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NATIONAL OUTPUT AND EXPENDITURE

2.1 Overview

The economy rebounded to a high growth trajectory expanding by 7.3 per cent in 2013 compared to the 6.3 per cent growth recorded in 2012. Sri Lanka achieved this high growth in 2013 amidst a challenging domestic and external economic environment. Stabilisation policy measures introduced by the Central Bank from early 2012 were gradually eased from December 2012, creating a more conducive environment for economic growth, although the lag in the transmission of monetary policy delayed the economy experiencing the full impact of the easing of monetary conditions during 2013. Meanwhile, the stable macroeconomic conditions that prevailed in the country, with relatively low inflation and interest rates together with the stable exchange rate, impacted positively on growth. Further, favourable weather conditions also supported growth particularly with the significant expansion in high value added hydropower generation. Moreover, the continued infrastructure development programme of the government also contributed to achieve the expansion in economic activity. Externally, the sluggish economic growth in advanced economies impacted negatively during the first half of the year. However, there was a turnaround in external demand during the second half of the year with the gradual improvement in advanced economies including the United States and the European Union, which are Sri Lanka's major export destinations, supporting the high growth in the second half of 2013.

According to estimates from the production approach the Services sector made the largest contribution to growth in 2013. Within the Services sector, the transport and communication sub sector recorded the highest contribution to growth in 2013 reflecting increased demand for transport services with the expansion of economic activities. Wholesale and retail trade activities also improved with higher value added growth in both external and domestic trade activities during 2013. The increase in external demand particularly during the second half of the year, and higher domestic output supported the growth in trade activities. The expansion in the Services sector was further supported by the growth in financial services as well, albeit at a lower rate than during 2012. Meanwhile, the Industry sector continued to maintain a high growth momentum recording the highest sectoral growth in 2013. Within the Industry

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NATIONAL OUTPUT AND EXPENDITURE

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 (%)		Share of GDP (%)	
	2012(a)	2013(b)	2012(a)	2013(b)	2012(a)	2013(b)
Agriculture	5.2	4.7	9.2	7.2	11.1	10.8
1. Agriculture, Livestock and Forestry	4.7	4.5	7.3	6.0	9.7	9.5
1.1 Tea	0.3	3.6	0.0	0.5	0.9	0.9
1.2 Rubber	- 6.0	- 9.1	- 0.2	- 0.3	0.2	0.2
1.3 Coconut	6.0	- 16.1	1.0	- 2.3	1.0	0.8
1.4 Minor Export Crops	- 5.0	8.5	- 0.3	0.4	0.4	0.4
1.5 Paddy	- 1.6	19.5	- 0.4	3.8	1.4	1.6
1.6 Livestock	6.4	6.3	0.8	0.7	0.8	0.8
1.7 Other Food Crops	9.1	4.3	5.1	2.2	3.7	3.6
1.8 Plantation Development	8.8	3.3	0.4	0.1	0.3	0.3
1.9 Firewood and Forestry	5.4	5.0	0.5	0.4	0.6	0.6
1.10 Other Agricultural Crops	6.4	7.6	0.4	0.4	0.4	0.4
2. Fishing	9.3	6.2	1.9	1.2	1.3	1.3
Industry	10.3	9.9	47.5	41.5	30.4	31.1
3. Mining and Quarrying	18.9	11.5	7.4	4.4	2.8	2.9
4. Manufacturing	5.2	7.5	14.3	17.6	17.1	17.1
4.1 Processing (Tea, Rubber and Coconut)	6.5	0.6	0.6	0.0	0.6	0.5
4.2 Factory Industry	5.2	7.9	13.0	16.9	15.5	15.6
4.3 Cottage Industry	4.6	5.1	0.8	0.7	1.0	1.0
5. Electricity, Gas and Water	4.2	10.3	1.6	3.4	2.4	2.4
5.1 Electricity	4.3	11.3	1.4	3.3	2.1	2.2
5.2 Gas	5.1	1.6	0.1	0.0	0.2	0.2
5.3 Water	1.0	3.8	0.0	0.1	0.1	0.1
6. Construction	21.6	14.4	24.2	16.1	8.1	8.7
Services	4.6	6.4	43.3	51.3	58.6	58.1
7. Wholesale and Retail Trade	3.7	5.5	13.7	17.4	23.0	22.7
7.1 Import Trade	1.0	2.9	1.4	3.2	8.1	7.8
7.2 Export Trade	0.8	6.7	0.5	3.6	3.9	3.9
7.3 Domestic Trade	6.8	6.9	11.8	10.6	11.1	11.0
8. Hotels and Restaurants	20.2	22.3	1.9	2.1	0.7	0.8
9. Transport and Communication	6.2	9.4	14.0	18.5	14.3	14.6
9.1 Transport	6.0	9.4	11.1	15.2	11.7	12.0
9.2 Cargo Handling-Ports and Civil Aviation	5.7	3.1	0.6	0.3	0.7	0.7
9.3 Post and Telecommunication	7.9	11.4	2.3	3.0	1.9	2.0
10. Banking, Insurance and Real Estate etc.	6.7	5.9	9.4	7.2	8.9	8.7
11. Ownership of Dwellings	1.7	2.9	0.7	1.0	2.5	2.4
12. Government Services	1.4	2.8	1.6	2.7	6.8	6.5
13. Private Services	5.5	7.3	2.0	2.3	2.3	2.3
Gross Domestic Product	6.3	7.3	100.0	100.0	100.0	100.0
Net Factor Income from Abroad	- 97.4	- 42.1				
Gross National Product	5.3	6.5				

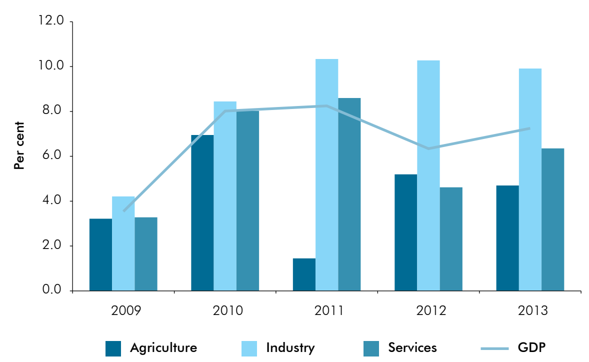
(a) Revised
(b) Provisional

Source: Department of Census and Statistics

sector, the construction sub sector continued to expand at a relatively high rate in 2013, although the growth rate moderated compared to the significantly high expansion in the previous year. The manufacturing sub sector also recorded a healthy growth in 2013 supported by strong external demand, from the second half of the year. The higher value added from utilisation of hydropower for electricity generation also contributed to the significant expansion in the Industry sector. Growth in the Agriculture sector also remained positive in 2013 due to the expansion in output of paddy, other food crops and fishing sub sectors despite the decline in coconut and rubber production.

According to estimates from the expenditure approach, the growth in Gross Domestic Product (GDP) was supported by the expansion in both consumption and investment in real terms during 2013. However, consumption growth slowed during 2013 due to the deceleration

Chart 2.1 Annual Growth Rate



in private consumption expenditure while public sector consumption expenditure grew at a higher rate than in the previous year. Meanwhile, expenditure on investment activities recorded a significant growth reflecting increased investor confidence. External sector demand improved with relatively high growth in exports of goods and services while imports of goods and services contracted marginally in real terms leading to an improvement in net external demand.

Gross National Product (GNP) derived from adjusting GDP for net factor income from abroad (NFIA) grew by 6.5 per cent during 2013 compared to 5.3 per cent in 2012. The lower growth in GNP reflects the increase in outflows in the income account of the balance of payments. The increased outflow was mainly due to higher interest payments on Treasury bonds and long term loans of the government together with the interest payments by the Central Bank and other financial institutions. Inflows in the form of Central Bank earnings, from interest on foreign reserves and fixed income securities also remained largely unchanged due to low interest rates prevailed in the international market. Meanwhile, a considerable portion of dividends by non-residents were reinvested in the country, lessening the impact of dividend related outflows in the income account.

GDP per capita was estimated at Rs. 423,467 for 2013 compared to the value of Rs. 372,814 recorded during 2012. The growth of 13.6 per cent in per capita income indicates that real income levels have increased in 2013 as the GDP implicit price deflator recorded a growth of only 6.7 per cent during the year. Meanwhile, per capita GDP in US dollar terms increased as well to US dollars 3,280 in 2013, keeping on track to reach the per capita income target of US dollars 4,000 by 2016.

GDP at market prices, which reflects the value of the total output in the economy at current prices, recorded a lower growth of 14.5 per cent in 2013 compared to the 15.8 per cent expansion recorded in the previous year. As real GDP grew at a higher rate in 2013 the slowdown in GDP at market prices was due to the deceleration in the rise of price levels across the economy as reflected by the GDP implicit price deflator. Further, the total value of the domestic economy was estimated at Rs. 8,674 billion during 2013, which is equivalent to US dollars 67 billion.

Domestic savings improved further to 20.0 per cent of GDP continuing the positive momentum observed during 2012. This was mainly reflected by the continued improvement in the trade balance with the lower growth in imports as in the previous year. The development in domestic savings emanated from the private sector together with the decline in government dis-savings. Measures adopted to rationalise the recurrent expenditure of the government sector resulted in the narrowing of the current account deficit of the government. National savings also improved in 2013 due to the continued growth in workers' remittances, albeit at a lower rate than in 2012. However, the deterioration of NFIA with increased outflows dampened the growth in national savings. Meanwhile, the resource gap, which reflects the level of external sector dependence, narrowed further in 2013.

2.2 Sectoral Output, Policies, Institutional Support and Issues

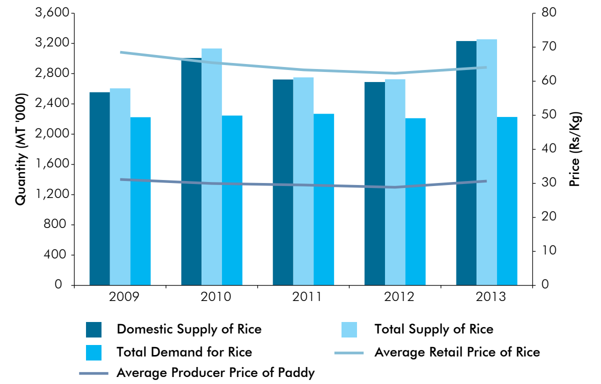
Agriculture

The Agriculture sector recorded a growth of 4.7 per cent in 2013 when compared to a growth of 5.2 per cent recorded in 2012, while accounting for a share of 10.8 per cent of the GDP in 2013. Most sub sectors including paddy, tea and other food crops contributed positively towards this growth. The growth observed was mainly due to the 19.5 per cent value added expansion recorded in the paddy sub sector backed by the bountiful Yala harvest during the second half of the year which neutralized the impact of moderation in growth during the first half of the year due to crop damage in the Maha season. Tea production expanded by 3.6 per cent recording the highest ever output, despite the contraction during the third quarter of 2013. Other food crops sub sector that has the largest share in the Agriculture sector, slowed down compared to last year primarily due to the contraction in highland crops during the first half of the year. Minor export crops, livestock, plantation development, firewood and forestry and other agricultural crops sub sectors also contributed positively towards the growth in the agricultural sector. However, a contraction in rubber and coconut production during the year was observed as a result of unfavourable weather conditions. Growth in the fishing sub sector moderated, recording an expansion of 6.2 per cent, particularly due to the decline in growth observed in the second quarter of the year due to extreme weather conditions.

Paddy

Total paddy production in the country grew significantly in 2013 despite the considerable damage to crops experienced during the early part of the year on account of adverse weather conditions. Total national paddy production increased by 20 per cent to 4.62 million metric tons in 2013 over 2012. Of the total production, 2012/13 Maha production increased by 4.8 per cent to 2.85 million metric tons and 2013 Yala production improved by 57 per cent to 1.77 million metric tons. The significant growth recorded in the Yala season was a result of the high water levels in reservoirs due to the favourable North East monsoon and the expansion in the extent of cultivation, partly as a result of increased paddy purchasing prices by the Government. In 2013, the highest growth in paddy production was recorded in the North Western Province, which was 108 per cent. The Eastern Province recorded a decline of 2 per cent mainly due to the heavy crop damages that took place during 2012/13 Maha season. The yield in the 2012/13 Maha season declined to 4,281 kg per hectare from 4,444 kg per hectare in 2011/12 reflecting the impact of extreme weather conditions during the season. However, the yield in the 2013 Yala season improved to 4,408 kg per hectare from 4,145 kg per hectare in 2012 mainly due to the favourable weather conditions throughout the season.

Chart 2.2 Rice : Supply and Demand



Paddy prices were responsive to policy changes and market expectations during 2013. Paddy prices remained relatively high during the first half of 2013 compared to the corresponding period in 2012 partly due to the increase in the paddy purchasing price by the government and also reflecting the crop damage due to heavy rain and flooding in December 2012 and January 2013.

Table 2.2 Paddy Sector Statistics

Item	Unit	2012 (a)			2013 (b)		
		Maha	Yala	Total	Maha	Yala	Total
Gross Extent Sown	hectares '000	702	365	1,067	780	448	1,227
Gross Extent Harvested	hectares '000	685	305	990	742	447	1,188
Net Extent Harvested	hectares '000	611	272	883	665	403	1,067
Production	mt '000	2,717	1,129	3,846	2,846	1,774	4,621
	bushels '000	130,212	54,107	184,319	136,393	85,042	221,435
Yield (c)	kg/ hectare	4,444	4,145	4,353	4,281	4,408	4,329
Credit Granted	Rs.mn	3,720	1,817	5,537	3,150	1,196	4,346
Rice Imports	mt '000	-	-	36	-	-	23
Paddy Equivalent of Imports	mt '000	-	-	52	-	-	33

(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

However, paddy prices declined during the second half of 2013 due to the bumper harvest in paddy production during the Yala season. Further, the Paddy Marketing Board (PMB) also purchased 233,366 metric tons of paddy in 2013 compared to 126,262 metric tons in 2012 leading to the stabilisation of paddy prices, particularly during the harvesting period.

Tea

Tea production in 2013 reached an all time high in 2013 supported by favourable weather conditions in all tea growing elevations, higher prices fetched at the Colombo Tea Auction (CTA) and strong export demand. Accordingly, tea production in 2013 grew by 3.6 per cent to 340.2 million kg. However, the high growth in tea production in 2013 is over a low base in 2012, which was a low cropping year due to drought conditions that prevailed. The highest increase was recorded in medium grown elevation (6.8 per cent), followed by low grown (3.1 per cent) and high grown (2.6 per cent). Low grown tea production in 2013 recorded the highest ever production. The contribution of smallholders who are largely based in low grown areas, to total national tea production also increased to 248 million kg in 2013 from 234 million kg in 2012 supported by favourable weather conditions, an increase in fertilizer usage encouraged by higher price paid for green leaves during the year. Meanwhile, tea production in high and medium tea growing areas was somewhat affected by heavy rain particularly during the third quarter of the year.

