumption

Consumption expenditure, which includes both the private and public sector, grew by 14.9 per cent to Rs. 4,557 billion in 2010. The higher

Table 2.11 Aggregate Demand

Item	Current Market Prices (Rs.mn)			Constant (2002) Prices (Rs.mn)		
	2008	2009(a)	2010(b)	2008	2009(a)	2010(b)
A. Domestic demand						
Consumption	3,799,084	3,967,770	4,557,348	1,922,863	1,992,820	2,160,814
(% Change)	28.8	4.4	14.9	7.9	3.6	8.4
Gross domestic capital formation	1,215,247	1,181,449	1,556,769	657,377	671,191	775,400
(% Change)	21.5	-2.8	31.8	4.2	2.1	15.5
Total domestic demand	**5,014,331**	**5,149,220**	**6,114,117**	**2,580,240**	**2,664,011**	**2,936,214**
(% Change)	**26.9**	**2.7**	**18.7**	**6.9**	**3.2**	**10.2**
B. External demand						
Exports of goods and services	1,095,679	1,031,289	1,215,007	758,972	665,575	703,917
(% Change)	5.2	-5.9	17.8	0.4	-12.3	5.8
Imports of goods and services	1,699,328	1,345,216	1,726,803	973,711	880,372	994,699
(% Change)	20.2	-20.8	28.4	4.0	-9.6	13.0
Net external demand	**-603,649**	**-313,927**	**-511,796**	**-214,739**	**-214,797**	**-290,782**
C. Total demand	**4,410,682**	**4,835,293**	**5,602,321**	**2,365,501**	**2,449,214**	**2,645,432**
(% Change)	**23.2**	**9.6**	**15.9**	**6.0**	**3.5**	**8.0**

(a) Revised
(b) Provisional

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

2 NATIONAL OUTPUT AND EXPENDITURE

growth in consumption expenditure reflected the recovery in economic activity from the set-back in 2009 that saw a nominal growth of 4.4 per cent in total consumption expenditure. Meanwhile, private and public consumption expenditure grew by 18.2 per cent and 2.5 per cent in 2010, respectively. Meanwhile, Private Consumption Expenditure (PCE) as a percentage of GDP accounted for 65.8 per cent, which was an increase from 64.4 per cent in 2009. Consequently, government consumption expenditure, which constituted 17.6 per cent of GDP declined to 15.6 per cent in 2010 indicating a higher growth momentum in the private sector.

The largest consumption category within PCE is food, beverages and tobacco, which accounted for a share of 39.6 per cent in 2010. Further, spending on this category grew by 22.6 per cent in 2010 compared to a growth of 2.1 per cent in the previous year. The increased demand could be particularly attributed to the pent-up demand from the Northern and the Eastern provinces. Further, the average price increase in this consumption category as indicated by the CCPI sub-index was 6.8 per cent during the year compared to a relatively lower growth of 2.8 per cent in 2009. Meanwhile, expenditure on clothing and footwear also increased by 26.2 per cent recovering from the contraction of 1.1 per cent in 2009.

Private expenditure on housing, water, electricity, gas and other fuels increased by 10.7 per cent in 2010 over the contraction of 4.7 per cent in the previous year. Together with the increased demand due to overall recovery in economic activity, prices also grew by 3.4 per cent according to the CCPI sub-index. The domestic prices of most items such as fuel and electricity remained stable during the year.

Meanwhile, expenditure on furnishings, household equipment and routine maintenance of the house grew by 3.9 per cent in nominal terms compared to the increase of 3.6 per cent in the previous year. The expenditure share of this consumption category was 5.2 per cent, which was a marginal decline over that of 5.9 per cent in 2009.

PCE on health and education grew by 7.9 per cent and 12.3 per cent, respectively, during 2010 compared to a growth of 21.0 per cent and 9.9 per cent in 2009. Meanwhile, the share of both health and education expenditure categories remained low at 2.0 per cent and 0.1 per cent, respectively, indicating the higher contribution of the public sector in providing these services to the public.

