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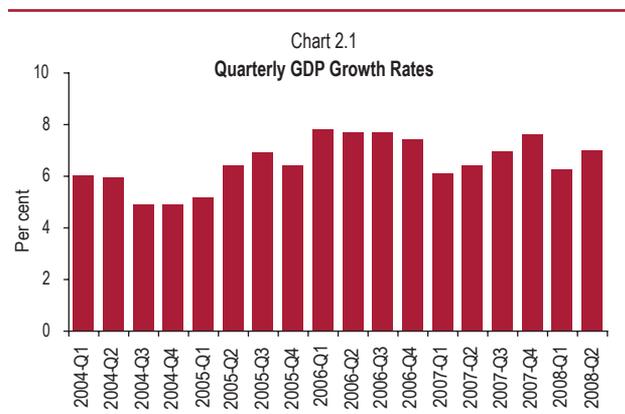
## NATIONAL OUTPUT AND EXPENDITURE

*The economy which grew by over 6 per cent in the past three years is projected to continue the same growth momentum and depict an expansion of around 6.0 - 6.5 per cent in 2008. High and volatile oil prices, the sharp increase in world food prices and the global economic slowdown emanating from the credit crunch in the international front as well as the general increases in price levels and high interest rates are the main challenges the economy had to face during the year. In order to maintain a high growth momentum, the economy is required to find better solutions to its domestic issues and strengthen the economy's withstanding powers against external distresses. Further, it is imperative that, whilst finding a long term solution to the on-going conflict in the country, to create an investor friendly environment in the island for the realisation of better living standards for people of Sri Lanka.*

## Developments in 2008

### Output

- The economy recorded a growth of 6.6 per cent during the first half of 2008 compared to a growth of 6.3 per cent during the first half of 2007. The Services sector, while contributing 60.0 per cent to the overall growth, expanded by 6.7 per cent during the first half of 2008. This is a marginal slowdown over the first half of 2007 during which the Services sector grew by 6.8 per cent. The growth in the Industry sector decelerated to 6.5 per cent from a growth of 7.2 per cent in the first half of 2007. The Agriculture sector recorded a higher growth of 6.6 per cent, mainly due to the recovery in tea and paddy production during the first half of the year.
- The economy is projected to grow by 6.0 - 6.5 per cent during 2008 which is a deceleration from the growth of 6.8 per cent recorded in 2007. The growth momentum of the Industry sector is projected to slowdown from 7.6 per cent in 2007 to 6.3 per cent in 2008. The Services sector is also expected to record a deceleration, with a growth rate of 6.0 per cent. Meanwhile, the Agriculture sector is projected to expand by 6.6 per cent during 2008 compared to the 3.3 per cent recorded in 2007.



## Sectoral Performance

### Agriculture

- The Agriculture sector recorded a higher growth of 6.6 per cent during the first half of 2008 compared to a growth of 2.0 per cent during the corresponding period of 2007 and contributed 12.6 per cent to the overall growth during the first half of the year. The sector is projected to maintain its growth momentum during the second half of the year and record an annual growth of 6.6 per cent.
- Significant increases in Tea, Rubber and Paddy production and a growth in the fish production after complete recovery from Tsunami destruction contributed positively to the growth in the sector. Production of most subsidiary food crops showed a significant growth while vegetable production also increased during first half of 2008 compared to the corresponding period of the previous year. Paddy production in Yala 2008 is also expected to record an all time high level due to favorable weather condition, subsidised fertiliser prices and relatively higher producer prices. However, coconut production reported a decline due to erratic weather conditions during the first half of last year.

Table 2.1  
Agriculture Production Index (1997-2000=100)

Item	2007 First Half	2008 First Half <sup>(a)</sup>	% Change
Agriculture and Fishing	120.2 <sup>(b)</sup>	129.3	7.6
1 Agriculture	123.0 <sup>(b)</sup>	132.5	7.7
Tea	100.0	119.3	19.3
Rubber	130.3	138.8	6.5
Coconut	108.7	92.1	-15.3
Paddy	147.9	159.5	7.8
Other Crops	116.5	131.7	13.0
2 Fishing	145.4	153.6	5.6
Livestock <sup>(c)</sup>	102.9	109.9	6.8

(a) Provisional

(b) Amended

(c) After revising the index with data from Department of Animal Production and Health.