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

Item	2012 (b)	2013 (c)	Change (%) 2012/2013
Agriculture and Fishing	116.7	122.1	4.7
1 Agriculture	110.6	115.5	4.5
1.1 Agriculture Crops	109.0	113.0	3.6
Tea	105.4	109.2	3.6
Rubber	113.3	97.2	-14.2
Coconut	103.8	88.7	-14.5
Paddy	102.8	123.6	20.1
Other Crops	118.2	125.4	6.1
1.2 Livestock	122.8	135.6	10.4
2 Fishing	145.7	153.7	5.5

Source: Central Bank of Sri Lanka

(a) The average values used for the base values in the production index was changed from the period 1997 - 2000 to 2007-2010.
(b) Revised
(c) Provisional

On average, prices of high, medium and low grown teas at the CTA throughout the year were above the corresponding prices recorded in 2012. Although other global tea varieties such as CTC and green tea supply were in surplus, orthodox black tea production remained relatively stable in 2013. Sri Lanka, being the largest orthodox black tea exporter, benefitted from the strong demand for orthodox black tea and this was reflected in higher auction prices. Average prices of high, medium and low grown tea increased by 7 per cent (year on year) to Rs. 406 per kg, 18 per cent to Rs. 416 per kg and 15 per cent to Rs. 471 per kg, respectively. This enabled tea manufacturers to withstand the increase in costs as a result of higher wages and electricity.

Rubber

Rubber production declined by 14.2 per cent to 130,421 metric tons in 2013 compared to 2012. The significant decline in production, particularly during the first nine months, was largely due to the torrential rainfall throughout this period, which reduced the number of tapping days. During the months of May, June and July when the highest decline was reported, tapping days dropped significantly. However, rubber production improved considerably during the last quarter of the year supported by favourable weather conditions in the major growing areas. The decline mainly resulted from a significant drop in production of latex crepe by 58 per cent to 15,373 metric tons in 2013. However, sheet rubber production increased by 6 per cent to 62,800 metric tons mainly due to an increase in production during the latter part of the year. Rubber exports, which mainly consist of latex crepe declined by 37 per cent to 23,580 metric tons in 2013 while the share of domestic usage of rubber increased to 82 per cent in 2013 (107,259 metric tons) from 72 per cent in 2012 (110,038 metric tons).

Table 2.4 Trends in Principal Agricultural Crops

Category	Unit	2012(a)	2013(b)
1. Tea			
1.1 Production (c)	kg mn	328.4	340.2
1.2 Total Extent	hectares '000	222	222
1.3 Extent Bearing	hectares '000	185	184
1.4 Cost of Production (d)	Rs/kg	390.89	418.22
1.5 Average Price			
- Colombo Auction	Rs/kg	392.4	445.83
- Export (f.o.b.)	Rs/kg	563.94	623.91
1.6 Replanting	hectares	1,268	1,558
1.7 New Planting	hectares	280	263
1.8 Value added as % of GDP (e)		0.9	0.9
2. Rubber			
2.1 Production	kg mn	152.0	130.4
2.2 Total extent (f)	hectares '000	131	132
2.3 Area under tapping (f)	hectares '000	104	107
2.4 Cost of Production	Rs/kg	136.00	150.00
2.5 Average Price			
- Colombo Auction (RSS 1)	Rs/kg	416.61	376.90
- Export (f.o.b)	Rs/kg	420.74	389.81
2.6 Replanting (g)	hectares	2,161	1,782
2.7 New planting (g)	hectares	2,476	1,574
2.8 Value added as % of GDP (e)		0.2	0.2
3. Coconut			
3.1 Production	nuts mn	2,940	2,513
3.2 Total Extent	hectares '000	395	395
3.3 Cost of Production	Rs/nut	11.63	12.68
3.4 Average Price			
- Producer price	Rs/nut	21.60	29.60
- Export (f.o.b.) (h)	Rs/nut	28.80	29.36
3.5 Replanting / Under Planting (i)	hectares	4,299	4,541
3.6 New Planting (i)	hectares	4,814	n.a.
3.7 Value added as % of GDP (e)		1.0	0.8

(a) Revised
(b) Provisional
(c) Includes 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) Extent covered by cultivation assistance schemes of the Rubber Development Department
(h) Three major coconut kernel products only
(i) Extent covered by cultivation assistance schemes of the CCB

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

The declining trend in global natural rubber prices also affected rubber prices in Sri Lanka. In 2013, at the Colombo Rubber Auctions, the average price of Ribbed Smoked Sheet 1 (RSS1) and Latex Crepe 1x declined (year on year) by 10 per cent to Rs. 377 per kg and by 3 per cent to Rs. 397 per kg, respectively. Further, the export price of RSS1 and Latex Crepe 1x also declined (year on year) by 6 per cent to Rs. 422 per kg and by 7 per cent to Rs. 377 per kg, respectively. Increased natural rubber supply from major rubber producing nations along with high stocks of major manufacturers in China and Japan mainly contributed to the decline in prices.

Coconut

Coconut and coconut product supply experienced a considerable drawback during the year. Coconut production declined by around 14.5 per cent to 2,513 million nuts in 2013. The decline in coconut production was mainly due to the lagged effect of lower rainfall in major coconut growing areas in 2012. Since around 72 per cent of coconut production was demanded by non industrial users, the decline in coconut output mainly affected industrial users during the year. Coconut oil production declined by around 45 per cent to 45,208 metric tons (equivalent of 349 million nuts) in 2013. The decline in coconut oil production prompted imports of other edible oils. Consequently, the import of palm oil, which is a close substitute for coconut oil increased by 41 per cent to 89,959 metric tons in 2013 despite the upward revision of SCL on refined palm oil to Rs.115 per kg in early 2013. Meanwhile, Desiccated Coconut (DC) production too declined sharply by 30 per cent to 29,200 metric tons (equivalent of 228 million nuts) in 2013. The shortage of coconut supply together with the increase in farmgate coconut price pushed up the cost of production of the DC industry leading to a major decline in DC exports during the year. The export of DC in 2013 declined by 30 per cent to 28,202 metric tons compared to 2012. However, a growth in coconut milk powder, cream and milk production was recorded in 2013. Maintaining the growth momentum of these coconut kernel based products is necessary in view of their export potential.

Coconut prices increased steadily in 2013 due to lower coconut production and increased competition among the coconut kernel based product manufacturers. The lower production of coconut, caused prices of copra, coconut oil and desiccated coconut to increase in 2013. Coconut prices increased more rapidly during the second half of the year with the further decline in coconut supply. The average auction price of coconut increased to Rs. 32.64 per nut in 2013 from 22.95 per nut in 2012 and the average retail price of coconut also increased to Rs. 43.16 per nut in 2013 from Rs. 34.56 per nut in 2012. The average price of coconut oil increased to Rs. 258 per litre in 2013 from Rs. 224 per litre in 2012 largely due to the considerable increase in copra prices. The average DC price at the Colombo Coconut Auction also increased to Rs. 239.05 per kg from Rs. 173.19 per kg during 2012. Despite the increase in DC prices, the average DC export price declined in 2013 to US dollars 1.55 per kg from US dollars 1.65 per kg during 2012 reflecting a contraction in profit margins of DC producers during 2013.

Minor Export Crops

The performance of minor export crops rebounded during the year. The production of cinnamon, pepper, cloves, cocoa, arecanut, nutmeg, betel and cashew recorded a growth during the year while production of cardamom declined. Pepper production recorded a 50.5 per cent growth, achieving the highest production of pepper in recent history due to favourable weather conditions in the flowering and fruiting period and the expansion of productive extent with increased newly planted extent. The export demand for pepper remained high benefitting exporters during the year. However, a decline in pepper farmgate prices by around 12 per cent was also observed. Production of cloves also grew significantly by 54.4 per cent to 6,190 metric tons in 2013 over the previous year, helping clove growers to reap the benefits of increased farmgate prices of cloves. Cashew kernel production increased by 3.6 per cent to 2,072 metric tons in 2013 supported by an increase in matured extent of cashew in recent years and higher farmgate prices. The increase in cinnamon production was marginal at 2 per cent during the year, largely a result of an increase in matured extent.

Other Field Crops

Total production of other field crops (OFCs) increased by 3.4 per cent to 968,246 metric tons in 2013 over 2012. This is an outcome of a 3.8 per cent increase to 587,477 metric tons in the 2012/13 Maha season and a 3.1 per cent increase to 380,769 metric tons in the 2013 Yala season over the corresponding seasons in the previous year. The extent cultivated of OFC increased in 2013 during major seasons mainly due to the availability of sufficient water supply and remunerative prices together with the effect of increase in the Special Commodity Levy (SCL) on the import of some commodities to promote local substitutes. Accordingly, the SCL on some imports such as potatoes and big onions was increased in May, June and August 2013. During the year, the production of some crops such as black gram, red onion, big onion and ginger (raw) declined. The decline in big onion production was mainly a result of the damages caused during the nursery stage as well as during the harvesting period due to heavy rainfall. However, the producer price of big onions rose during the year encouraging growers. Meanwhile, domestic production of OFCs such as cowpea, kurakkan, maize, green gram, soya bean, gingerly, ground nuts, sweet potatoes, potatoes and chilies increased in 2013. It is estimated that the present domestic supply of commodities such as maize, ground nuts and cowpea has already surpassed consumption demand in the country, and therefore, it is expected that the industries producing animal feed and already established food manufacturers would also benefit from improved domestic supply of inputs, which are otherwise imported.

Vegetables

The growth momentum of vegetable supply continued in 2013 amidst intermittent extreme weather shocks. In 2013, vegetable production grew by 15 per cent to 1,091,491 metric tons. The upcountry vegetable supply marked a significant growth of 29 per cent while low country vegetable supply declined by 5 per cent in 2013. Upcountry supply contributed around 50 per cent of the total vegetable supply in 2013. Prices of cabbage, carrot, beetroot, radish, beans, leeks and capsicum consistently declined during major seasons. The improvement in supply from Nuwara Eliya and Matale with a static extent cultivated, also reflected the adoption of better agricultural practices by growers such as the appropriate use of fertilizer and high yielding seeds. In addition, other factors such as access to irrigated water, the improvement in distribution network of vegetables in the country to support demand, promotion of home gardening under the government support programmes contributed to a healthy growth in vegetable production in 2013.

Sugar

Sugar production recorded a remarkable progress during the year. Total sugar production grew by 48.8 per cent to 53,061 metric tons in 2013 mainly due to the increase in total extent of sugar cane cultivation by 28.5 per cent to 11,801 hectares. The quantity of sugar cane crushed at all three sugar factories, namely, Pelwatta, Sevanagala and Gal Oya, grew by 49 per cent to 643,403 metric tons reflecting the increase in yield of sugar cane per hectare supported by the adoption of better agricultural practices such as the use of fertilizer, cultivation of high yielding varieties together with the increase in extent cultivated. In addition, sufficient rainfall during the year and the increase in the average producer price of sugar cane to over Rs. 4,000 per metric ton also encouraged growers to return to sugar cane cultivation from other crops. It is expected that the production at the three factories will continue to improve in the ensuing period supported by strong government commitment to increase domestic sugar production through various measures, which include increasing new planting extent, provision of proper irrigation systems, availability of agriculture finance and insurance schemes.

Fisheries

Total fish production in 2013 grew by 5.5 per cent to 512,840 metric tons. This was a combined outcome of an increase in marine fish production by 6.9 per cent and a decline in inland fishing by 3 per cent. Of the increase in marine fish production, offshore and coastal fish production grew by 11.4 per cent and 4 per cent, respectively. During the year, marine fish production was affected by extreme weather conditions in May and June. However, marine fish production recovered during the third and fourth quarters with favourable weather conditions prevailing during the Northern and Eastern fishery season. The increasing contribution of all fishing areas to total fish production in the post conflict period was encouraged by the improvement in infrastructure and fishery fleet. The share of deep sea fish production in total marine fish production increased to 40 per cent in 2013 from 38 per cent in 2012. Meanwhile, average daily production of canned fish by four domestic factories also improved significantly. In 2013, inland fish and aquaculture production declined by 3 per cent to 66,910 metric tons mainly as a result of the decline in the Inland fish capture by 6.2 per cent due to the lagged effect of the drought, which resulted in a depletion of resources in reservoirs. However, the sub sector, aquaculture and cultured prawns/ coastal aquaculture grew by 15.8 per cent during the year due to the successful control of the spread of disease as a result of the implementation of best practices and the expansion of farms.

Livestock

Total national milk production increased by 6.8 per cent to 319.8 million litres in 2013 against a 16.9 per cent decline in milk powder imports, mainly due to the government efforts to achieve self sufficiency in milk by 2016 and also due to the uncertainty that arose with regard to possible contaminated milk powder imports. The latter resulted in a switching of consumer demand in favour of domestic milk powder and liquid milk. Although the local factories were not in a position to increase the capacity in the short run, these factories operated at full capacity to meet the increase in demand. Accordingly, milk collection of large processors increased their milk collection by 9.1 per cent to 200.3 million litres in 2013. MILCO (Pvt) Ltd, increased production of Ultra Heat Treated Milk (UHT) packs up to 6.9 million litres in 2013 from 3.4 million litres in 2012 and the production of yoghurt by 4.8 million litres from 4.3 million litres in 2012. MILCO and Pelwatte milk factories expanded their factory capacity to harness the potential in the local market. Government promoted investments in large dairy farms with hybrid milch cow varieties to increase milk supply to meet the increasing demand. The National Livestock Development Board (NLDB) imported 1,500 hybrid milch cows with a potential of 20 liters per cow per day.

The poultry sector experienced a substantial growth in 2013. Egg production increased significantly by 33 per cent to 1,942 million in 2013 while chicken production also increased by 5.2 per cent to 144,540 metric tons. The share of large processors in the broiler production increased in 2013 supported by measures introduced by the government such as an increase in the price ceiling on branded chicken, encouraging feed production with local inputs, tax concessions on imports of capital equipment to increase the scale of production, promotion of investment in grandparent bird production resulting in a considerable increase in local production of broiler breeders, reduction

Table 2.5 Fish Production

Metric Tons '000

Sub-Sector	2012 (a)	2013 (b)
Marine (c)	417	446
Aquaculture and Inland Fisheries	69	67
Total	486	513

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

Source: Ministry of Fisheries and Aquatic Resources

Table 2.6 Livestock Sector Statistics

Sub-Sector	2012(a)	2013(b)
1. National Herd (No.) (mn)	1.6	1.5
Neat Cattle	1.2	1.1
Buffalo	0.4	0.4
2. National Milk Production (mn litres)	299.2	319.8
Cow Milk	237.6	258.0
Buffalo Milk	61.6	61.7
3. Milk Products (mn litres)	30.6	36.5
4. Producer Price - Cow Milk (Rs./litre)	48.9	51.4
5. National Egg Production (No) (mn)	1,457.1	1,942.2
6. National Poultry Meat Production (mt '000)	137.4	144.5

(a) Revised
(b) Provisional

Sources: Ministry of Livestock Development
Department of Census and Statistics

of income tax on poultry product manufactures, etc. Reflecting the growth in broiler production, the prices of chicken declined during 2013. Although egg production showed a significant improvement during the year, the average retail price of eggs increased to Rs. 14 per egg in 2013 from Rs. 11 per egg in 2012 mainly due to the effect of an increase in the cost of production during the year.