Expenditure on transport activities accounted for a share of 21.2 per cent of total PCE in 2010, which was a marginal improvement from the previous year. Expenditure on transport activities

Table 2.12 Composition of Private Consumption Expenditure at Current Market Prices

Item	Share of Total PCE (%)			Rate of Change (%)	
	2008	2009(a)	2010(b)	09/08	10/09
1. Food, Beverages and Tobacco	37.8	38.2	39.6	2.1	22.6
2. Clothing and Footwear	5.7	5.6	6.0	-1.1	26.2
3. Housing, Water, Electricity, Gas and Other Fuels	12.7	12.0	11.2	-4.7	10.7
4. Furnishings, Household Equipment and Routine Maintenance of the House	5.8	5.9	5.2	3.6	3.9
5. Health	1.8	2.2	2.0	21.0	7.9
6. Transport	21.8	21.1	21.2	-2.1	19.0
7. Leisure, Entertainment and Culture	3.6	2.9	2.5	-18.1	0.9
8. Education	0.1	0.1	0.1	9.9	12.3
9. Hotels, Cafes and Restaurants	1.5	1.5	1.3	2.7	4.7
10. Miscellaneous Goods and Services	4.9	5.5	4.8	14.4	3.0
11. Expenditure Abroad of Residents	7.7	8.1	9.2	5.9	34.8
12. Less: Expenditure of Non-Residents	3.3	3.1	3.1	-5.0	20.8
Total Private Consumption Expenditure	**100.0**	**100.0**	**100.0**	**1.0**	**18.2**

(a) Revised
(b) Provisional

Source: Department of Census and Statistics rebounded from the contraction of 2.1 per cent in 2009 to expand by 19.0 per cent in 2010. Since the price impact on transportation activities was marginal with public transportation and fuel prices remaining unchanged during the year, the growth in the sector could be attributed to the real increase in transportation activities with the peaceful environment in the country.

Public sector consumption expenditure grew by 2.5 per cent in 2010 as compared to the growth of 19.3 per cent in 2009. This was mainly due to the contraction of other recurrent expenditure with the rationalisation of government expenditure while expenditure on salaries and wage bill increased.

Investment

During 2010, expenditure on investment (Gross Domestic Capital Formation) recovered from a contraction of 2.8 per cent in the previous year to expand by 31.8 per cent in nominal terms. Investment expenditure, which was estimated at Rs.1,181 billion in 2009 expanded to Rs.1,557 billion in 2010. The favourable economic environment supported the higher growth in investment activity which slowed down in the previous year. The recovery in investment activity could be witnessed in real terms as well, with the growth at 15.5 per cent in 2010 compared to a growth of 2.1 per cent in 2009. Consequently, investment ratio, which expresses nominal investment expenditure as a percentage of GDP improved to 27.8 per cent from a value of 24.4 per cent in the previous year.

Private investment activity that suffered a considerable contraction of 7.1 per cent in 2009 recovered with a nominal growth of 40.1 per cent in 2010. Private sector investment expenditure, which includes public corporations accounted for a share of 77.7 per cent of total investment in 2010. Private investment, which contracted in 2009 due to unfavourable conditions in both the domestic and international economy rebounded in 2010 amidst the conducive environment, which induced higher involvement in investment activities by the private sector. This was reflected in credit to the private sector, which grew rapidly during the latter part of the year, and also the growth in investment goods imports to US dollars 2,970 million.