Source: Central Bank of Sri Lanka

## Export Agriculture

- **Total tea production in the first half of 2008 increased by 19.3 per cent in comparison to the first half of 2007.** This is the best ever tea production during the first six months of a year. Tea production was not affected by any labour unrest and work stoppage and no severe influence was recorded from flooding. Output in all three elevations showed increases; high, medium and low grown tea production increased by 15.2 per cent, 16.9 per cent and 21.9 per cent, respectively. The increase in the production is expected to continue during the second half of 2008 as well.
- **Tea prices increased significantly** and the tea industry have achieved the one billion dollar industry status in terms of exports during 2007. During the first half of 2008, the average price at the Colombo Tea Auctions increased by 30 per cent. Prices of high, medium and low grown teas increased by 18.8 per cent, 31.0 per cent and 34.0 per cent, respectively.
- **The rubber production increased by 6.8 per cent during the first half of 2008.** The rise in demand for natural rubber due to escalating global synthetic rubber prices and the trickling down price effect on the local

producers served as an incentive for local rubber production. However, the production was continuously interrupted by the torrential rainfall prevailed during the first half of this year. Despite the rain effect, the rubber production is expected to increase further by 4.3 per cent during the second half of the year.

- **Prices of rubber showed extraordinarily high performance in the first half of 2008** due to tight supplies globally amid higher demand. The average price of RSS (Ribbed Smoked Sheet) No. 1 and No. 2 increased by 33.0 per cent and 33.7 per cent, respectively while prices of both latex crepe IX and crepe No. 1 recorded 29.0 and 30.3 per cent growth, respectively at the Colombo Auction.
- **Coconut production declined by 15.3 per cent to 1,279 million nuts in the first half of 2008.** The decline in coconut production was brought about by severe drought affected the country during first half of 2007 and on influence of the new pest detected in the Southern province of the country. Low level of fertiliser application has also affected coconut production which is estimated to decline by 4.5 per cent to 2,741 million nuts in 2008.
- **However, prices of coconut and coconut-based products at the Colombo Auction increased substantially during the first half of 2008** benefiting from the high domestic demand and supply shortages in the international market. Increasing demand in the world for bio fuel production using coconut oil has escalated the price levels on the coconut and coconut-based products. Average prices of copra, coconut oil and desiccated coconut increased significantly by 97.9 per cent, 88.5 per cent and 68.5 per cent, respectively during the first half of 2008.

Chart 2.2  
Tea Production

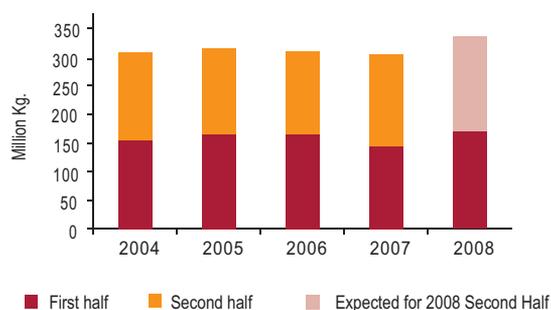
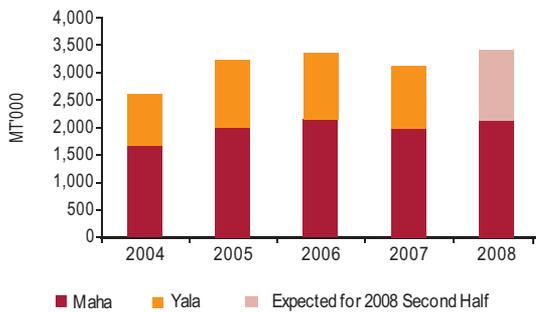


Chart 2.3  
Paddy Production



## Domestic Agriculture

- **Paddy production in the Maha 2007/08 season recorded an increase over the corresponding period last year.** Paddy production enhanced by 7.8 per cent due to higher rainfall received during North-Eastern monsoon period. Some crop damages have also been recorded from certain parts on the North Central and Eastern provinces in particular due to floods. However, the overall paddy production anticipated from greater extent sown had been capable of recording a substantial growth over the previous year. Total extent harvested increased by 6.3 per cent compared to the previous Maha season due to increased prices received by the producers.
- **Paddy production in the Yala 2008 has been projected to increase significantly by 35.8 per cent to around 1.57 million metric tons.** This increase is mainly attributed to higher extent cultivated due to higher producer prices. The government has increased the minimum purchasing price of paddy from the producers to Rs.28.00-30.00 per kg recording an increase of 24.4 per cent compared to previous minimum price level. Total paddy production in 2008 is expected to increase by about 18.2 per cent to 3.7 million metric tons over the paddy output in 2007.