Forestry

Total forest cover in Sri Lanka stood at 1,951,472 ha in 2013 of which 1,438,275 ha was canopy forests. During the year, 863 ha were deforested for timber extraction and 1,319 ha were reforested. The Forest Department of Sri Lanka continued to contribute to the global fight against climatic change by protecting, better managing and wisely using forest resources with the support of international agencies. Further, Sri Lanka Community Forestry Programme funded by AusAID commenced its operation in 2013 in 15 districts of dry and intermediate zones of Sri Lanka to improve the management of natural resources to support livelihoods. The Forest department spent a sum of Rs. 20 million for the management of the World Heritage Sites, namely, Sinharaja Forest Reserve and Knuckles Forest Reserve, and another Rs. 15 million for the maintenance of ecotourism sites.

Agricultural Policies and Institutional Support

The country's agricultural policy continued to focus on increasing domestic food production to enhance food security, reduce import expenditure, and promote agricultural exports. The ongoing major irrigation projects such as Moragahakanda, Uma Oya, Deduru Oya, Rambukkan Oya and Yan Oya continued in 2013 to provide irrigated water to dry zone areas in the Northern, Eastern, North Western and Southern Provinces. A North Central Canal, connecting Moragahakanda and Iranamadu reservoirs is planned to further supplement irrigated water as well as drinking water in the Northern and Northern Central Provinces. Meanwhile, the government fertilizer support scheme continued, distributing 418,964 metric tons of paddy fertilizer and 403,000 metric tons of non paddy fertilizer at a total subsidy cost of Rs. 19.7 billion in 2013. With a view to reducing the imports of some food commodities while encouraging local production of such food commodities, the SCL on imports of selected commodities was increased. Steps were taken to improve sugar and milk production in the country. The construction of new fishery harbours, increasing multiday fishery fleet and investment in fishing in high seas continued to promote the share of deep sea fish production and total fishery exports. While increasing the subsidy for replanting and new planting of tea, steps were taken to expand rubber and coconut cultivation in non traditional growing areas of the country. In the meantime, the recommendations of the committee appointed to distribute the unutilised lands around 10,000 hectares among selected young planters, which are presently under Regional Plantation Companies (RPCs), is in the process of being implemented.

Sri Lanka Tea Board (SLTB) and Tea Research Institute (TRI) continued its research and development activities during the year in line with the medium to long run strategy of the sector. SLTB conducted the Inaugural Ministerial Conference of Tea Producing Countries in Colombo in 2013, which targeted to establish an international association for the promotion and development of tea at a global level. To promote marketing, SLTB entered into an agreement with the Sri Lanka Cricket Board to become the official overseas sponsor for the Sri Lanka cricket team for the period 2013-2016. Further, SLTB also implemented a special promotion campaign in the Latin American region to explore new buyers for Ceylon Tea during the year while sponsoring the “CHOGM Business Forum 2013”. Meanwhile, promoting good agricultural and manufacturing practices, SLTB continued to carry out their subsidy programmes and tea factory modernisation programme. The revised re-planting subsidy (Rs.350,000 per ha) and new planting subsidy (Rs.250,000 per ha) were implemented in 2013 and in the smallholding sector, a total extent of 1,483 hectares was brought under tea replanting and new planting during the year at a cost of Rs. 398 million. Meanwhile, an effective programme at the cost of Rs. 100 million was successfully implemented jointly by TRI and Tea Small Holder Development Authority (TSHDA) to mechanise tea harvesting in the tea smallholder sector. Further, Introducing Nano-technology to tea cultivation, TRI used “control releasing fertilizers” produced by Nano-Technology Institute of Sri Lanka on an experimental basis at the field level. In order to encourage value added tea exports, cess on bulk tea export was increased to Rs. 10 per kg for packages more than 10 kg and Rs. 4.50 per kg for value added tea packages less than 10 kg. The Budget 2014 proposed to grant a once-a-year-subsidy of Rs. 5,000 per acre, to all tea smallholders to improve the conditions of their lands through water and soil conservation. With regard to plantation companies, a credit scheme with 8-year maturity at 6 per cent interest was proposed in order to encourage the replanting activities.

The overall development strategy of the rubber sector mainly targeted the improvement in productivity through the promotion of good agricultural practices in the short run and the expansion of rubber extent through replanting and new planting in the medium to long run. A new programme for the cultivation of 10,000 of hectares in the Ampara district commenced in 2013 while replanting activities in 1,782 hectares in traditional areas were promoted. Rubber Research Institute of Sri Lanka (RRISL) contributed to carry out field trials to identify the potential growing lands in these new areas. RRISL continued its group advisory programme, i.e., “Vihidum Sathkara” to support technology adoption by smallholders and “Nipunatha Sawiya” training programme to improve skills of rubber tappers. Rubber Development Department (RDD) continued its extension services by conducting a large number of tapper and bud grafter training programmes as well as training growers to adopt gutter rain guards. Moreover, a number of workshops and training programmes were conducted at the district level through “Thurusaviya Societies”. Under this, activities such as standardising machines and equipments and upgrading rubber smokehouses with new technologies were promoted. An amount of Rs. 25.5 million was provided as loans to 275 rubber growers by the Thurusaviya Fund jointly with the Bank of Ceylon.

The National Coconut Development Plan targets to produce 3,650 million coconuts by 2016. The slow growth in coconut supply is a major hindrance for the expansion of coconut based industries. In order to increase coconut supply, it is necessary to optimise coconut land utilisation and ensure a substantial increase in national average coconut yield, while strengthening replanting activities with high yielding varieties. During the year, Coconut Research Institute of Sri Lanka (CRISL) released two new hybrid varieties, namely CRISL 2012 (Brown Dwarf Tall) and CRISL 2013 (Brown Dwarf San Raman) for growers in 2013 while establishing a seed garden in Kiniyama estate for the mass production of Kapruwana hybrid seedlings in 200 acres in collaboration with Chilaw Plantation Ltd to increase the supply of high yielding varieties. Further, Land Suitability Assessment programme implemented by the Coconut Cultivation Board (CCB) to expand coconut cultivation to areas such as Moneragala, Ampara, Batticaloa, Trincomalee, Anuradhapura, Polonnaruwa and Jaffna continued successfully. Further, 2.07 million of coconut seedlings were distributed under the "Divi Neguma" programme. In the meantime, CRISL continued to carry out activities to combat the spread of diseases and improve value addition in coconut based industries. Coconut caterpillar outbreaks were successfully managed by releasing 809,810 parasitoids and distributed 3,000 pheromone vials to manage red weevils in addition to issuing135,398 predatory mite sachets to growers to combat the spread of coconut mite. CRISL also concentrated on managing the spread of coconut mite and Weligama Coconut Leaf Wilt Disease (WCLWD) with the assistance of Food and Agriculture Organization (FAO) and several other external experts, and the spread of WCLWD to other areas was completely controlled and affected coconut palms totaling to 66,065 were removed during 2013. Research into improving virgin coconut oil expelling and other value added products such as coconut paste, ice cream, sweet toddy powder, coconut coir composites also continued successfully. In the medium to long run, it is necessary to promote alternative edible oil sources in the country such as palm and soya oil, which would partly fulfill the edible oil consumption in the country. Accordingly, in 2013, a number of Regional Plantation Companies (RPC) were permitted to import palm seeds under tariff concessions with a view to promote the oil palm cultivation in the country. Palm oil production is expected to increase to 100,000 metric tons by 2016, which would help to reduce expenditure on palm oil imports while contributing to reducing price fluctuations of coconut and coconut oil in the local market.

An investment plan was launched in 2013 to increase domestic sugar production significantly by 2016. Accordingly, the regulation of the domestic sugar industry was entrusted to the Ministry of Sugar Industry Development. Further, state owned Lanka Sugar Company (LSC) was established under the Ministry, entrusted with the task of managing the state sugar factories. LSC carried out land identification programmes in Ampara, Batticaloa, Killinochchi and Anuradhapura to commence sugar cane cultivation. Facilitating sugarcane cultivation, steps were taken to expand seed cane production in Udawalawe, Kanthale and Hingurana while steps were taken to establish a sugarcane plantations cluster in Killinochchi, which is considered to be an area with high potential for the successful cultivation of sugar cane. Meanwhile, the Sugar Research Institute (SRI) identified eight new improved sugarcane varieties for commercial cultivation under both irrigated and rain fed conditions.

During the year, institutions under the Department of Agriculture carried out their programmes extensively to support domestic agricultural activities. With emphasis on maintaining a sustainable and economically optimal yield by reducing wastage of fertilizer and minimising environmental and health hazards, a new fertilizer recommendation for paddy was introduced in 2013. Special attention was given to increase the cultivated extent of supplementary field crops such as big onion, red onion, maize, green gram, groundnut, gingelly, cowpea, soya bean, chili, finger millet and black gram in the Northern, Eastern, North Central and North Western Provinces with a view to reaching self sufficiency by 2016. "Youth Agro-entrepreneurship" and "Commercial Farm" programmes were implemented in the year at a cost of Rs. 120 million. In the meantime, the Rice Research and Development Institute (RRDI) introduced five new rice varieties (AT 308, AT 306, AT 309, BG MA 2, and AT 405) appropriate for rice biscuit production in 2013. Further, a new export quality rice variety (BG 1165-6) was also introduced to promote rice exports. Farmers were also encouraged to grow traditional rice varieties, and the first consignment of one such variety, namely, "Pachchaperumal" is expected to be exported in early 2014.

The government invested heavily on expanding irrigation facilities in recent times. In 2013, while most of the prevailing irrigation projects improved, two new projects, namely, the diversion of the Mahaweli to the North Western Province and the augmentation of Mahagalgamuwa tank were also initiated targeting 16,000 families as direct beneficiaries. Further, the government is planning to extent the irrigation projects to the Northern and Eastern Provinces, where large tracts of agriculture land still remain unutilised**.**

Institutional support committed under the Livestock Sector Master Plan was successfully implemented for the second consecutive year in 2013. With the addition of imported cattle of Friesian/Jersey Friesian breeds, the NLDB is planning to increase the production of UHT milk packs from 8,000 to 70,000 per month, thus improving the supply of quality processed milk to popularise liquid milk. Budget for 2014 also proposed to import a further 20,000 high quality cows to promote small and medium dairy farms in order to boost the fresh milk supply further in the country. A special loan scheme was also proposed for the dairy sector to make available the imported hybrid cows to dairy farmers and also support the establishment of collection centres, the purchase of equipment, and the manufacture of animal feed, etc. Strengthening veterinary diagnostic and investigation services, it is planned to recruit new veterinarians and also to grant a monthly allowance of Rs. 7,500 for veterinarians.

Several policies were implemented to promote the domestic poultry industry. This process was strengthened by the increase in importation of layer parent birds and production of domestic broiler parent birds in 2013 which resulted in an increase of day old chick supply in 2013. This was also further supplemented by the “Divi Naguma” programme under which around 358,193 chicks were distributed in 2013 among the rural community. Meanwhile, continuous surveillance was in place to monitor and prevent the spread of Avian Influenza while enforcing strict compliance with quarantine measures to prevent the spread of disease in the poultry industry. The Budget 2014 also proposed to provide a loan scheme to poultry producers to maintain the current momentum of the sector.

Measures were taken to increase deep sea fish production to boost value addition and fish exports. In 2013, eight pelagic vessels each being over 24 meters in length was launched under a BOI joint venture project . It is expected that the Dikowita fishery harbor, which commenced its operations in 2013 would provide the necessary harbour facilities for these large vessels. The Budget 2014 also proposed to develop the existing harbour facilities and anchorages at Wennappuwa, Chilaw, Kapparathota, Dodandoowa, Hikkaduwa and Negombo lagoon. The Diyawara Diriya loan scheme was continued for the second consecutive year to provide credit facilities at a concessional rate to the fishery sector mainly targeting an increase in the deep sea fishery fleet and modernising the existing fishing boats with latest technology. The total amount of loans disbursed under this scheme during the period from 2012 to 2013 was Rs. 2,489 million and the interest subsidy borne by the government on these loans stood as Rs. 53 million. Further, the fuel subsidy scheme for fishermen also continued and Rs.1,524 million was disbursed in 2013 compared to Rs. 2,970 million in 2012. The Budget 2014 proposed to maintain high tariff on imports of dried fish and sprats, Maldives fish, canned fish and fish food.

The inland and aquaculture fishery infrastructure was expanded with a view to encouraging nontraditional aquaculture systems with high potential. The blackish water cluster shrimp model farm in Vakarei was opened in January 2013. In the first year, the project earned Rs. 40 million by harvesting 55.6 metric tons of fresh water fish. A project to build a centre for aquaculture development at Iranamadu in the Northern Province at a cost of Rs. 400 million commenced in 2013. This project is expected to boost the production of high value added aquaculture fish for exports.

In addition to those discussed above, several new measures were proposed in the Budget 2014 to promote the Agriculture sector ranging from the provision of high quality seeds and planting materials to indemnity for crop damages. One such measure was the establishment a revolving fund of Rs. 300 million under each District Secretary Division in major producing areas to carry out speedy support programmes for farmers affected by extreme weather conditions. Moreover, it was proposed to implement a pension scheme for farmers over 63 years of age to provide a monthly pension of Rs. 1,250.

Industry

The Industry sector expanded by 9.9 per cent in 2013, compared to 10.3 per cent growth registered in 2012, while accounting for a share of 31.1 per cent of the GDP in 2013. Bolstered by improved demand for Sri Lankan exports and favourable domestic demand, factory industry which is the largest sub sector within the Industry sector expanded by 7.9 per cent in 2013 compared to 5.2 per cent recorded in 2012. Electricity, gas and water sub sector grew at a higher rate and made a significant contribution to the value added with the increase in hydropower generation. Construction and mining and quarrying sub sectors continued to expand at a healthy rate during 2013 over the high growth recorded during 2012. The slowdown in the construction and mining and quarrying sub sectors compared to 2012 resulted in the marginal slowdown in value added of the Industry sector during 2013.