Foreign Direct Investments (FDI) of BOI enterprises declined by 14 per cent to US dollars 516 million in 2010 compared to US dollars 601 million in 2009. This FDI commitment was mainly attributed to the manufacturing, agriculture and infrastructure sectors where the manufacturing sector accounted for more than 31 per cent of total FDIs. Within the manufacturing sector, majority of investments were for chemical, petroleum, coal,

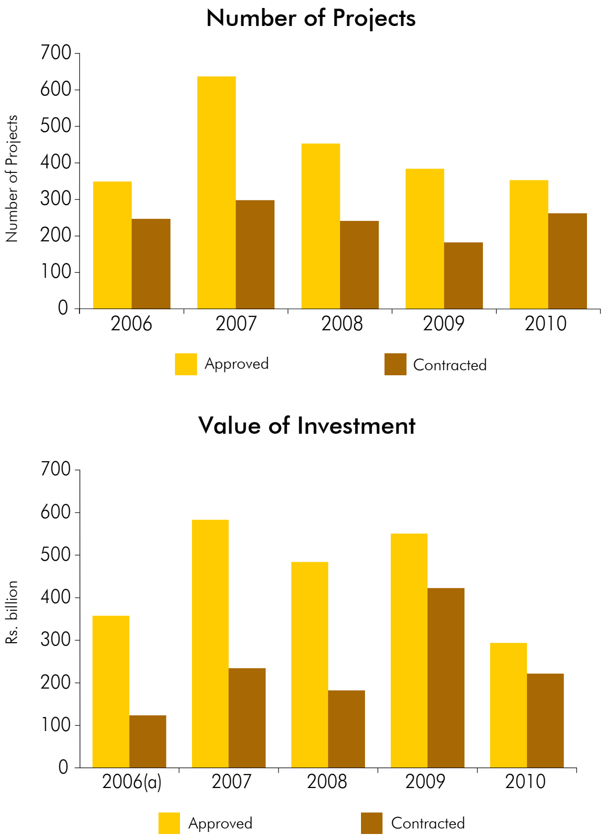
Table 2.13 Investment and Employment in Enterprises Registered Under Board of Investment of Sri Lanka (BOI) and Ministry of Industry and Commerce (MIC)

	No. of projects		Envisaged and Actual Investment (Rs.million)						Employment (No.)	
	2009(a)	2010(b)	2009(a)			2010(b)			2009(a)	2010(b)
			Foreign	Local	Total	Foreign	Local	Total		
BOI (Under Act No.4 of 1978)										
Projects Approved	422	427	454,896	110,138	565,033	87,155	211,605	298,760	130,294	55,866
Under Section 17 (c)	384	353	441,004	109,582	550,586	82,604	211,289	293,893	128,465	54,125
Under Section 16	38	74	13,892	556	14,447	4,551	316	4,867	1,829	1,741
Projects Contracted Under Section 17 (c)	182	262	374,029	48,875	422,904	55,318	166,336	221,654	109,382	33,099
Realised Investment Under Section 17 (d)	2,283	1,991	495,506	278,762	774,268	533,312	327,766	861,078	477,530	461,813
Commercial Operations (d)	2,633	2,587	264,899	3,913,854	4,178,755	267,702	3,923,546	4,191,247	405,991	390,242
Under Section 17 (c)(d)	1,848	1,830	245,383	3,903,491	4,148,875	248,417	3,913,263	4,161,680	368,846	354,144
Under Section 16 (d)	785	757	19,516	10,363	29,880	19,285	10,283	29,567	37,145	36,098
MIC										
Projects Registered (d)	1,876	1,940	-	139,120	139,120	-	145,295	145,295	292,168	294,242

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

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

Chart 2.4 Investment in Approved and Contracted BOI Projects (Including Expanded Projects)



(a) Excluding local investment on Mihin Lanka (Pvt) Ltd.

plastic products category and textile, wearing apparel and leather products category. Majority of FDIs were from India with a value of US dollars 110 million. Other significant investments were from United Arab Emirates, Malaysia, United Kingdom, Singapore and Hong Kong. The accumulated realised investment of the BOI by end 2010 was Rs. 861 billion.

The BOI approved 427 projects under Section 17 and Section 16 of the BOI Act during 2010 compared to 422 approved projects in the previous year. Out of the total approved projects in 2010, 135 projects were fully foreign owned and 183 projects were locally owned. The total estimated investment of the approved projects amounted to Rs. 299 billion during the year compared to Rs. 565 billion in 2009. Services sector continued to attract majority of investments with 266 projects, while within the manufacturing sub-sector food, beverages, and tobacco products continued to be the main investment category.