## Fish

- **Fish production increased by 6.8 per cent to 150 million kg during the first half of 2008.** This increase was a combined outcome of an increase in marine fish production by 7.5 per cent and in inland fish production by 1.2 per cent. It is noteworthy that marine fish production leaped past pre-tsunami level despite escalating cost of fuel reflecting the developments in the infrastructure facilities as well as increase in fishing gears. With the liberation of Eastern province and relaxation of security measures, both marine and aquaculture, is expected to increase fish production in the second half of 2008. Annual fish production is expected to be around 314 million kg, a 7.8 per cent growth over the previous year.

## Industry

- **During the first half of 2008 the Industry sector expanded by 6.5 per cent** which was achieved over the growth of 7.2 per cent in the first half of 2007. Most of the sub sectors, namely, mining and quarrying, electricity, gas and water and construction, grew at a higher rate during the first half of 2008 compared to the corresponding period in 2007, albeit at marginal levels. But manufacturing, which is the largest sub sector, recorded a deceleration from a growth of 6.2 per cent during the first half of 2007 to a rate of 4.7 per cent in the corresponding period of 2008. The Industry sector is projected to expand by 6.3 per cent during 2008.
- **The mining and quarrying sector expanded by 16.4 per cent during the first half of 2008.** Both gem mining and other mining activities grew by 12.6 per cent and 18.9 per cent, respectively during the first half of 2008.
- **Processing of plantation crops sub sector grew by 5.6 per cent** mainly due to the expansion in tea production together with

Table 2.2  
The Growth of the Factory Industries in First Half 2008 and Estimates for 2008

	2007		2008		
	Annual	First Half Actual	First Half Actual	Second Half Proj. <sup>(a)</sup>	Annual Proj. <sup>(a)</sup>
Overall Growth of Factory Industry	6.7	6.5	4.7	4.8	4.8
Of which,					
Food, beverages and tobacco products	6.0	5.6	5.3	5.9	5.6
Textiles, wearing apparel and leather products	8.3	8.7	1.4	0.3	0.8
Chemical, petroleum, coal, rubber and plastic products	6.8	6.4	6.6	7.0	6.8
Non-metallic mineral products	5.5	7.1	5.7	5.9	5.8
Fabricated metal products, machinery and transport equipment	5.4	4.9	6.4	6.7	6.6

(a) CBSL Projection

Source: Department of Census and Statistics

the prevalence of favourable price levels in the international markets. Cottage industry sub sector expanded by 4.3 per cent mainly due to the increase in paddy milling activities.

- **Factory industry which contributes around 90 per cent of the manufacturing sector output increased by 4.7 per cent in the first half of 2008 compared with the 6.5 per cent growth in the first half of 2007.** The growth momentum of the industrial sector was affected by the slow growth of the factory industry during the first half of 2008. More than 98 per cent of the factory industry output was driven by major categories, namely food, beverages and tobacco products; textile, wearing apparel and leather products; chemical, petroleum, coal, rubber and plastic products; fabricated metal products, machinery and transport equipment; and non-metallic mineral products.
- **The domestic market oriented industries recorded a moderate growth during the first half of 2008.** The category of the food, beverages and tobacco products which is mainly focusing domestic market grew by 5.3 per cent in the first half of 2008 compared with the 5.6 per cent growth in the first half of 2007 with the challenges of increased cost of production and slowdown of demand arose by contraction of disposable income mainly due to the high inflation. The biscuits, beverages and other food processing industries are in the front line to introduce a range of products with different

tastes and brand names. The domestic milk based industry encouraged by the government to meet the increasing demand of milk and milk based products. The output of liquor and tobacco industries decelerated in the recent past due to the government initiatives to reduce consumption of liquor and health concerns of the consumers. The growth momentum of cement, building material and ceramic industries including floor tiles were affected by the low performances of private construction activities mainly housing and commercial projects due to the increased cost of borrowing and raw materials. The demand arose from resettlement and rehabilitation activities in the Eastern province, continuation of tsunami reconstruction activities and state infrastructure development projects were partly offset the decreased demand of cement, building materials and tiles from the private sector construction activities. The glass manufacturing industry introduced special colored bottles for global market and recorded a better performance in the first half 2008 with increased local and international demand.