Mining and Quarrying

Mining and quarrying sub sector expanded by 11.5 per cent during 2013 as compared to 18.9 per cent growth recorded in 2012, largely due to the growth observed in the other mining sub sector. This sub sector includes extraction of construction related raw materials such as sand, lime stone, rock metal, and clay together with minerals such as graphite, phosphate, mineral sand and salt production. The increased demand for construction related raw material was the main contributor for the growth within the other mining sector. Phosphate production expanded marginally, recovering with market demand particularly coming from the fertilizer industry. Meanwhile, contraction in graphite and mineral sand output dampened the growth in the sub sector as reflected by the contraction in the mineral export volume index. The gem mining sub sector, which accounts for 18.4 per cent of the mining and quarrying sub sector expanded by 10.7 per cent over the 10.2 per cent growth observed in 2012. Increase in surcharges on all mineral mining activities including sand with effect from November 2013 and new regulations introduced in early 2014, governing the exploration may pose a challenge to growth in the industry. Policies should be focused on discouraging exports of minerals in raw form and encourage in developing a value added export market for minerals so as to promote growth in the sector. Further, modernization of factories by introducing novel technology will contribute in improving the productivity within this sub sector.

Manufacturing

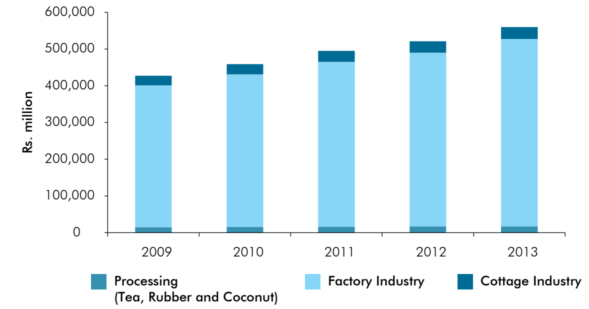
Processing

The processing sub sector, which consists of industries processing tea, rubber and coconut, grew marginally by 0.6 per cent, compared to the growth of 6.5 per cent recorded during 2012. This slowdown in growth was due to the contraction of rubber and coconut production. Rubber production declined mainly due to lack of favourable weather conditions and the reduction in prices, which discouraged producers. Coconut production contracted owing to the lagged effect of the drought that prevailed in 2012. The negative impact of these were negated by the growth in tea production, which recorded the highest ever output supported by favourable weather conditions along with satisfactory prices which encouraged producers to optimize production. The tea processing sector could be further improved in due course with the achievement of productivity improvements through new initiatives taken by the tea research institute in enhancing tea processing technology.

Factory Industry

In terms of value addition, factory industry output, the largest contributor to the manufacturing sub-sector, grew by 7.9 per cent during 2013. This favourable growth was mainly due to the improvement in the global economic environment, conducive domestic macroeconomic conditions, higher domestic and tourist demand and the continuation of mega infrastructure projects. Value addition in export market oriented industries increased with the contribution from the textile, wearing apparel and leather products category and the chemical, petroleum, coal, rubber and plastic products category recording a growth of 8.9 per cent and 7.6 per cent, respectively. The food, beverages and tobacco products category and the non-metallic mineral products category, which increased by 7.5 per cent and 5.6 per cent respectively, were the major contributors to value addition in domestic market oriented industries. Meanwhile, the fabricated metal products, machinery and transport equipment category recorded a favourable growth of 8.8 per cent during the year.

Chart 2.3 Value Added in Manufacturing Sector (2002 Constant Prices)

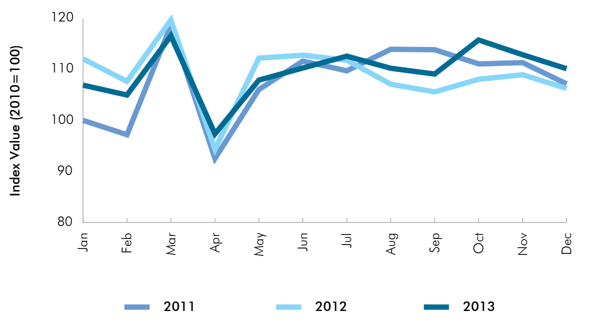


Factory Industry Production Index (FIPI)

The Factory Industry Production Index (FIPI), an indicator used to measure the quantity of output in factory industry, recorded an overall growth of 0.8 per cent in 2013, as a net result of some sub-sectors growing rapidly while several other sub-sectors recording a slower growth[1] . A pick-up in external demand, favourable domestic macroeconomic environment together with policy initiatives undertaken by the government to enhance domestic value addition and foster hi-tech production, spurred activity in the factory industry sector. Further, an improvement in the external demand with the gradual recovery of the global economy, largely in the USA and Euro area, contributed to the growth in output. Export market oriented factory industries such as wearing apparel and rubber products were the major drivers of FIPI growth in 2013. Emerging industries such as ship repairing and building and electrical equipment,

1 The Factory Industry Production Index (FIPI) is computed covering 17 major sub-sectors and weights assigned to these industries use 2010 as the base year. However, significant structural changes seen in the economy since then have resulted in emerging new industries with relatively higher weights, while the significance of some of the existing industries in the sample has declined. These structural changes will be taken into account in the next revision to the FIPI.

Chart 2.4 Factory Industry Production Index (2010 = 100)



which cater largely to the export market, also recorded a high growth during the year. Production of milk powder, wheat milling, beverages, tobacco, fertilizer and non-metallic mineral products slowed down during 2013. Domestic market oriented industries such as bakery products, processed meat, confectionary, prepared meals, leather products, footwear, refined petroleum products, pharmaceuticals, basic metal products showed a favourable growth during 2013.

The wearing apparel sub-sector, which is the second largest sub-sector in the index, played a major role in enhancing factory industry output during the year. Accordingly, the output of the wearing apparel sub-sector recorded a significant growth of 6.7 per cent in 2013 compared to 4.2 per cent in 2012. Greater backward integration, acquisition of expertise knowledge, production of items in the higher end of the value chain, University-Industry-Government (U-I-G) linkages and Sri Lanka's reputation as a reliable supplier of quality garments at competitive prices in international markets enabled the textile and wearing apparel industry to maintain a high growth momentum in traditional markets, while measures taken to diversify export destinations to other non-traditional markets further increased wearing apparel exports. Further, the unstable situation seen in Bangladesh's apparel industry resulted in an increase in new orders to the Sri Lankan wearing apparel sub-sector. Despite the unfavourable conditions that prevailed in global markets the apparel sub-sector remained resilient due to various tax incentives given to this sub-sector, and the conducive business environment that prevailed during the year as well as the prudent and timely measures adopted by private sector industrialists. Moreover, green manufacturing methods and waste management methods adopted helped garment exporters to build their market image in the international market. Meanwhile, the textile products sub-sector recorded a 12.8 per cent growth in 2013 with a significant increase in demand for locally manufactured textile inputs from the wearing apparel sector and increased demand for local fabrics from tourists.

The rubber and plastic products sub-sector expanded despite various challenges faced by the industry in 2013. The output of rubber

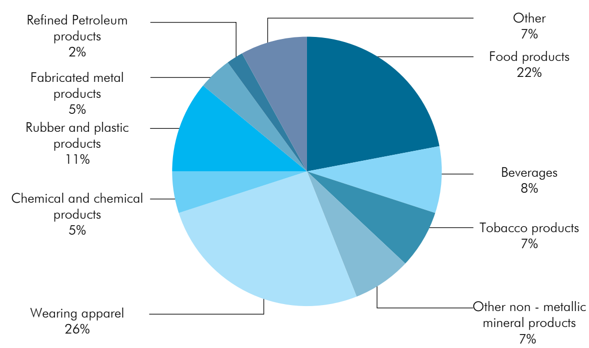
Table 2.7 Factory Industry Production Index (FIPI)
2010 = 100

Division (Weight in the FIPI is given within parentheses)	Index 2012 (a)	Index 2013 (b)	Year-on-year Change %
1 Food Products (23.7%)	108.5	105.3	-2.9
2 Beverages (8.1%)	107.4	103.0	-4.1
3 Tobacco Products (8.4%)	99.9	96.7	-3.2
4 Textiles (1.6%)	113.9	128.5	12.8
5 Wearing Apparel (23.1%)	118.5	126.5	6.7
6 Leather and Related Products (0.8%)	93.1	98.3	5.6
7 Wood and Products of Wood, except Furniture (0.1%)	98.4	114.6	16.4
8 Paper and Paper Products (0.1%)	98.8	127.0	28.5
9 Printing and Reproduction of Recorded Media (0.7%)	106.3	110.3	3.8
10 Refined Petroleum Products (2.2%)	81.3	83.4	2.6
11 Chemicals and Chemical Products (6.3%)	77.6	74.1	-4.5
12 Pharmaceuticals, Medicinal Chemical and Botanical Products (0.1%)	138.8	185.1	33.4
13 Rubber and Plastic Products (10.5%)	116.9	118.2	1.1
14 Other Non-metallic Mineral Products (7.2%)	117.5	103.2	-12.2
15 Basic Metals (1.0%)	99.0	100.0	1.1
16 Fabricated Metal Products, except Machinery and Equipment (3.8%)	111.7	136.5	22.1
17 Electrical Equipment (2.3%)	98.4	107.6	9.4
Factory Industry Production Index	**108.8**	**109.6**	**0.8**

(a) Revised
(b) Provisional
Note: Industrial Production Index (IPI) has been renamed as Factory Industry Production Index (FIPI) in 2013.

Source : Central Bank of Sri Lanka

Chart 2.5 Composition of Factory Industry Production Index (FIPI) - 2013



products recorded a moderate growth of 4.6 per cent, supported by an increase in international demand for rubber tyres, tubes and other rubber based products towards the latter part of 2013. Exports of solid tyres and air tyres, which largely contribute to the output of rubber products, increased due to favourable global developments with a pickup in factory industry output in the USA and EU regions buttressed by a sharp growth in the automobile industry. Moreover, the external demand for rubber gloves also remained satisfactory during 2013, underpinning the growth in the manufacture of industrial, surgical and household gloves to the export market. These favourable developments took place despite a temporary shortage of raw rubber in the local market due to adverse weather conditions, a factory closure due to environmental pollution concerns and an increase in energy costs. The high cost of raw materials and the increase in energy costs, however, had an adverse impact on industry margins during the year. Meanwhile, production of plastic products as reflected in the FIPI, which is primarily a domestic market oriented industry, grew sluggishly in 2013 dampening the overall growth in the rubber and plastic products sub-sector.

The fabricated metal products sub-sector, which mainly comprise ship building and ship repairing, recorded a favourable growth in 2013. The continued growth in demand for Sri Lankan products is mainly due to the high quality of vessels delivered to the international market and cordial long term relationships established with regional clientele. Hence, despite a slowdown in demand from the EU region for leisure boats and lower shipping traffic due to subdued global trading activities, this sector recorded a positive growth of 22.1 per cent during the year. With the expansion of ports and the introduction of free port facilities and the government's current policy thrust in supporting heavy industries, the ship building and repairing sub-sector is expected to grow further in the coming years.

Production in the refined petroleum products sub-sector, which consists entirely of refined petroleum products of the Ceylon Petroleum Corporation (CPC), recorded a moderate growth in 2013. Despite the imposition of US sanctions on Iran in 2012, production in this sub-sector recorded a favourable growth of 2.6 per cent in 2013 largely due to uninterrupted supplies of crude oil from alternative sources such as Oman and the UAE. The shift to alternative sources of crude oil led to lower capacity utilisation and reduced throughput levels during the early part of the year. However, with the identification of crude oil blends that are more suitable for the refinery, towards the latter part of the year, refinery yield of higher end products such as petrol and diesel improved. Nevertheless, favorable weather conditions, which resulted in a significant increase in hydro power generation, lowered the fuel requirement for power generation, slowing the overall growth of this sub-sector.

Food products sub-sector recorded a mixed performance in 2013 as reflected in the FIPI. The output of food products such as bakery products, sugar, cocoa, chocolate, sugar confectionary and prepared meals, which accounts for nearly 43.7 per cent of the food sub-sector, increased in 2013 recording a growth of 5.4 per cent.

Preparation and preservation of meat recorded a growth of 2.7 per cent. These favourable growth trends were mainly due to an increase in demand from tourist consumption and rapid expansion of new products to the market. However, output growth in dairy products, starches and starch products declined during the year. The output of dairy products, which use imported milk powder contracted due to higher tariffs on milk powder imports imposed by the government to promote local dairy production. This situation was further aggravated with the removal of dicyandiamide (DCD) contaminated milk products from the market in 2013. However, local milk industries recorded a growth during the year benefiting from the supply shortages in the milk powder industry. Production of starches and starch products declined during the year due to increased market competition and import restrictions imposed on wheat flour by a major trading partner, leading to a drop in export demand.

Beverages and tobacco production slowed down in 2013. Demand for high priced locally manufactured hard liquor products declined significantly as a result of an increase in excise tax which led to an increase in liquor prices. However, this phenomenon together with an increase in the number of raids carried out on illicit liquor supplies had a positive impact on the demand for less expensive hard liquor products, which recorded a considerable growth. Similarly, the output of malt liquor increased in 2013 due to higher consumer preference. The output of mineral water and bottled water recorded a growth during 2013. However, output of soft drinks as reflected in the FIPI slowed down during the year. The tobacco sub-sector contracted by 3.2 per cent in 2013 due to lower demand for tobacco products. Higher excise taxes on cigarettes resulting in higher cigarette prices and public health concerns relating to tobacco consumption reduced the demand for tobacco.

Production in the chemical and chemical products sub-sector showed a mixed performance during the year. Government initiatives to promote the usage of organic fertilizer in the cultivation process reduced the demand for chemical fertilizers. Lower output of soap, detergent, paint and varnish products as reflected in the FIPI resulted in a contraction in the output of chemical and chemical products sub-sector during the year. This was partly due to increased competition from imported products in the market.

The output of non-metallic mineral products showed a lacklustre performance in 2013. As reflected in the FIPI manufacture of clay building materials such as roofing tiles recorded a favourable growth during the year. However, output of porcelain and ceramic products slowed down during the year adversely affected by higher energy costs and a slack in export orders. Further, output of cutting, shaping and finishing of diamonds recorded a decrease during the year.

Production in the electrical equipment sub-sector increased significantly recording a growth of 9.4 per cent during 2013. Developments in the construction sector, together with an increase in local and international demand for high quality products facilitated the higher production of electrical cables and other electrical products during the year. This sector, which is at an incipient stage of development, has ample room for expansion supported by tax incentives and by establishing a brand image in international markets.