BOI continued to sign agreements under Section 17 of the BOI Act with foreign and local investors, while a number of projects located in the EPZs commenced commercial operations during 2010. Contracted investment during 2010 under Section 17 of the BOI Act amounted to a total investment commitment of Rs. 222 billion with 262 projects, compared to Rs. 423 billion with 182 projects in 2009. Majority of investments were for the services sector, which recorded an increase in the number of projects by 64 per cent to 141 projects in 2010. Within the manufacturing sub-sector, textile, wearing apparel and leather products category and fabricated metal, machinery and transport equipment category were the main contributors with an estimated investment of Rs. 11 billion. Total value of projects in commercial operation under Section 17 of the BOI Act increased to Rs. 4,162 billion by end 2010 compared to Rs. 4,149 billion by end 2009.

Industries registered under MIC as at end 2010 increased to 1,940 from 1,876 in 2009, whereas, total investment increased to Rs. 145 billion from Rs.139 billion by end 2009. This includes enterprises located in all districts of the country while the largest investment was from Colombo and Gampaha districts creating more than 88 per cent of employment and attracting approximately 90 per cent of total investments.

Government investment increased by 9.2 per cent in 2010. The main impetus was the continued growth in ongoing mega projects to enhance physical infrastructure in the sectors such as transport, irrigation, power and energy and water supply. These include Colombo - Katunayake Expressway, Colombo Outer Circular Road Project, and Southern Highway Projects. A number of projects were implemented in line with the rehabilitation programmes in the Northern part of the country. In addition, small scale development projects including "Maganaguma" and "Gamanaguma" programmes, which are aimed at achieving balanced regional development also continued. Social infrastructure projects also increased, including projects in sectors such as education, health and environment, which aim to enhance the productivity of the human resources in the country while improving the living standards of the people.

Availability and Utilisation of Resources

The resource availability of the country grew by 18.6 per cent in nominal terms to Rs. 7,329 billion during 2010 compared to a relatively low growth of 1.2 per cent in 2009. Further, the availability of resources is measured as the sum of domestic resources given by GDP and foreign resources, which is given by the value of imports of goods and services. Domestic resources estimated at Rs. 5,602 billion accounted for a share of 76.4 per cent of total resources. This was a decline of around two percentage points when compared to 2009 indicating the higher demand for foreign resources with improved economic activity during 2010. Consequently, foreign resources increased to a share of 23.6 per cent of total resources from a share of 21.8 per cent in 2009. Further, total resource availability increased in real terms by 9.3 per cent in 2010 recovering from the contraction of 0.3 per cent in 2009. The favourable development in resource availability was supported by both the increase in domestic output and imports in real terms during the year.

Of the available resources, the largest share was utilised for consumption in 2010 as in the previous years. The share of consumption in total utilisation was 62.2 per cent when compared to a share of 64.2 per cent in 2009. The decline in the consumption share in total utilisation could be attributed to the expansion in the share of fixed capital formation during 2010 to 19.8 per cent from 18.6 per cent in the previous year. Further, the share of exports of goods and services accounted for 16.6 per cent of resource utilisation in 2010.

Of the total supply of goods and services, domestic resources contributed for a share of around 76.4 per cent during 2010. Domestic goods, which account for a share of 32.3 per cent grew by 15.5 per cent during the year while domestic services, which account for 44.2 per cent recorded a growth of 16.1 per cent in nominal terms. The remaining 23.6 per cent of the total supply was provided by imports, of which goods constituted 20.8 per cent while services imports accounted for the remaining 2.7 per cent during the year.