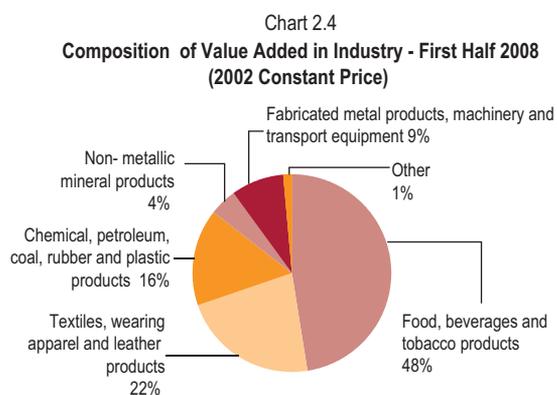
- **The growth momentum of export oriented industries was affected by the unfavourable market conditions due to the slowdown of major economies and decreased competitiveness caused by the escalated cost of production.** Wearing apparel, rubber based products, processed food, diamond processing and machinery and equipment were the

major industries focused export market and contributed more than 65 per cent of total export earnings of the country during the first half of 2008. The rubber based industry recorded a 27.1 per cent export growth in value term during the first half of 2008 with the difficulties of increased cost of raw rubber and other inputs caused by escalated oil prices. The slowdown of international demand for rubber based products and export motivation of raw rubber manufactures affected the growth momentum of rubber based industry. The scope of diamond processing, gem and jewellery industries was affected by the increased prices of raw materials and economic slowdown of major trading partners such as the USA and Singapore. Electric and electronic, and shipbuilding and repairing industries performed satisfactorily during the first half of 2008 by supplying quality products and services.

- **Apparel industry which is the major export oriented industry recorded a low growth of 1.4 per cent during the first half of 2008** due to the increased competition from major competitors such as China, India, Vietnam, Bangladesh and Cambodia. Small and medium manufacturers of the apparel industry suffered from escalated cost of production and increased competition in the international market. In order to strengthen the Sri Lankan apparel industry in the international market, the leading apparel manufacturers have taken steps to introduce green, eco-friendly manufacturing mechanism

with the consideration of global market developments. A joint-venture project initiated in the MAS Thulhiriya Textile Park between local and foreign investors to produce quality wrap-knit by focusing growing demand on high quality wrap-knit in both Indian and Sri Lankan apparel markets. The initial steps have been taken by the Board of Investment (BOI) to develop a Textile Manufacturing Zone with all modern facilities including services is a noteworthy development to promote backward linkages for Sri Lankan apparel industry.

- **Government provides financial, technological and marketing assistances to promote Small and Medium Enterprises (SMEs) in the regional level in line with the policy of minimising regional imbalance of the country.** National Enterprise Development Authority (NEDA) and Lanka Puthra Development Bank are the facilitating agencies to promote SMEs focusing export market in Sri Lanka. The Ministry of Enterprise Development and Investment Promotion initiated Small and Micro Industries Leader and Entrepreneur Promotion Project III (SMILE III) and Environmentally Friendly Solution Fund II (E-Friend-II) with the priority of promoting SMEs in the country.
- **The growth in public sector industries registered a deceleration during the first half of 2008.** Petroleum refinery of the Ceylon Petroleum Cooperation which contributes more than 95 per cent to the public sector industrial output recorded a decline in its output by 3.2 per cent due to the one month closedown for routine maintenance during the first half of 2008. The National Paper Company and Lanka Phosphate Limited performed well and other public sector industries such as Lanka Salt Limited, State Timber Corporation, State Rubber Manufactures and Export Company Limited, Lanka Mineral Sands Limited recorded a negative performance during the first half of 2008.