Industrial Policies and Institutional Support

The current industrial policy of the government is focused on the creation of a globally competitive and knowledge based manufacturing industry sector, with the maximisation of value addition in exports. In this regard, the Ministry of Industry and Commerce has reformulated its strategy to sustain Sri Lanka's industrial competitiveness in a dynamic local and global environment. Much effort has been taken to transform the current 'resource based-labour intensive' manufacturing industry to a 'knowledge based-technology intensive industry' by developing the technology base of the industry sector and encouraging the production of internationally competitive high value added branded products. Further, increased focus was placed on developing Small and Medium Enterprises (SMEs) through technology infusion, women entrepreneurship development and greater financial inclusion.

The government continued its regional industrial development policies during 2013 through the line ministries and other state institutions. The Ministry of Industry and Commerce (MIC) continued to address the issue of inadequate infrastructure in the regions through its regional industry development programme with the establishment of industrial estates. Industrial estates provide common facilities such as land, electricity and water, concessionary rates on land lease rentals and other tax incentives to reduce the initial set up costs to industrialists. The MIC has so far established 27 industrial estates in 18 districts under this programme. In 2013, construction work in respect of Stage II of the Mathugama Industrial Estate commenced. Industrial estates are also being established in the Northern and Eastern provinces in parallel to the "Wadakkil Wasantham" and "Nagenahira Navodaya" programmes to support industrialists in these regions. Accordingly, about 70 per cent of the land development of Stage II of the Trincomalee Industrial Estate was completed in 2013, while the development work of the Mannar Industrial Estate progressed. The Board of Investment of Sri Lanka (BOI) has approved the establishment of two garment factories in the Mannar Industrial Estate providing 2,500 employment opportunities, trial production of which has commenced. Meanwhile, the MIC has facilitated the construction of three garment factories at the Ampara Industrial Estate. Further, several other locations have been identified to establish Industrial Estates including Vavuniya, Batticaloa, Pallekele and Mullattivu.

The Ministry of Traditional Industries and Small Enterprise Development (MTISED) took measures to promote regional industrialisation through the development of Small and Medium Scale (SME) industries during 2013. The MTISED continued activities related to the reactivation of the Achchuveli Industrial Estate, which is the first of five industrial estates dedicated for SMEs. MTISED also took initial steps during 2013 to upgrade and modernise 20 Main and Mini SME Industrial Estates including Ekala, Pallekelle, Horana, Pannala and Panaluwa. Meanwhile, district offices established in Mannar, Mullattivu and Kilinochchi districts under the purview of the Industrial Development Board (IDB), commenced activities in 2013. These district offices engage in work relating to the setting up of self-employment units and new enterprises by providing technical, marketing, entrepreneurial and other industry related assistance.

The government carried out numerous programmes for the development of the SME sector through the National Enterprise Development Authority (NEDA). The NEDA, which is the central authority overseeing activities of SMEs in the country, conducted sector development programmes in the dairy and floriculture sectors providing necessary training and capacity development. Further, a programme aimed at converting job seeking graduates into entrepreneurs was initiated by NEDA with the provision of financial assistance to start up a business. Increased emphasis was given for women entrepreneurship development through the Women Entrepreneurship Development Programme (WEDP). Lack of entrepreneurial capacity has been identified as a prime reason for failure of SMEs to meet their financial obligations. NEDA has initiated the conduct of training programmes in entrepreneurship development through financial institutions such as the Lankaputhra Development Bank (LDB) and the Rural Development Bank (RDB). NEDA also engaged in SME export development by facilitating business delegations to find export markets. A delegation of 15 businessmen participated at the Bangkok trade fair under this programme in 2013. Meanwhile, Geographical Cluster Development programmes aimed at supporting SME industrialists continued during 2013. Under this programme, thrust sectors such as wood furniture, coir, handicraft, light engineering and handloom have been identified in selected districts based on the availability of raw materials, labour skills and other locational advantages and necessary support provided. District Enterprise Forums (DEFs) programme of the NEDA, which supports SMEs by channelling SME issues to decision makers through divisional secretariat level enterprise forums, continued during 2013. Further, steps were taken to formulate a SME Policy with the assistance of the GIZ of the German Federal Government and a draft policy paper has been completed.

Increased focus was given to developing technology based SME enterprises in the country during 2013. The preliminary activities with regard to the establishment of a Technology Development Fund (TDF), which is aimed at facilitating technology based SME enterprises, was carried out during 2013. Preliminary steps to establish Technology Business Incubators (TBIs) and technology transfer centres were taken by NEDA in association with the University of Peradeniya and University of Wayamba, with the support of MIC. The Industrial Development Board (IDB) continued to support industrialists in the Micro and SME sectors through the provision of technological assistance to start up, expand and modernise their businesses. Accordingly, the IDB provided technology training with the conduct of 192 technology transfer programmes to develop Micro businesses and SMEs in Sri Lanka during 2013.

Industrial chambers conducted various programmes during 2013 to support local industrialists dispersed island wide. These included training programmes, seminars, workshops, trade fairs and award ceremonies to support SME industrialists. The Sri Lanka Chamber of Small and Medium Industries (SLCSMI) continued the 'Viyaparika Saviya' programme by providing services of the chambers to Micro and SME industries, which were identified through the regional branches of a commercial bank. Further, SLCSMI conducted the "Industrial Excellence Award 2013" for industrialists in the SME sector including the Northern Province.

Several measures were carried out by state owned institutions to improve productivity and minimise wastage during 2013. The MIC continued its productivity improvement and waste management programmes in selected factories through energy audits and implementation of technical solutions. Meanwhile, under the industrial waste management programme, a walk through survey has been carried out in the Dankotuwa Industrial Estate and cost estimations prepared. The Sri Lanka Institute of Textile and Apparel (SLITA) carried out productivity improvement and skill development training programmes for SMEs in the textile, wearing apparel and footwear sectors during 2013.

The government introduced several measures in the 2014 Budget to promote local value addition and expand domestic industries. Cess rates on selected product imports in the food, beverages, chemical, rubber, basic metal and fabricated metal sectors were increased to encourage local value addition. Likewise, customs duty on importation of selected machinery such as tea machinery, tractors and wheel barrows was increased to encourage domestic value addition in the heavy industry sector, while encouraging backward integration in the agricultural sector. Similarly, customs duty on imported boats was increased to promote the local boat building industry. Further, customs duty on inputs to selected industries such as the manufacture of confectionary and branded items was also revised downwards. Solar control films was exempted from customs duty to encourage energy saving and green manufacturing methods. The Special Commodity Levy (SCL) on butter, yoghurt, dried fish, sprats, canned fish and Maldive fish was increased to enhance demand for local substitutes and uplift SMEs engaged in these sectors. A negative list of items for BOI projects was established with the objective of promoting local industry engaged in the production of construction related raw material and accessories.

The government took measures in line with its science and technology policy to create a technopreneurial culture aimed at increasing high tech industrial exports of the country. Accordingly, a Coordinating Office for Science, Technology and Innovation (COSTI) was established to facilitate the coordination and monitoring of science, technology and innovation activities in the country with a view to promoting value addition and commercialisation in line with the National Science, Technology and Innovation Strategy of Sri Lanka. The National Regulatory Framework for Nanotechnology innovations and applications designed by the National Science Foundation (NSF) with financial support from the International Development Research Centre (IDRC- Canada) was completed in May 2013. A fully fledged Nanotechnology Centre of Excellence (NCE) with a Nanoscience Park was declared open in October 2013 in Homagama facilitating strategically focused research and development initiatives. Research and development undertaken by the Nanoscience Park to date covers the focus areas of apparel, agriculture, nutraceutical, water purification and mineral resources. The Nanoscience Park has acquired a number of international and local patents and commenced pilot production of one product by end 2013.

The Joint Apparel Association Forum (JAAF) has been instrumental in formulating strategies for the development of the apparel sector. The apparel industry, which is faced with constant challenges from low cost manufacturing countries, is expected to benefit from the commencement of free port activities, the proposed Free Trade Agreement (FTA) between China and Sri Lanka and cost cutting and energy saving measures implemented by industrialists. The free ports facility in Colombo is expected to facilitate entrepot trading, which will attract new businesses to Sri Lanka from neighbouring countries. Improved trade relations with countries such as China and Japan are expected to open up new markets for Sri Lankan apparel exports.

The legal framework to develop Sri Lanka as a Commercial Hub was enacted in 2013. Accordingly, the Finance Act-Commercial Hub Regulation No.1 of 2013 was gazetted subsequent to the enactment of the Finance Act No. 12 of 2013. This regulation has declared Colombo and Hambantota Harbours as free ports, while the Katunayake Export Processing Zone (EPZ), Koggala EPZ, Mirijjawila EPZ and Mattala Rajapakse International Airport (MRIA) have been declared as bonded areas. Mirijjawila EPZ and Mattala Rajapakse International Airport declared as specified bonded areas in this regard are dedicated specifically for carrying out entrepot trade. Katunayake and Koggala EPZs have been declared as designated bonded areas and will engage in all activities related to free ports and bonded areas. The free ports and bonded areas have been established to facilitate entrepot trade, logistics services and multi country consolidation, off-shore business, front end services to clients abroad and the operation of headquarters for management of billing operations and finance supply chain. Any new enterprise established or incorporated in Sri Lanka for these activities with at least sixty five per cent of its total investments from foreign sources and total turnover from the export of goods and services are eligible for exemptions from customs duties, VAT, NBT, SCL, PAL and excise taxes, exchange control and trade regulations.

The Export Development Board (EDB) continued its activities to promote exports during 2013. The EDB participated at trade fairs and exhibitions during the year and engaged in various market diversification strategies. Accordingly, the EDB in collaboration with the Boat Building Technology Institute, focused on attracting new markets for the boat building industry in the wake of declining demand from the European market. Further, the IPC[2] Technology Meet was organised for electronic exporters in Colombo to increase awareness on Global Best Practices in the electronics industry with a view to enhancing the export capability of the electronic sector.

The National Gem and Jewellery Authority (NGJA) has taken numerous measures to develop the gem and jewellery industry in 2013. Amidst various challenges faced by industrialists in this sector, the NGJA took steps to promote local products in trade fairs and exhibitions held in countries such as USA, China, India and Singapore and are currently discussing opportunities for expanding export of Sri Lankan gems to China with the signing of the Sri Lanka-China Bilateral Trade Agreement. Meanwhile, NGJA took preliminary steps to upgrade gemmological laboratories with the installation of modern and efficient lab equipment of an international standard. Steps to promote environmentally friendly gem mining taken in 2012 through the preparation and enforcement of rules and regulations and the provision of approvals and technical consultancy services with regard to mechanised mining were continued during 2013. Further, the NGJA took steps to rehabilitate damaged and destructed areas by conducting tree planting campaigns. Likewise, NGJA has identified the Wayamba Jewellery Craftsmen Association to donate modern machinery, tools and equipment to distribute among their membership consisting of SME scale jewellery manufacturers in order to increase output in this sector.

Cottage Industry

The cottage industry sub sector expanded by 5.1 per cent during 2013 over the 4.6 per cent growth recorded during 2012, benefitting from the initiative taken by the government to develop entrepreneurship in the country. Continuous effort through diversified programmes initiated by the Ministry of Traditional Industries and Small Enterprises Development through its implementing agencies such as Industrial Development Board, National Craft Council contributed immensely in sustaining the growth of this sub sector. National and district level exhibitions and trade fairs organized contributed in access to potential markets, providing knowledge on technology, financial services and training opportunities. The National Industrial Production Village Development Programme and Development of Traditional Handicraft Villages which is in line with the government objective of establishment of 60,000 sustainable cottage industries by 2016 also contributed in maintaining growth within this sub sector. Further, polices proposed by the government through 'Divi Neguma' national

[2] The IPC is a global trade association serving the printed board and electronic assembly industries, their customers and suppliers and is the leading source for industry standards, training, market research and public policy advocacy.

programme on cottage industry will also provide impetus to sustain the positive growth momentum observed within this sub sector in the future.

Electricity, Gas and Water

The electricity, gas and water sub sector grew by 10.3 per cent in 2013, compared to the growth of 4.2 per cent recorded during the corresponding period of 2012. This growth was largely supported by an 11.3 per cent increase in the electricity sub sector, which has the largest share within the electricity, gas and water sub sector. A significant growth of 110.1 per cent in hydropower generation supported by favourable weather conditions over the low base of the previous year, along with the 42.8 per cent contraction of high cost thermal power generation due to increased reliance on hydropower, contributed to this high growth in value added within the electricity sub sector. Furthermore, the addition of the Upper Kothmale hydropower plant to the national grid during the second half of 2012, also contributed to the high value added in the electricity sub sector. Meanwhile, the gas sub sector expanded by 1.6 per cent during the year, mainly on account of the expansion in industrial consumption. Supported by the 2.8 per cent increase in the volume of water distributed by the National Water Supply and Drainage Board (NWSDB) and the 7.6 per cent increase in consumer accounts of the NWSDB, the water sub sector grew by 3.8 per cent. The establishment of water treatment plants and the implementation of new water supply projects, will further contribute to enhancing the value added of this sub sector.

Construction

The construction sub sector continued to expand recording a growth of 14.4 per cent during 2013 over the impressive growth of 21.6 per cent recorded during 2012. Public sector investments in the highways, rail roads and transport sector development projects such as phase two of the Southern Expressway, the Colombo - Katunayake Expressway, the Colombo Outer Circular Highway Project and the Northern Railway Project as well as port development projects contributed to sustaining the growth momentum in this sub sector. Road network improvement and reconstruction projects together with regional infrastructure development projects that focus on promoting inclusive growth such as ‘Gama Neguma’ and ‘Maga Neguma’ further contributed to the growth momentum observed in this sub sector. Building construction, which is a major component within the construction industry mainly contributed to the positive trend observed in the sub sector with the construction of mega hotel projects, condominiums and housing units. Private sector involvement in housing development projects was reflected by the 9.1 per cent growth in loans and advances for the housing sector by commercial banks while the public sector was also involved in housing development projects such as the ‘Janasewana’ housing programme, focusing more on rural housing development. Growth in this sector was also reflected by the movement of the import volume index of building materials which grew by 11.9 per cent. Reflecting the active involvement of the private sector towards the growth in the construction industry, loans and advances granted by commercial banks to the private sector for construction purposes grew by 16.6 per cent in 2013. With the price increases of raw materials and labour in the industry, the cost of construction rose by 7.2 per cent as indicated by the growth in the cost of construction index compiled by the Institute of Construction, Training and Development (ICTAD). The rise in labour costs in the construction sub sector reflects the lack of labour to meet the demand arising from the expansion in the industry. Similarly, the cost of raw materials has also risen during 2013 due to an increase in demand. This

BOX 2 National Accounts Compilation

The estimates on National Accounts commenced with the necessity of assessing the economic progress of a country during a given period. These monetary estimates provide a systematic summary of all economic transactions in the country with relevant sectoral breakdowns. They form the basis for identifying developments in various sectors of the economy and formulation of appropriate future policy measures, while facilitating comparisons between economies. This process of compiling National Accounts Statistics was formalised by the United Nations Organisation with the publication of the Measurement of National Income and the Construction of Social Accounts in 1947 (1947 Report).