Table 2.14 Total Resources and Their Uses at Current Market Prices

Item	Percentage Share 2009(a)	Percentage Share 2010 (b)	Percentage Growth 2009(a)	Percentage Growth 2010 (b)
A. Resources				
Gross Domestic Product	78.2	76.4	9.6	15.9
Imports of Goods and Services	21.8	23.6	-20.8	28.4
Total	**100.0**	**100.0**	**1.2**	**18.6**
B. Utilisation				
Consumption	64.2	62.2	4.4	14.9
Gross Domestic Fixed Capital Formation	18.6	19.8	2.9	26.5
Private	13.6	15.4	-1.7	34.5
Government	5.0	4.4	17.6	4.9
Change in Stocks	0.6	1.4	-66.0	208.1
Export of Goods and Services	16.7	16.6	-5.9	17.8
Total	**100.0**	**100.0**	**1.2**	**18.6**

(a) Revised
(b) Provisional

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

Chart 2.5 The Economy in 2010 (at Current Prices)

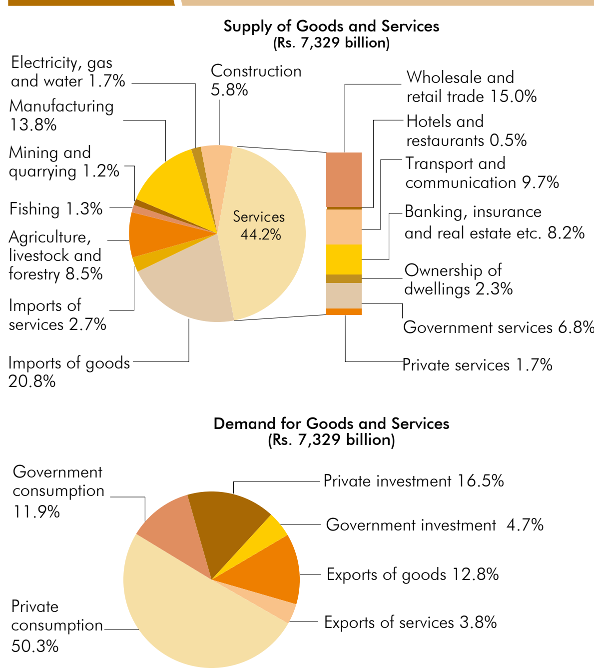


Table 2.15 Consumption, Investment and Savings at Current Market Prices

Item	Rs. million		% Change		As a per cent of GDP	
	2009(a)	2010(b)	2009(a)	2010(b)	2009(a)	2010(b)
1. Gross Domestic Product at Market Prices	4,835,293	5,602,321	9.6	15.9	100.0	100.0
2. Consumption Expenditure	3,967,770	4,557,348	4.4	14.9	82.1	81.3
Private	3,116,221	3,684,738	1.0	18.2	64.4	65.8
Government	851,549	872,610	19.3	2.5	17.6	15.6
3. Investment	1,181,449	1,556,769	-2.8	31.8	24.4	27.8
Private	863,485	1,209,551	-7.1	40.1	17.9	21.6
Government	317,964	347,218	11.1	9.2	6.6	6.2
4. Domestic Savings	867,523	1,044,973	41.8	20.5	17.9	18.7
Private	1,047,454	1,163,847	49.6	11.1	21.7	20.8
Government	-179,931	-118,874	-103.4	33.9	-3.7	-2.1
5. Domestic Savings - Investment gap	-313,927	-511,796	48.0	-63.0	-6.5	-9.1
6. Net Factor Income from Abroad	-55,795	-71,858	46.9	-28.8	-1.2	-1.3
7. Net Private Current Transfers from Abroad	336,578	407,967	21.2	21.2	7.0	7.3
8. National Savings	1,148,306	1,381,082	46.4	20.3	23.7	24.7

(a) Revised
(b) Provisional

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

The growth momentum on the demand side improved in 2010 with consumption, investment and exports all recording higher growth rates than in the previous year. Consumption demand grew by 14.9 per cent during the year with the growth in both private and public consumption. Meanwhile, investment demand also grew by 31.8 per cent recovering from the set-back in 2009. Exports of goods and services also recovered from the contraction of 5.9 per cent in the previous year to record a nominal growth of 17.8 per cent during 2010.