- **The line Ministries, BOI, Export Development Board (EDB) and other respective authorities were the major channels used by the government to implement the industrial policy.** Promoting industries to introduce cost cutting methods and productivity improvement measures, conducting skill development programmes through the vocational training institutes, supporting to buildup the international image on Sri Lankan products, reducing the disparity of infrastructure facilities among the provinces, providing high quality port and telecommunication services and investment promotion activities were the major initiatives taken by the government through the relevant institutions to accelerate the industrial sector output and mitigate the increased cost pressure during the first half of 2008. The initial steps have been taken to establish the Building Material Free Trade Zone by the Ministry of Trade, Marketing Development, Co-operatives and Consumer Services. The Ministry of Enterprise Development and Investment Promotion has commenced initial works to establish Technology & Enterprise Development Services Centres to facilitate the SMEs. The Ministry of Science and Technology has established Sri Lanka Institute of Nano Technology (SLINTec) and initiatives has been started to establish a Nano Technological Park at Homagama to strengthen the industrial sector. The major players of the industrial sector also adopted several cost cutting and productivity improvement measures to mitigate the cost pressure and increase competitiveness.
- **The value added contribution of the electricity, gas and water sector grew by 4.8 per cent during the first half of the year** with the contribution from all three sub sectors. Electricity, which is the predominant sub sector in the category, grew by 5.3 per cent in value added terms with a generation growth of 2.8 per cent. High value adding hydro power generation which saw a decline during the first half of 2007 recovered with the growth of 24.5 per cent during 2008 due to favourable weather conditions which reduced the need for thermal power generation by 10.4 per cent. Water distribution also increased by 3.0 per cent during the first half.
- **During the first half of 2008, the value added in the construction sector increased by 9.2 per cent over a growth of 9.1 per cent during the corresponding period in 2007.** The growth in the sector was reflected by the increase in both imports as well as domestic production of building material by 7.6 per cent and 6.2 per cent, respectively. Although cement available for construction declined by 6.7 per cent during the first half of the year, the expansion of the sector continued with relatively less cement intensive development activities such as port development, highway construction and power sector development projects. Public sector investment activities are expected to spearhead the growth momentum in the sector during 2008 with rehabilitation and renovation activities specially in the Eastern province particularly during the second half of the year. A slowdown in private sector construction activities is expected with the increase in cost of production together with the decline in demand for real estate projects which is evident from a deceleration in credit to the construction sector.

## Services

- **During the first half of 2008, the Services sector grew at a rate of 6.7 per cent over a growth of 6.8 per cent in 2007.** Most sub sectors, namely transport and communication, banking, insurance and real estate, government and private services decelerated during the first half of 2008 while wholesale and retail trade sub sector recorded a marginally higher growth rate.
- **The trade sector which includes both wholesale and retail trade expanded by 6.0 per cent during the first half of 2008 when compared with a 5.7 per cent growth in the**

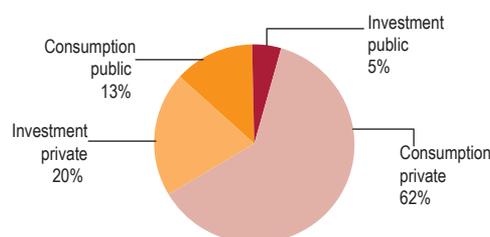
previous year. The growth impetus came from the import trade sub sector which grew by 7.5 per cent during the first six months of the year as reflected by the increase in volume of imports in all the categories i.e. consumer, intermediate and investment goods. However, export sub sector which grew by 8.9 per cent during the first half of 2007 decelerated to a growth rate of only 1.8 per cent mainly due to the slowdown in textile and garment sector resulted from negative developments in the global market. Domestic trade sub sector also decelerated from a growth of 7.7 per cent in 2007 to 6.6 per cent during the first half of 2008.