Evolution of System of National Accounts (SNA)

Subsequent to the 1947 Report, the United Nations published a more comprehensive set of standard accounts and tables in 1953 termed the System of National Accounts (1953 SNA) where widely applicable concepts and definitions were presented. In addition, taking into account country experiences when implementing the 1953 SNA, a revised version was issued in 1960. This was followed by the 1964 revision of the SNA which improved its consistency with the Balance of Payments Manual of the International Monetary Fund (IMF). The 1968 SNA expanded the horizons of National Accounts compilation by including input-output tables and balance sheets and increased importance in estimating at constant prices. The 1993 SNA was a noteworthy leap in National Accounts Statistics as it broadly complemented with other international statistical standards. With the implementation of 1993 SNA, a sequential set of accounts are recommended for the compilation process where Current Accounts, Accumulation Accounts and the Balance Sheet comprise of the main sets. Moreover, the commonly known Current Accounts starts with Production Account which estimates the Gross Domestic Product (GDP), which then flows to the Distribution of Income Accounts that measures total disposable income generated by the economy, and concludes with the Use of Income Accounts which estimates the total expenditure and the savings of the economy. Theoretically, whichever the account, the final estimates should be the same as the value of the GDP should equal to the income earned out of that production and also to the expenditure borne from the same income. The latest of the series, 2008 SNA is an updated version of 1993 SNA which addresses developments brought about by changes in the economic environment, advances in methodological research and the user requirements.

Compilation of National Accounts in Sri Lanka

The Department of Census and Statistics (DCS) being the government statistical agency is responsible for collecting, compiling and disseminating many statistics for Sri Lanka, including National Accounts Statistics. The compilation of National Accounts estimates was commenced on a regular basis since 1947 with the preparation of "The National Income of Ceylon". The estimates were periodically published in the Statistical Abstract and United Nations Year Book of National Accounts. However, since 1970 the DCS started publishing a separate bulletin on National Accounts reducing the periodicity in publishing National Accounts estimates. Nevertheless, these initial attempts only included few statistics such as Gross Domestic Product (GDP), Gross Domestic Expenditure (GDE), imports, exports etc. After the publication of the 1953 SNA, the DCS followed the updated version with further enhancements including summary tables and tables on production accounts, consumption, accumulation and external transactions etc, as guided by the SNA. Afterwards, with the assistance of external establishments such as IMF and Asian Development Bank, Sri Lankan National Accounts Statistics continuously improved parallel to the developments of SNA in terms of concepts, definitions, and classifications of economic activities while suitable base year revisions were carried out over the period. Further, Sri Lanka currently submits National Accounts information to the IMF in compliance with the requirements under Article IV as a participant of the General Data Dissemination System (GDDS) of IMF and is in the process of migrating to the Special Data Dissemination Standard (SDDS) by further improving periodicity and timeliness of provisioning data. The IMF also carries out Article IV consultation missions annually to discuss matters relating to data of member countries, subsequent to which recommendations are usually made to all the member countries on further improving the data quality.

The Compilation Process

Compilation of National Accounts Statistics is a rigorous and complex process which requires expertise in technical skills to collect and compile necessary information and to estimate and disseminate the GDP data within the stipulated time period. DCS has decentralized its network of data collection throughout its Head Office divisions, branch offices as well as through its statistical officers at Ministries, Departments and statutory bodies, District Secretariats, Provincial Councils while also collecting information from external sources. Further, it conducts specific surveys to facilitate the compilation of National Accounts Statistics. Household Income and Expenditure Survey (HIES), Survey of Construction Industries, Annual Survey of Industries (ASI) and Census of Agriculture are some of the field studies that the DCS carries out which feed into the compilation of national income estimates. In addition to these surveys, a large quantum of sector specific information is also collected from various institutions in the country.

Subsequent to the data collection process, a high level of technical expertise is involved in the centralised compilation of estimates as per the System of National Accounts. In the meantime, the IMF technical assistance mission in 2013 has also recognized that Sri Lanka meets most minimum requirements and recommended data sets in terms of Minimum Requirement Data Set (MRDS) for implementation of 1993/2008 SNA, with several exceptions where remedial measures are already being made for most of the concerns.

At present, the DCS compiles annual estimates by production and expenditure approaches while quarterly GDP estimates are available only in production approach. The estimates are made for both current and constant prices on provisional basis initially and subsequent revisions are made when more refined data is available. The information tables include estimates on production by industrial origin and expenditure on consumption, investment and savings etc. The GDP by industrial origin is categorised mainly into three broader sectors namely; Agriculture, Industry and Services which are further disaggregated into about 40 sub sectors, at the time of publication. This disaggregation is based on the current Sri Lankan Industrial Classification of economic activities derived from the International Standard Industrial Classification (ISIC) of the United Nations.

Continuous Improvements in Compilation Process

The DCS is currently upgrading its National Accounts framework with technical assistance from the IMF. Accordingly, DCS had been a partner in the IMF workshops on improving National Accounts compilation techniques and preparation of price indices during 2010-2013 for the countries in the Asia-pacific region. In addition, IMF consultants too had visited the country several times to assist in improving the compilation process. As a result, DCS officers were empowered in areas including compilation of National Accounts estimates and price indices; hands-on experience on using labour force statistics and tax data in case of estimating economic activities which lack comprehensive data sources; revising the base year and rectifying the accounting methodology and preparing a Producer Price Index (PPI).

As per the preparations, an array of reforms in compilation of National Accounts in Sri Lanka is scheduled from 2014 onwards along with revising the base year to 2010 from the present 2002 base year. Accordingly, DCS has already made arrangements to publish GDE estimates on a quarterly basis from the first quarter of 2014. The production approach estimates are to be prepared at basic prices and the latest industrial classification (ISIC R.4) would be implemented in order to capture all the economic activities of the country and expanding the production boundary. Further, all the National Accounts Statistics would be separately estimated according to institutional sector classification of the economy. Moreover, output of each economic activity would be separately estimated according to its purpose of production, on market, non-market and own consumption basis. In addition, appropriate ad-hoc surveys are to be initiated to revise input ratios and to estimate the household sector production output using labour force and the employment category. The Supply and Use table is also to be re-estimated at least every five years. Moreover, DCS plans to publish annual estimates on Provincial Gross Domestic Product (PGDP) of the country with these developments.

Furthermore, arrangements are made to ensure that the compilation process adheres to the estimation procedure as stated in the SNA and to ensure that the recommended sequence of accounts is followed. Therefore, the banking sector value added would be estimated using Financial Intermediation Services Indirectly Measured (FISIM) as recommended by the SNA. Further, the adjustments made to taxes and subsidies as well as to the trade and transportation charges are also to be revised according to the new recommendations.

In facilitating these developments, DCS is presently conducting the Economic Census 2013/14 in strengthening the coverage of economic activities in all sectors of the economy. After concluding the institution listing process, detailed data collection on economic activities would take place. The data collection procedure follows the ISIC R.4 classification which would be more accommodating in including this information in the estimation process. In addition, DCS had already commenced the initial steps in establishing a Statistical Business Register which could conveniently serve as an accurate data source.

With the synchronised effect of these developments, it is expected to cover the maximum number of economic activities, improve the current estimation techniques, minimise the use of ratios and update the existing ratios with the help of surveys. As a result, the National Accounts Statistics of Sri Lanka is expected to comply with the 2008 SNA in the future and it is the responsibility of all the stakeholders to assist in this process which would lead to the availability of even better National Accounts Statistics.

highlights a future challenge that the sub sector would have to address through the introduction of new technologies along with improvements of raw materials and labour productivity.

Services

The Services sector continued to be the dominant sector of the economy with a share of 58.1 per cent of GDP and achieving a commendable growth of 6.4 per cent during 2013 compared to the 4.6 per cent growth recorded in 2012. The growth in the sector was buoyed by the noteworthy expansion of all major sub sectors. The expansion of the transport sub sector in line with increased internal mobility was a main contributor to growth. The strong recovery of the wholesale and retail trade sub sector spearheaded by the revival of external trade activities due to the improved sentiments in the global markets; especially during the second half of the year together with the expansion in domestic trade activities also supported growth during 2013. Meanwhile, the hotels and restaurants sub sector continued to record a healthy growth, while the banking, insurance and real estate sub sector also grew despite the lagged effect of restrictive policy measures adopted in 2012 to stabilise the economy. Further, the post and telecommunication, government and private services sub sectors also contributed positively to the significant expansion of the Services sector during the year. Meanwhile, the performance in the Services sector was largely supported by government initiatives taken towards transforming the country in to a dynamic regional hub, where most of the focus is on the areas of maritime, aviation, commercial, tourism, and knowledge, which are directly related to the development of the Services sector.

Wholesale and Retail Trade

The wholesale and retail trade sub sector recorded a 5.5 per cent growth in 2013 compared to the 3.7 per cent growth in 2012. Being the largest sub sector within GDP, the recovery in wholesale and retail trade sub sector largely supported the overall growth. The performance in export trade sub sector during the second half of the year, due to the recovery in major trading partner economies, together with the increase in the import trade sub sector offset the decline in value added terms during the first half of the year. Meanwhile, the domestic trade sub sector maintained its steady growth largely benefitting from the policy measures adopted to promote local production. Further, declaring Colombo and Hambantota as Free Ports and Katunayake, Koggala and Mirijjawila Export Processing Zones and Mattala Rajapaksa International Airport as Bonded Areas and the streamlining of freight charges during the latter part of the year, is expected to enhance the future growth prospects of the sub sector.

The import trade sub sector achieved a 2.9 per cent growth during 2013 in comparison with the low growth of 1.0 per cent recorded in the previous year. The sub sector recovered during the second half of the year offsetting the setback recorded in the first half of the year. Although, the total import volume index declined marginally, non oil imports grew at a higher rate than in 2012. This was reflected by the growth in the imports of consumer goods along with the improvement in investment goods. However, imports of intermediate goods declined during 2013 mainly due to the contraction in the import of petroleum products used for power generation as a result of the lower dependence on thermal power.

The export trade sub sector registered an impressive growth of 6.7 per cent during 2013 compared to the subdued 0.8 per cent growth recorded during 2012. The growth in the sub sector was primarily achieved due to the considerable expansion in export trade during the second half of the year. Gradual improvements in the global economy including the Eurozone and the United States, which collectively accounts for more than half of the export earnings of Sri Lanka, supported this growth. The export volumes reflected positive developments particularly during the second half of the year according to the growth of the export volume index which recorded a contraction in the previous year. This performance is commendable as the sub sector experienced a few months of negative growth during the first half of the year which was substantially outweighed by the growth experienced during the second half. Industrial exports, which are the highest income earning export segment, experienced some fragility in the first half of the year and recovered during the second half, spurred by garment exports.

The domestic trade sub sector expanded by 6.9 per cent during 2013 marginally above the 6.8 per cent growth recorded during 2012. Continued government support to the Agriculture and Industry sectors, especially to small and medium size enterprises (SMEs), livelihood development projects such as 'Divi Neguma' National Programme and infrastructure development projects supported the growth in the domestic trade sub sector. In addition, the sub sector further benefitted from the tax concessions granted to export oriented companies engaged in manufacturing of garments and ceramic products when supplying a share of their production to the local market. However, the sub sector was affected by supply side constraints during the first half of the year particularly due to the slowdown in agriculture production.

Transport and Communication

The transport and communication sub sector expanded substantially by 9.4 per cent in 2013, against the 6.2 per cent growth recorded in the previous year. This growth was dominated by the expansion in transport activities together with the post and telecommunication sub sectors; the two prime contributors of the sub sector. The high growth in the transport sub sector was due to an increase in demand as a result of high domestic mobility enhanced by the developments in the transport network. Growth observed in the communication sub sector was supported by the demand from value added services with rising income levels of people. However, the cargo handling-ports and civil aviation sub sector continued to slowdown especially during the first half of the year mainly due to the slow recovery in the global economy.

The transport sub sector recorded a high growth momentum during 2013 by registering an annual growth of 9.4 per cent compared to the 6.0 per cent growth recorded during 2012. The development of transport infrastructure in the country through road and railway network construction together with the improvement in the rolling stock of the public sector transport services, contributed largely to the significant expansion in the transport - passenger and goods sub sector. Increased domestic mobility for activities such as tourism and leisure contributed favourably towards growth in the sub sector. Accordingly, passenger kilometres collectively operated by the Sri Lanka Transport Board, private bus operators and Sri Lanka Railways expanded during the year. Meanwhile, passenger kilometres operated by the two national carriers, Sri Lankan Airlines and Mihin Air increased by 4.7 per cent in 2013. Moreover, the Bandaranaike International Airport (BIA) together with the newly opened Mattala Rajapaksa International Airport (MRIA) expanded the service substantially by improving the number of both aircraft and passenger movements handled by the two airports. The passenger kilometres flown by domestic airlines reached 7.8 million, contributing to the value added of the transport sub sector.

The cargo handling, ports and civil aviation sub sector grew by 3.1 per cent during 2013, compared to the 5.7 per cent growth recorded in the previous year. This growth was particularly witnessed during the second half of the year with the recovery in external trade activities. However, the expansion in the second half of the year was not adequate to outweigh the modest first half performance of the sub sector, resulting in a slow growth in 2013 compared to the last year. The Port of Colombo was further strengthened during the year with the inclusion of the Colombo International Container Terminals (CICT) and recorded the highest ever annual container throughput of 4.31 million Twenty Foot Equivalent Units (TEUs), achieving a 2.8 per cent growth in 2013. Domestic container throughput and transshipment volumes (excluding re-stowing) reached annual growth rates of 1.1 per cent and 4.7 per cent, compared to the respective contractions of 2.5 per cent and 1.9 per cent recorded in 2012. Meanwhile, the cargo tonnage handled by the sea ports also recovered towards the second half of the year, supported by both discharged and loaded volumes, parallel to the growth seen in external trade activities. Further, the increase in air cargo volumes by 4.0 per cent during the year reaching 194,039 MT also accompanied the value added of the sub sector.