Savings

The growth in savings slowed down during 2010 when compared to that of the previous year. During 2009, savings improved due to the slowdown in domestic expenditure and the relatively low commodity prices in the international market. The recovery in economic activity, spurred by growth in consumption demand, dampened the growth in both domestic and national savings. Consequently, the resource gap widened from 6.5 per cent in 2009 to 9.1 per cent in 2010.

Domestic savings, which grew by 41.8 per cent in 2009 recorded a lower growth of 20.5 per cent in 2010. Further, total domestic savings, which include both private and government savings, was estimated at Rs. 1,045 billion in 2010. Although government savings, which is defined as the current account balance of the government budget, remained negative during the year, it improved to 2.1 per cent of GDP from 3.7 per cent in 2009 and contributed favourably towards the growth in domestic savings. Meanwhile, domestic savings ratio (domestic savings as a percentage of GDP) was 18.7 per cent during the year.

National savings grew by 20.3 per cent to Rs. 1,381 billion in 2010. The growth in national savings was also dampened in 2010 when compared to the high growth of 46.4 per cent in the previous year. This slowdown in national savings is attributed to the worsening of net factor income from abroad while the 21.2 per cent growth in net private current transfers from abroad assisted in securing the growth in national savings during the year. Meanwhile, national savings ratio increased to 24.7 per cent during 2010 from 23.7 per cent in the previous year.

BOX 5

Voluntary Pension Fund – A Social Security Scheme to Increase Domestic Savings

A pension scheme is a form of social security which provides financial security and stability to the members of the scheme while contributing to raise the level of savings. In that context, the existing pension and superannuation schemes in Sri Lanka do not cover a large segment of the working population in the informal sector who are engaged in small business and self-employment activities. In order to address this long felt need for a social security scheme with a wider coverage, the Government has decided to establish a Voluntary Pension Fund (VPF) as a key policy initiative to introduce a social security scheme for the small business and those who are self-employed to save for their old age.

The proposed VPF is open for all Sri Lankans, especially for those who are not members of any other social security fund. It will be managed by the Monetary Board of the Central Bank and will be operated through a simple and low cost electronic infrastructure which uses mobile phone technology for registrations, member contributions and the payment of monthly pensions.

The VPF will be structured to serve dual purposes. First, the VPF will provide social security and financial stability to its members throughout their post-retirement life cycle. Needless to say, a monthly pension will significantly contribute to meet the pensioners' daily expenses and health care needs, so that they would not be a burden to society or the Government.

Second, the VPF will serve to improve the savings habits of our people. The domestic savings rate in Sri Lanka was 18.7 per cent of the GDP in 2010. The national savings rate which includes domestic savings plus net factor income and net private transfers from abroad, was 24.7 per cent of the GDP in 2010. At the same time, in order to reach a per capita GDP income level of USD 4,000 before 2016, the national savings should be increased up to about 30 per cent. Although such investment deficit may be covered by foreign borrowings and investments, the costs and risks associated with funds raised from foreign sources could be considerably higher compared to domestic savings.

It is now estimated that there would be about 4 million small business, self- employed informal sector workers who could join and benefit from this scheme. Therefore, the VPF will be targeted at a wide range of occupations such as drivers, carpenters, mechanics, vendors, farmers, fishermen, migrant workers, etc. In addition, private sector casual employees who, presently, do not contribute to any form of social security funds, such as construction workers, housemaids, child care helpers, NGO workers and self-employed professionals such as lawyers, architects, consultants, advisors, journalists, musicians, entertainers, sports persons, beauticians, etc. too could greatly benefit from this scheme.

A common feature of the small business and self-employed persons is that they have a low saving habit, and hence they often become victims of the consequences of unsecured retirement life. Hence, the implementation of the VPF will be an important policy initiative to expand the opportunities for the small business and self-employed persons to save for their retirement. In addition, the VPF being a long-term fund, will be able to invest in a sufficiently diverse portfolio of long-term assets that incorporates the particular investment objectives and risk tolerance of the Fund, leading to the VPF being able to effectively contribute to the increase of the domestic savings, and thereby supporting the development of the country.