- The hotels and restaurants sector which contracted by 12.6 per cent during the first half of 2007 recorded a marginal growth of 0.6 per cent during 2008. Tourist arrivals recorded a marginal contraction of 0.2 per cent during the first six months of the year with the decline in arrivals from Asia, North America and Australasia.
- Transport and communication sector was estimated to have grown by 9.6 per cent during the first half of 2008 when compared with a 9.9 per cent growth in 2007. The transport sub sector which includes railway and passenger and goods transport grew by 7.9 per cent over a growth of 8.8 per cent in 2007. The railway sub sector grew by 5.7 per cent and passenger and goods transport sub sector increased by 8.0 per cent. Although the demand for transport services would improve with increased economic activity in the Eastern province, the upward revision in fuel prices and the slowdown in the growth of vehicle stock as indicated by motor vehicle registration during the first half of the year could dampen the contribution of this sub sector.
- Cargo handling – ports and civil aviation sub sector continued to expand during the first half of 2008 at a rate of 10.6 per cent. During the first half of the year total container throughput handled by the Colombo port in terms of Twenty-foot Equivalent Units (TEUs), increased by 10.7 per cent with domestic throughput increasing by 6.7 per cent and transshipment TEUs (which account for over two thirds of the overall throughput) increasing by 12.5 per cent. The sector is projected to expand during the second half of the year with an annual growth projection of 11.8 per cent.
- The post and telecommunication sub sector, continued to maintain the higher growth momentum during the first half of the year with a growth of 22.9 per cent in an environment of increased price competition in the telecommunication sector. The total subscriber base which includes both fixed and mobile connections grew by 42.0 per cent and 39.6 per cent respectively, during the first six months of 2008. Further, internet and e-mail usage also grew by over 48.7 per cent. The sector is projected to expand by 19.5 per cent during 2008 with the entrance of a fifth mobile service provider to the market. Due to the rapid increase in telephone density during the past couple of years, the projected growth is somewhat lower when compared to the growth of 21.5 per cent in 2007.
- During the first half of 2008 the banking, insurance and real estate sector grew at a lower rate of 6.8 per cent when compared to 8.6 per cent growth in 2007. In the tightening monetary policy environment with increasing interest rates, private sector credit expansion decelerated to 12.7 per cent from 24.5 per cent in the first half of 2007. The increased cost of borrowing could have impacted negatively on the development in the real estate sector.

## Expenditure

- **Gross Domestic Expenditure (GDE)** which measures the total aggregate demand generated by domestic economic activities is projected to increase by 30.1 per cent in nominal terms during 2008. Further, the total value of consumption and investment expenditure of the economy is projected at Rs. 5,136 billion for 2008 compared to Rs. 3,946 billion in 2007.
- During 2008 domestic expenditure on consumption is projected to grow at a higher rate of 30.5 per cent in nominal terms when compared to a growth of 20.9 per cent in 2007. The higher nominal growth in consumption expenditure could be attributed to the increase in food and fuel prices due to the developments in both domestic and international markets. Increased domestic output particularly in agricultural sector and the growth in imported consumer goods as reflected through trade data supported towards a higher growth in consumption. Private consumption expenditure which accounted for a share of about 61 per cent of the total domestic demand in 2007 is projected to increase to about 62 per cent in 2008. This higher growth in private consumption would be sustained through the increase in employment opportunities, nominal wage rates and private remittances.
- Government consumption expenditure based on provisional budget estimates is also projected to grow at a rate of 21.6 per cent,

Chart 2.5  
Composition of Domestic Demand - 2008



compared to a growth of 21.1 per cent in 2007. Although the government wage bill is projected to increase at a lower rate than in 2007, expenditure on other goods and services would increase at a higher rate during 2008.

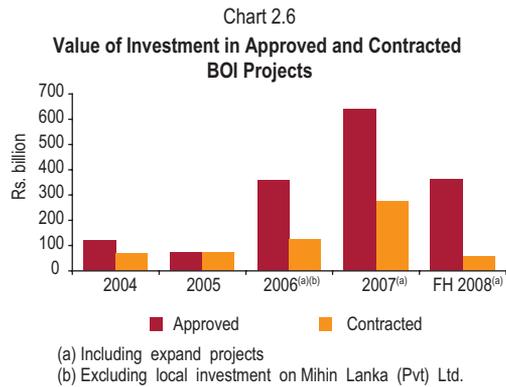
- The expenditure on investment activities is projected to grow at a rate of 29.1 per cent in nominal terms during the year over a growth of 21.2 per cent in 2007. The investment to GDP ratio is projected to be 28.3 per cent when compared to 27.9 per cent in 2007. This continued growth is reflected in the increase in investment goods imports by 24.0 per cent in US dollar terms during the first six months of the year as well.
- The main growth momentum in investment activities is expected to yield from the projects initiated by the government sector in developing the infrastructure facilities of the country. These include port development activities at Colombo and Hambantota together with the expansion in road development and power generation projects.