The post and telecommunication sub sector grew substantially by 11.4 per cent during 2013 compared to the growth of 7.9 per cent in 2012. The continuity in the exponential upsurge in internet connections was observed by the 47.3 per cent growth, which considerably out paced the slight expansion of 1.6 per cent in voice minutes usage, reflecting the recent developments in utilisation of other value added services ahead of voice services. Further, fixed access lines continued their sharp decline due to the dip in wireless subscribers albeit, with the slight increase in wireline subscribers. Meanwhile, the Department of Posts launched the tele-mail service, replacing the telegram service and commenced the Sri Lanka Speed Post Courier service as a pilot project during the year, while continuing the conventional mail and parcel handling services. The substantial growth in this sub sector is vital in transforming the country to a strategically important economic centre of the region; especially to the aspirations in achieving knowledge and commercial hubs.

Hotels and Restaurants

The hotels and restaurants sub sector continued its high growth trajectory by achieving a 22.3 per cent growth during 2013, compared to the 20.2 per cent growth recorded in 2012. The sub sector performed commendably to attract over 1.27 million tourists during the year recording a 26.7 per cent, year-on-year, growth increasing the earnings from tourism to US dollars 1.7 billion. This growth surpassed achievements made in 2012 for the second consecutive year despite the unfavourable global environment. Arrivals exceeded the United Nation's World Tourism Organisation's (UNWTO) tourist growth estimate of 6 per cent for the Asia Pacific region and the 5 per cent growth for the entire world. The coordinated efforts of the relevant authorities, spearheaded by the Sri Lanka Tourism Development Authority (SLTDA) to attract outbound tourists from non-conventional markets was reflected in an increase in tourist arrivals from China and Eastern Europe. Even though, the industry possesses a strong potential within the county, the continuity of the growth momentum is heavily dependent on the industry's ability to cater to the emerging trends in the tourism industry. As a country with a large number of attractions in both natural and cultural resources, Sri Lanka could be further promoted as a niche destination for ecotourism, which encourages more local participation and is more sustainable in the long run than conventional mass tourism. The rising income of the middle class populace of India and China, coupled with Sri Lanka's close proximity to those regions should also be capitalised. Moreover, the recently concluded Commonwealth Heads of

Government Meeting (CHOGM) also gave a rare opportunity for Sri Lanka to reposition itself as a major tourist destination.

Banking, Insurance and Real Estate

Value added in the banking, insurance and real estate sub sector increased by 5.9 per cent during 2013 compared to the 6.7 per cent growth recorded during 2012. The performance of the sub sector reflected the lag effect of restrictive monetary policy conditions adopted in 2012 to stabilise the economy which slowed down private sector credit growth. However, amid the subsequent easing of these measures including the credit ceiling, the credit obtained by the private sector from commercial banks continued decelerating until the turnaround in December 2013 reducing the profitability in the sector. The sharp decline in pawning advances as a result of the decline in international gold prices was also a major contributor towards the slowdown in credit. Further, the narrowing of the interest rate margins, increase in non-interest expenses and provisions and write offs during the period led to decline in profitability of the financial sector. Insurance sub sector profits also declined with high operational costs and the decline in investment income despite the sluggish increase in gross written premiums of both the life and general insurance segments. However, the easing of the monetary policy stance during the year, which led to a decline in the cost of funds for the financial institutions, is expected to be transmitted to the economy via the financial system in due course. Moreover, the high penetration of the financial sector was reflected by the further expansion of the branch network. Further, key reforms were initiated after the budget, to consolidate the financial sector to be more resilient, stronger and better positioned to support the country's economic growth due to the vitality of the enhanced performance of the sector as the facilitator for economic activities.

Government Services

The government services sub sector expanded by 2.8 per cent during 2013 in comparison with the 1.4 per cent expansion recorded in the previous year. The absorption of graduate trainees to the permanent cadre during 2013 was a contributory factor towards the growth of the sub sector. Accordingly, the total public sector employment base increased by 2.7 per cent within the year.

Private Services

The value added in the private services sub sector increased by 7.3 per cent during 2013 compared to the 5.5 per cent growth recorded during 2012. Economic activities such as private education and medical services, contributed substantially to the increase in the value added of the sub sector. Along with the country's rise in disposable income levels and change in people's lifestyles, a noteworthy increase can be expected in the demand for private services.

2.3 Expenditure

The high growth momentum observed in 2013 was attributed to the expansion of both investment and consumption in real terms according to expenditure approach estimates. Expenditure on investment activities increased at a higher rate in real terms when compared to 2012, sustaining the high growth momentum of the economy. An increase in spending on investment activities was witnessed in both the private and public sectors, particularly in relation to construction activities in residential buildings and other construction activities. Consumption expenditure also recorded a real growth supported by increased income levels as reflected through the expansion in domestic output and imports of consumer items during 2013, although the growth slowed down compared to 2012. Meanwhile, the

Table 2.8 Aggregate Demand

Item	Current Market Prices (Rs.mn) 2011	2012 (a)	2013 (b)	Constant (2002) Prices (Rs.mn) 2011	2012 (a)	2013 (b)
A. Domestic Demand						
Consumption	5,536,095	6,295,894	6,934,816	2,422,786	2,555,330	2,638,171
(% Change)	22.4	13.7	10.1	12.9	5.5	3.2
Gross Domestic Capital Formation	1,959,483	2,318,253	2,565,498	827,456	881,173	968,072
(% Change)	26.8	18.3	10.7	7.7	6.5	9.9
Total Domestic Demand	**7,495,578**	**8,614,147**	**9,500,314**	**3,250,242**	**3,436,503**	**3,606,243**
(% Change)	**23.5**	**14.9**	**10.3**	**11.6**	**5.7**	**4.9**
B. External Demand						
Exports of Goods and Services	1,508,565	1,730,467	1,949,267	803,507	804,793	852,276
(% Change)	20.3	14.7	12.6	11.0	0.2	5.9
Imports of Goods and Services	2,460,830	2,766,060	2,775,711	1,190,057	1,196,008	1,192,420
(% Change)	43.1	12.4	0.3	20.0	0.5	-0.3
Net External Demand	**-952,265**	**-1,035,593**	**-826,444**	**-386,551**	**-391,215**	**-340,144**
C. Total Demand	**6,543,313**	**7,578,554**	**8,673,870**	**2,863,691**	**3,045,288**	**3,266,099**
(% Change)	**16.8**	**15.8**	**14.5**	**8.2**	**6.3**	**7.3**

(a) Revised
(b) Provisional

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

impact of decelerated price levels as reflected by the slowdown in growth of the GDP implicit deflator to 6.7 per cent in 2013 from 8.9 per cent in 2012, contributed to the moderation in expenditure estimates in nominal terms. Moreover, the total domestic demand, which is the total consumption and investment expenditure, of the country grew by 10.3 per cent in nominal terms to Rs. 9,500 billion during 2013.

Consumption

Consumption expenditure, the major expenditure category of the economy further expanded by 10.1 per cent in nominal terms to Rs. 6,935 billion in 2013, albeit at a slower pace than the growth recorded during 2012. Within total consumption, private sector expenditure grew at a lower rate when compared to expansion in the public sector during 2013. This expansion in government consumption was buoyed by the growth in expenditure on goods and services, which was mainly supported by the increase in salaries and wages of the government sector. Imports of consumer goods which contracted at the beginning of the year recovered during the course of the year particularly with the growth in other consumer goods imports. Meanwhile, total personal loans and advances granted by licensed commercial banks declined due to the fall in pawning advances, despite the gradual improvement in advances for consumer durables as the year progressed. However, the rise in disposable incomes together with the low inflationary environment that prevailed during the year supported the increase in the purchasing power of consumers.

The food, beverages and tobacco category continued to be the major contributor to Private Consumption Expenditure (PCE) recording a 7.6 per cent growth during the year in comparison with the growth of 7.7 per cent recorded in the previous year. However, as the disposable income levels of the people increase, the share of expenditure on essential items such as food and related items declined from 37.7 per cent in 2012 to 36.9 per cent during 2013. Compared to 2012, the Colombo Consumers' Price Index reflected an increase in the price levels of food and non-alcoholic beverages sub index on annual average basis during the year. Food and drink imports also recovered within the year registering a 6.3 per cent expansion in local currency value terms against last year's contraction of 4.2 per cent. In the meantime, expenditure on clothing and footwear slowed down to

Table 2.9 Composition of Private Consumption Expenditure at Current Market Prices

Item	Share of Total PCE (%)			Rate of Change (%)	
	2011	2012 (a)	2013 (b)	12/11	13/12
1. Food, Beverages and Tobacco	40.4	37.7	36.9	7.7	7.6
2. Clothing and Footwear	5.5	5.4	5.4	13.3	10.0
3. Housing, Water, Electricity, Gas and other Fuels	12.5	12.4	13.2	14.7	17.4
4. Furnishings,Household Equipment and Routine Maintenance of the House	4.3	3.9	3.8	5.4	6.4
5. Health	1.8	1.6	1.6	3.7	11.0
6. Transport	21.1	23.5	23.3	28.8	9.0
7. Leisure, Entertainment and Culture	2.1	1.9	1.9	6.6	9.1
8. Education	0.3	0.4	0.4	26.1	26.7
9. Hotels, Cafes and Restaurants	1.3	1.7	2.0	50.5	29.5
10. Miscellaneous Goods and Services	4.1	3.9	3.8	10.2	7.8
11. Expenditure Abroad of Residents	9.3	11.1	11.8	37.2	17.0
12. Less: Expenditure of Non - Residents	2.7	3.5	4.2	48.9	32.1
Total Private Consumption Expenditure	**100.0**	**100.0**	**100.0**	**15.5**	**9.9**

(a) Revised
(b) Provisional

Source: Department of Census and Statistics

10.0 per cent. This was characterised by the decline in annual average inflation of the category from 9.8 per cent to 5.4 per cent over the year and the significant deceleration in imports of clothing and accessories for consumption purposes both in value and volume terms. However, private expenditure on clothing products were impacted favourably by tax concessions which allowed export oriented clothing manufacturers to sell their products in the local market.

Private consumption expenditure on housing, water, electricity, gas and other fuels expanded by 17.4 per cent in 2013. Accordingly, the share of the category accounted for 13.2 per cent of PCE within the year. Expansion in the electricity and water distribution networks was reflected by the growth in consumer accounts. Further, upward revisions of some administratively determined prices including diesel, petrol, liquid petroleum gas and electricity contributed to the increase in private consumption expenditure, increasing the annual average inflation rate of the sub group to 10.7 per cent during the year from last year's 9.6 per cent. Consequently, the private consumption expenditure on electricity increased during the year albeit the number of electricity units distributed to the domestic sector declined marginally.

Transport expenditure, the second largest expenditure category of the PCE grew at a slower rate of 9.0 per cent in 2013. Bus fares were increased by a relatively low rate of 7.0 per cent at the beginning of November 2013 when compared to the 20.0 per cent increase made during mid-February 2012. Moreover, in general the growth in transportation related expenses had slowed during the year, which was reflected by the drastic drop of the annual average inflation rate of the category to 4.6 per cent in 2013 compared to last year's 21.6 per cent.

Private consumption expenditure on both health and education grew by 11.0 per cent and 26.7 per cent, respectively in 2013. The increased purchasing power of the public has led to the increase in demand for private health and education services. However, the share of both the sectors was still relatively low, mainly due to the role of public sector health and education services.

Spending on leisure, entertainment and cultural activities as well as hotels, cafes and restaurants categories grew in line with the increase in the disposable income levels of the people. With the continuity of the peaceful environment in the country, expenditure on recreational, cultural and sporting activities has improved during 2013. Besides, spending on more formalised services such as catering with the shift in lifestyles and the demand for accommodation services with increased mobility within the country supported this expansion. Accordingly, the PCE stake of the two categories was 1.9 per cent and 2.0 per cent, respectively during 2013.

Government consumption expenditure also expanded by 11.3 per cent during 2013 compared to the growth of 5.6 per cent last year. An increase in the wage bill particularly contributed to this growth. A special allowance of 5 per cent of the basic salary within the range of Rs. 750 and Rs. 2,500 and an increase in the Cost-of-Living Allowance (COLA) by Rs.750 was granted to public sector employees per month, while graduate trainees were absorbed into the permanent cadre which increased government consumption expenditure during the year. Meanwhile, government recurrent expenditure on other goods and services fell during the year. Further, special attention was given towards prudent management of public spending on fuel, electricity, water and transportation expenditure and payment on overtime, in view of containing the recurrent expenditure to the budgeted provisions.

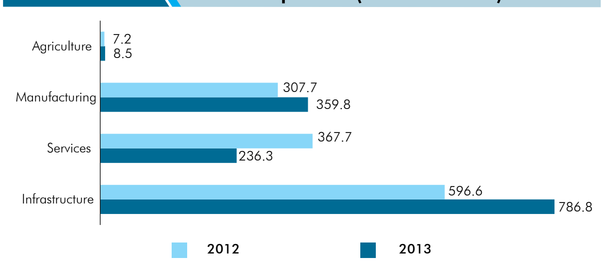
Investment

Investment, which is a major catalyst for future economic growth grew by 10.7 per cent in 2013 over the growth of 18.3 per cent recorded in 2012. The growth observed was mainly driven by the expansion in construction activities which accounts for a major share of investment. This was supported by growth in investments in both residential and other construction activities which include infrastructure development projects. Consequently, total spending on investment was estimated at Rs. 2,565 billion in 2013, which is 29.6 per cent of GDP as compared to 30.6 per cent of GDP in 2012. Meanwhile, investment expenditure rose by 9.9 per cent in real terms as well during 2013. As the full impact of the easing of monetary policy is transmitted to the economy, through relatively low interest rates, it will lead to an increase in resources for investment activities in the future with the expansion in credit growth.

Private sector investment which accounts for 76.8 per cent of total investment grew at a rate of 9.7 per cent in 2013. The continued growth in private sector investments which includes foreign investments reflected improved investor confidence. This was further supported by the easing of the monetary stance adopted during 2013 in order to promote investments. A high level of investment by the private sector was evident in sectors such as housing, condominium projects and mega hotel developments. This was reflected in the flow of investment related raw material to the economy with increased imports of machinery and equipment, and building materials in volume terms during the year.

Foreign Direct Investment (FDI) including loans increased to US dollars 1,391 million during 2013 with inflows to infrastructure, manufacturing and services sectors. FDI inflows for infrastructure development were the largest at US dollars 787 million with a marked growth in inflows to the housing property development and shop office sub-sector. Other major recipients of such inflows during the year were the telephone and telecommunication network and port container terminals sub-sectors. The manufacturing sector received more than 25 per cent of FDI inflows with

Chart 2.6 Foreign Direct Investment of BOI Enterprises (US$ million)



BOX 3 Insight into Global Indices

Global indices rank countries in a diverse range of fields such as international competitiveness, ease of doing business, corruption, economic freedom, rule of law, government effectiveness, political stability, voice and accountability, regulatory quality etc. These country rankings play a useful role in fostering the overall economic progress of a country, since many stakeholders make use of information provided by these indices in making economic decisions. More importantly, investors tend to consider these rankings before they venture into business dealings in another country. Further, Sovereign Rating agencies, international donor agencies and individual governments also make use of these indices to assess and compare the outlook of countries within and across regions.