Table 2.3  
Approved and Contracted Investment in BOI Projects

Project	2007						First Half 2008 <sup>(a)</sup>		
	No. of Projects	Estimated Investment Annual (Rs. mn)		No. of Projects	Estimated Investment First Half (Rs. mn)		No. of Projects	Estimated investment (Rs.mn)	
		Foreign	Local		Foreign	Local		Foreign	Local
Approved under Section 17	652	304,639	336,074	309	113,713	160,344	234	297,808	64,508
Contracted under Section 17	303	122,671	128,955	86	42,321	31,847	116	27,797	28,744
Approved under Section 16	40	2,454	712	23	1,496	281	29	2,832	941

(a) Provisional

Source: The Board of Investment

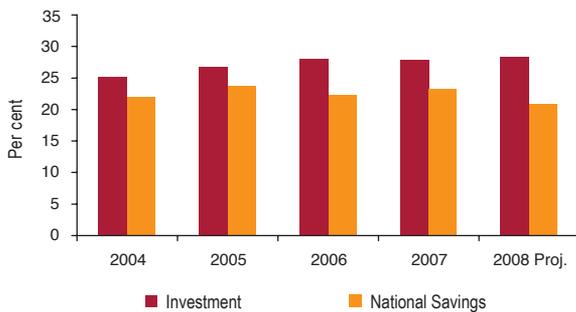


- **Private sector investment expenditure which includes the contribution of corporations and boards is also projected to increase in nominal terms during the year.** The increase in private sector investment activities is reflected in the increase in foreign direct investment during the first half of the year particularly with the investments in telecommunication sector. The higher growth in investment expenditure could also be associated to the increase in price levels both in building material and wage rates in the construction industry.
- **The total inflows of Foreign Direct Investment (FDI) expanded by 60.8 per cent with the investment commitment of US dollars 425 million during the first half of 2008 compared with the 10.0 per cent growth recorded in the first half of 2007.** Telecommunication (US dollars 290.8 million), manufacturing (US dollars 61.3 million) and power generation (US dollars 46.7 million) sectors absorbed around 94 per cent of total FDI inflows during the first half of 2008. The BOI, main investment promotion institute of the country played a significant role to attract FDI to the country. The BOI approved 263 projects under Section 17 and 16 of the BOI Act, with the investment commitment of Rs. 366 billion in the first half of 2008 compared to Rs. 275.8 billion in the first half of 2007.

Though the number of contracted projects under the Section 17 of the BOI Act increased to 116 in the first half of 2008 compared with 86 projects in the first half of 2007, the value of contracted investment decreased by 23.8 per cent during the same period. Under Section 17 of the BOI Act, 20 projects were approved and 13 projects were contracted for the expansion during the first six months of 2008. Services sector was the pioneer of both approved and contracted investments during the first half of 2008. Under Section 17 and 16 of the BOI Act, 2,203 projects commenced and 106 projects expanded for commercial operations as at end June 2008.

- **The government provides several investment opportunities through the line ministries and the BOI to minimise the regional disparity and relocate industries outside of Colombo and Gampaha districts.** The *Nipayum Sri Lanka 300 enterprises program (300EP)* was initiated by the BOI to accelerate regional investment and relocate the industries. As at end June 2008, 48 new projects, 3 relocated projects, 15 taking over of sick companies and 5 expanded projects were in operation under 300EP. The liberation of the Eastern province is a greater opportunity to invest by enjoying all benefits granted by the government through the *Negenahira Navodaya Programme (NNP)* under the BOI and *Negenahira Udanaya* special development programme under the Ministry of Industrial Development. Among 29 approved projects of NNP with the estimated total investment of Rs. 9,362 million, agreements had been signed for 5 projects with the investment commitment of Rs.475.2 million during the first half of 2008. Agriculture sector attracted more than 71 per cent of the total investment of NNP, which have more potential in the Eastern province. The Ministry of Industrial Development commenced initial setup to establish an Industrial Estate in Trincomalee by enjoying the benefits of the NNP.

Chart 2.7  
Investment and Savings as a Percentage of GDP



- On the resource side, domestic savings as a percentage of GDP (domestic savings ratio) is projected to contract from a figure of 17.6 per cent in 2007 to 15.3 per cent in 2008. The projected increase in the import bill during 2008 with the increase in crude oil and food prices would contribute towards a contraction in domestic savings. Although government dis-savings are projected to further decline during 2008, private savings are expected to fall at a higher rate. National savings are also projected to decline as a percentage of GDP to 20.9 per cent from a figure of 23.3 per cent in 2007.
- During 2008 the resource gap, the difference between savings and investment as a percentage of GDP is projected to widen further, reflecting a widening deficit in the current account of the Balance of Payments.