Glimpse into Compilation

Non-Governmental Organizations (NGOs) and Public Sector Organizations are usually involved in compilation of these indices. Compilation authorities extract required information through a combination of data sources including self-developed surveys or surveys conducted by other firms and individuals, country assessments of commercial risk rating agencies, commercial business information providers, other non-governmental organizations, think tanks and multilateral aid agencies, expert opinions of individuals and scores derived by various other indices together with secondary macroeconomic data of the respective country extracted from data bases such as the International Monetary Fund (IMF) and the World Bank. It is evident that these indices are interlinked with each other as some indices use scores derived by other indices in their compilation process. This extracted information is combined into a single index with sub-indices in certain cases using customized weights and methodologies specific to the respective index.

Issues

Compilations of certain indices are based on perceptions. However, the validity of the use of perceptions is often debatable. Perceptions are typically subjective and reflect personal as well as cultural bias. For instance, the computation of "The Global Competitiveness Index (GCI)" is mainly based on an "Executive Opinion Survey" which uses data on perceptions of a sample of business executives. The Global Competitiveness Report 2012–2013 states that 2012 Survey data collected in Sri Lanka deviate significantly from the 2011 results. Subsequent analysis revealed that this departure was not accompanied by a similar trend in indicators taken from other information including macroeconomic data. Further, the recent developments in the country do not seem to provide sufficient justification for large swings. Therefore, the survey results were not used in computation of the GCI in 2012-2013 index, thus questioning the reliability and validity of perception surveys.

Corruption Perceptions Index (CPI) which is computed by Transparency International is also totally based on perceptions. Arguments for the use of perceptions highlight the fact that concepts such as corruption are largely a hidden activity, which is legally prohibited. Thus, it is argued that it is difficult to be measured other than by means of perceptions. Nevertheless, it should be noted that some sources used for CPI such as Bertelsmann Foundation Transformation Index (BTI) only depend on assessment of an expert, where this assessment is independently reviewed by another expert. Thus, representativeness of this individual judgment for the entire country is questionable. On the other hand, indices such as the Index of Economic Freedom decides a score for certain variables considering a combination of qualitative assessment based on existing secondary data sources from various organizations, news and magazine articles together with a quantitative assessment upon available macroeconomic data. Since, these indices mostly rely on external sources in extracting required secondary information rather than contacting the domestic authorities responsible for such information, discrepancies can be observed in the information used and the most current data available during the time period considered for index compilation.

Way Forward

Despite the issues highlighted, since many of these global indices are reasonably well established in the global context, significant attention should be given to improving a country's position vis à vis such indices. Thus, recognizing the core of these indices, i.e. data sources or feeders may be considered as the first step, and necessary action needs to be taken to develop a continuous dialogue with these compilers with the objective of identifying areas for improvement, providing responses in relation to areas of concern and seeking opportunities to provide explanations for certain departures from global norms. Such a course of action would undoubtedly help improve Sri Lanka's scores in the respective indices. At the same time, if factual errors are identified in the compilation, those too could be discussed with the relevant authorities, and up to date information can be provided, whenever needed. Additional reliable data sources may also be suggested to address any incomplete data sources used, so that, the compilers could incorporate those too in their compilation process.

Central Bank of Sri Lanka (CBSL) has already taken steps to address these issues. For example, CBSL has recognized the importance of carrying out an independent survey among the business community to obtain an overall understanding of the sentiments of business executives in Sri Lanka. This survey is similar to the survey which produces the primary data source for compilation of

GCI and several other indices which extract information from the responses to the questions of this survey, which are relevant for them. The main objective of the CBSL effort is to identify areas which need improvements or policy changes to develop overall competitiveness of the country which may help the country to improve its GCI score. CBSL is also involved in monitoring Sri Lanka's position in the World Bank's Doing Business Ranking which is also a data source used in the preparation of several other indices. In that regard, CBSL acts as the facilitation party between the World Bank and different stakeholders that provide information for the variables tracked in the compilation of the score. The CBSL facilitator role allows the compiling authority and the stakeholders to meet and discuss in a single platform with the main objectives of providing accurate and timely information, identifying areas that could be improved in order to obtain a better score and, very importantly, encourage the relevant authorities to take necessary actions required to expedite such progress.

a positive growth in FDIs to textile, wearing apparel and leather products; chemical, coal, petroleum; non-metallic mineral products; and rubber products sub sectors. Accordingly, FDIs to the manufacturing sector increased by 16.9 per cent to US dollars 359.8 million during 2013. FDI inflows to the services sector amounted to US dollars 236 million during 2013. In terms of origin, China (US dollars 240 million), Malaysia (US dollars 176 million), Hong Kong (US dollars 139 million), Netherlands (US dollars 118 million), Singapore (US dollars 112 million) and UAE (US dollars 111 million) were the major FDI contributors during 2013.

Total estimated local and foreign investments for projects approved under Sections 17 and 16 of the BOI Act were valued at Rs. 502 billion during 2013. The services sector contributed more than 75 per cent to the total estimated investments with a value of Rs. 385 billion. The non-metallic mineral products sector, the largest contributor to the manufacturing sector, recorded an estimated investment of Rs. 27 billion. Projects contracted under Section 17 of the BOI Act, recorded an estimated investment value of Rs. 530 billion during 2013. The cumulative estimated investment of projects that commenced commercial operations under Sections 17 and 16 of the BOI Act was Rs. 4,379 billion as at the end of 2013. The realised investment of projects in 2013 was Rs.1,512 billion. Meanwhile, 52 companies registered under the MIC during 2013 with an estimated investment value of Rs. 49 billion during 2013.

Table 2.10 Investment and Employment in Enterprises Registered Under Board of Investment of Sri Lanka (BOI) and Ministry of Industry and Commerce (MIC)

	No. of Projects		Estimated Investment (Rs.million)						Employment (No.)	
	2012 (a)	2013 (b)	2012 (a)			2013 (b)			2012 (a)	2013 (b)
			Foreign	Local	Total	Foreign	Local	Total		
BOI (Under Act No. 4 of 1978)										
Projects Approved	269	205	471,149	235,799	706,948	288,436	213,076	501,512	58,458	32,405
Under Section 17 (c)	237	169	467,505	235,450	702,955	284,286	212,846	497,132	56,288	30,424
Under Section 16	32	36	3,644	348	3,992	4,150	230	4,380	2,170	1,981
Projects Contracted Under Section 17 (c)	162	138	273,008	132,386	405,394	318,527	211,440	529,967	37,927	35,724
Realised Investment Under Section 17 (d)(e)	2,045	1,997	828,313	452,524	1,280,837	958,958	553,063	1,512,021	n.a.	n.a.
Commercial Operations (d)	2,704	2,656	323,958	4,024,830	4,348,788	338,059	4,040,816	4,378,876	414,436	397,295
Under Section 17 (c)	1,998	1,944	302,517	4,014,708	4,317,224	316,381	4,030,601	4,346,981	381,081	363,789
Under Section 16	706	712	21,441	10,122	31,564	21,678	10,216	31,894	33,355	33,506
MIC										
Projects Registered (d)	2,048	2,100	-	-	153,303	-	-	202,219	303,762	305,161

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

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

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

Public investment grew at a rate of 13.9 per cent accounting for 23.2 per cent of total investment in 2013 reflecting the government's commitment in maintaining public investment at a healthy rate. The public investment programme progressed in line with the five hubs concept which lays out the future direction of economic growth in the country. Government investment activities were concentrated in both economic and social development aspects of the country. Public investment in economic services was mainly directed for the development of national infrastructure. A significant investment was made in the areas of roads, railways, ports, power and energy and water supply and irrigation. Many infrastructure projects were also implemented under the 'Gama Neguma' and 'Maga Neguma' initiatives. The expenditure on social infrastructure was mainly directed at the improvement of the capital infrastructure in education and health services during 2013.

Availability and Utilisation of Resources

The amount of resources available in the economy continued to expand in nominal terms to Rs. 11,450 billion recording a growth of 10.7 per cent in 2013, compared to the growth of 14.9 per cent in 2012, reflecting an increase in demand from the economy. This expansion was

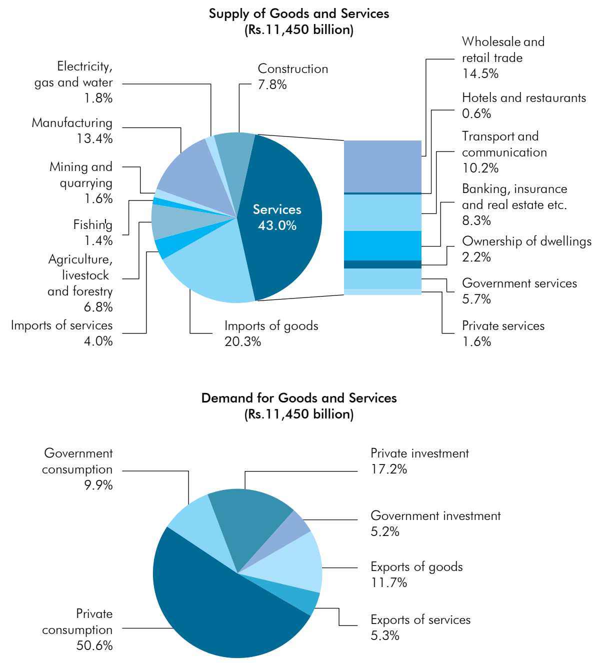
Table 2.11 Total Resources and Their Uses at Current Market Prices

Item	Percentage Share % 2012 (a)	Percentage Share % 2013 (b)	Percentage Growth % 2012 (a)	Percentage Growth % 2013 (b)
A. Resources				
Gross Domestic Product	73.3	75.8	15.8	14.5
Imports of Goods and Services	26.7	24.2	12.4	0.3
Total	**100.0**	**100.0**	**14.9**	**10.7**
B. Utilisation				
Consumption	60.9	60.6	13.7	10.1
Gross Domestic Fixed Capital Formation	21.2	22.2	23.5	15.8
Private	16.4	17.0	20.9	14.9
Government	4.8	5.2	33.6	19.2
Changes in Stocks	1.2	0.3	-31.3	-77.5
Export of Goods and Services	16.7	17.0	14.7	12.6
Total	**100.0**	**100.0**	**14.9**	**10.7**

(a) Revised
(b) Provisional

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

Chart 2.7 The Economy in 2013 (at current prices)



predominantly supported by the increase in domestic resources as reflected by the GDP, while external resources recorded a marginal growth. However, both domestic and external resources in nominal terms grew at comparatively low rate in 2013, with imports recording a considerable moderation. This reflects the increase in contribution of domestic resources in sustaining demand within the economy. Consequently, domestic resources accounted for 75.8 per cent of resource availability while the balance was provided through imported goods and services. Further, in real terms total resource availability increased at a rate of 5.1 per cent compared to the expansion of 4.6 per cent in 2012, reflecting relatively low price levels that prevailed in the economy.

The flow of resources from both domestic and external sources were utilised for the purpose of consumption, investment and exports within the economy. During 2013 the highest growth in utilisation was recorded in exports of goods and services. This resulted in an expansion in the share of exports to 17.0 per cent within total resource utilisation, indicating the increase in external sector demand, particularly during the second half

Table 2.12 Consumption, Investment and Savings at Current Market Prices

Item	Rs. million		% Change		As a per cent of GDP	
	2012 (a)	2013 (b)	2012 (a)	2013 (b)	2012 (a)	2013 (b)
1. Gross Domestic Product at Market Prices	7,578,554	8,673,870	15.8	14.5	100.0	100.0
2. Consumption Expenditure	6,295,894	6,934,816	13.7	10.1	83.1	80.0
Private	5,274,451	5,797,525	15.5	9.9	69.6	66.8
Government	1,021,443	1,137,291	5.6	11.3	13.5	13.1
3. Investment	2,318,253	2,565,498	18.3	10.7	30.6	29.6
Private	1,794,619	1,969,068	15.8	9.7	23.7	22.7
Government	523,634	596,430	27.9	13.9	6.9	6.9
4. Domestic Savings	1,282,660	1,739,054	27.3	35.6	16.9	20.0
Private	1,362,223	1,806,787	28.0	32.6	18.0	20.8
Government	-79,563	-67,733	-39.5	14.9	-1.0	-0.8
5. Domestic Savings - Investment Gap	-1,035,593	-826,444	-8.8	20.2	-13.7	-9.5
6. Net Factor Income from Abroad	-154,925	-234,910	-115.1	-51.6	-2.0	-2.7
7. Net Private Current Transfers from Abroad	688,613	728,679	34.2	5.8	9.1	8.4
8. National Savings	1,816,348	2,232,823	25.4	22.9	24.0	25.7

(a) Revised
(b) Provisional

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

of the year. Meanwhile, the share of investment remained unchanged within the utilisation of resources while the share of consumption declined marginally during the year, reflecting higher growth in external demand and resource utilisation in capital formation activities.

The share of domestic resources increased within the supply of total resources. This rise in domestic resources was supported by all major production sectors in the economy. The share of both Industry and Services sectors grew by around one percentage point in 2013 mainly due to the expansion in the construction and transport sub sectors, respectively. Consequent to the increase in the share of domestic resources the supply of external resources, reflected through imports of goods and services, declined by around two percentage points during the year. Further, the decline in the share of external resources was witnessed particularly in goods, reflecting the increased prominence of the domestic economy in supplying these resources.

Savings

Domestic savings continued to improve in 2013 to 20.0 per cent of GDP with a growth of 35.6 per cent. This was a continuation of the favourable developments seen in 2012. The increase in domestic savings was supported by both the private and public sectors. The healthy increase in private savings together with the decline in government dis-savings during 2013 sustained the increase in the level of domestic savings in the economy. This improvement in domestic savings was reflected in the narrowing of the trade balance deficit with the considerably low growth in imports when compared to the growth of exports in 2013.

The improvement in domestic savings supported the growth in national savings. National savings improved to 25.7 per cent as a percentage of GDP with a growth of 22.9 per cent. As in 2012, the expansion in national savings was sustained by the continued growth in private transfers which grew by 5.8 per cent in 2013. An increase in the flow of workers' remittances was supported by the increase in skilled labour migration. Meanwhile, net factor income from abroad continued to deteriorate due to higher interest payments which dampened the growth in national savings. Further, the resource gap continued to narrow to 3.8 per cent of GDP compared to 6.6 per cent of GDP in 2012. This narrowing of the resource gap highlights the continued improvement in the external current account.