### Prospects for 2009

- Continuing the higher growth momentum experienced from 2005 onwards, a growth rate of around 6.5 - 7.0 per cent is projected for 2009. The growth in 2009 is also projected to be broad based with the contribution from all sectors of the economy.
- The agriculture sector is expected to improve in 2009 benefiting from the expected favourable weather and liberation of the Eastern province coupled with increases in the output of plantation crops, paddy and fisheries sector.
- Tea production is projected to improve by 0.8 per cent to 340 million kg in 2009. The rubber output is projected to increase by 3.0 per cent to 128 million kg in 2009. Coconut production is projected to increase by 9.5 per cent to around 3,000 million nuts in 2009 benefiting from the favourable weather conditions that prevailed in 2008.
- Paddy output in 2009 is projected to increase by around 2.0 per cent to 3,771 thousand metric tons. Assuming the prevalence of normal weather conditions in 2009, the output of other field crops is also expected to increase in 2009.
- Fish production in 2009 is also projected to increase moderately by 3.6 per cent to 325 million kg with gradual removal of restrictions on fishing in the North and Eastern provinces, developments of infrastructures and introduction of new policy initiatives by the government.
- The BOI and Non-BOI factory industries are the drivers of the industrial sector growth, which is projected to grow by 7.0 per cent in 2009 with the contribution of all major sub sectors. The declining trend of international fuel price and domestic inflation would facilitate the industrial sector output in 2009. Both domestic and external market oriented industries are focusing cost cutting and productivity improvement measures to minimise the cost of production and increase the competitiveness. The domestic market oriented industries will be benefited by introducing range of products with the concerns of health, religious and cultural ethics of the customers, implementation of state infrastructure development projects, increasing demand and utilisation of resources in the Northern and Eastern provinces and modernising industries by using hi-technologies. The industries which are focusing on external market, also expected to perform well in 2009 by increasing

competitiveness, enjoying the benefits of Free Trade Agreements and trade concessions, promoting range of styles and designs, focusing niche and new markets, conducting promotional activities and maintaining eco-friendly environment in the manufacturing process and ethical manufacturing.

- **The electricity generation sector is projected to expand during 2009 and beyond** with the power sector expansion projects in the pipe lines which augur well for the future growth prospects of the nation.
- **The growth momentum in the construction sector is expected to continue in 2009 as well.** As in 2008, public sector construction activities in infrastructure development projects are expected to continue mainly in power sector expansion projects, port development and road construction activities together with reconstruction activities in the liberated areas and further private sector construction activities expected to grow at a higher pace in 2009 with an expected attractive economic environment.
- **In 2009, the telecommunication sector is expected to expand with the entrance of a fifth mobile service provider in the market during the second half of 2008** and continued investment in upgrading the telecommunication infrastructure of the island. The increased competition in the sector would continue to benefit the customers with better tariff rates and value added services. The growth momentum of the sector could slowdown with the increase in telephone penetration level during the past couple of years.
- **Investment activities are projected to expand in 2009 with the contribution of all sectors of the economy.** Realisation of private sector investment would largely depend on the prevalence of favourable security and economic conditions with better prospects in terms of profit generating opportunities. Increased private sector participation is expected in telecommunication services, education and health services while sectors such as export manufacturing and real estate development are expected to recover during 2009.
- **As in the past couple of years, it is projected that government sector investment activities would continue to expand in 2009** with the main emphasis in infrastructure development and rehabilitation activities in the Northern and Eastern provinces. Government sector mega construction projects such as the Upper Kotmale Hydro Power Project, port development activities in Colombo and Hambantota and road network expansion projects would continue in 2009, contributing to a higher growth.
- **The expansion in consumption expenditure in nominal terms is projected to moderate in 2009 due to the expected stabilisation in price levels.** However, private consumption expenditure would increase albeit at a lower rate with the increase in income levels.
- **Domestic savings are expected to recover in 2009 with the increase in private savings resulting from the expected increase in profitability and improvement in government dis-savings in 2009.** National savings are also projected to increase as a percentage of GDP with the projected increase in private remittances. With the expected increase in savings, the resource gap is expected to contract.
- **The realisation of future growth prospects would depend on a number of factors.** While finding a long lasting solution to the civil conflict, achieving stable price levels and attractive interest rates would foster a favourable climate for investment which would spur future growth. The global economic slowdown would adversely affect the growth opportunities of the Sri Lankan economy together with the prevalence of high price levels and volatility in the international oil market.