2

NATIONAL OUTPUT AND EXPENDITURE

Continuing the growth momentum, the Sri Lankan economy grew by 7.7 per cent during the first half of 2014 compared to the growth of 6.4 per cent recorded during the corresponding period of 2013. Buttressed by the timely monetary policy measures and prudent fiscal policies and favourable developments on exports of goods and services, the economy was able to sustain the high growth trajectory even in the midst of challenges arising from unfavourable weather conditions. Robust growth in the Industry sector supported by the expansion in construction activities, manufacturing and mining and quarrying sub sectors was the key driver of economic growth. The high growth momentum was also supported by the surge in Services sector performance. Meanwhile, the Agriculture sector grew at a modest rate in the midst of adverse weather conditions in some parts of the country. Continuing the same growth momentum during the second half of the year, the economy is expected to grow by 7.8 per cent in 2014 benefiting from the continued conducive monetary and fiscal policy measures and favourable developments in the external demand. This growth is basically expected to be driven by the increasing investment activities in line with the reduction in interest rates together with expansion of consumption expenditure. On par with these developments, GDP per capita is estimated to be around US dollars 3,700 in 2014, enabling to surpass the expected level of US dollars 4,000 per capita income in 2015.

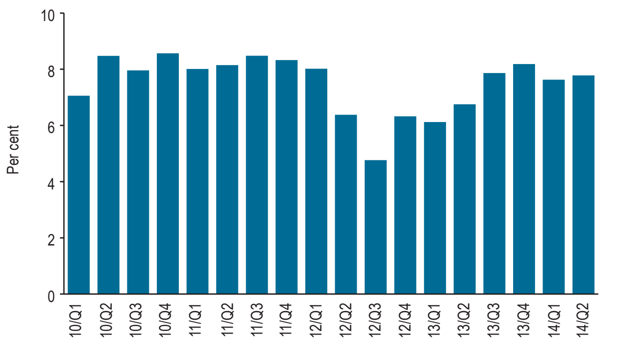
Developments in 2014

Output

- **The Gross Domestic Product (GDP) grew by 7.7 per cent during the first half of 2014 compared to the growth of 6.4 per cent recorded during the corresponding period of 2013.** This growth was primarily driven by the expansion in Industry sector supported by the growth in Services and Agriculture sectors. Consequently, the Industry sector grew by 12.4 per cent during the first half of the year which was mainly attributable to the higher growth recorded in construction, mining and quarrying and manufacturing sub sectors. Meanwhile, Services sector grew by 6.1 per cent supported by the growth in sub sectors such as wholesale and retail trade, transport and communication and hotels and restaurants in line with favourable developments in external trade activities. The Agriculture sector recorded a growth of 3.1 per cent during the first half of the year supported mainly by the growth in fishing, coconut and other food crops sub sectors, in the midst of unfavourable weather conditions which adversely affected the paddy production.

- **The economy is projected to grow by 7.8 per cent in 2014 compared to the growth of 7.3 per cent recorded in 2013.** Consequently, growth during the second half of the year is projected to be around 7.9 per cent. This growth is expected to be supported by all major sectors of the economy. Accordingly, the expansion in the Industry sector is projected to be sustained particularly through the growth in manufacturing and construction sub sectors. The growth momentum in the Services sector, driven by high growth in the wholesale and retail trade sub sector, with the expected growth in both external and domestic trade activities together with expansion in hotels and restaurants and transport and communication sub sectors with increasing demand would be the main contributors to expected growth. The Agriculture sector is projected to grow at a moderate level with the expected decline in paddy production during the Yala season, amidst the increased output in fishing, other food crops, coconut and tea sub sectors during the second half of the year.

Chart 2.1 Quarterly GDP Growth Rates



Sectoral Performance

Agriculture

- **Amidst adverse weather conditions, the Agriculture sector recorded a growth of 3.1 per cent during the first half of 2014, continuing the growth momentum of 1.2 per cent observed within the sector during the first half of 2013.** Consequently, significant improvement in the value added contribution in other food crops and fishing sub sectors compared to slower growth observed in the corresponding period of 2013 along with the significant growth observed in the coconut sub sector recovering from the contraction observed in the previous year supported this growth. The Agriculture sector is projected to grow at a moderate level during the second half of the year with increased output in fishing, other food crops, coconut and tea sub sectors. However, decline in paddy production expected during the Yala season would dampen the Agriculture sector growth during the latter half of the year.

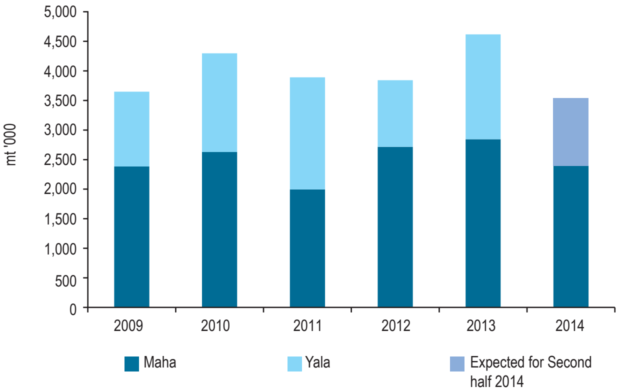
Table 2.1 Agriculture Production Indices Index Points (2007-2010=100)

Item	2013 First Half (a)	2014 First Half (b)	Rate of Change (%)
Agriculture and Fishing	127.2	129.8	2.1
1 Agriculture	124.8	124.5	-0.2
Tea	111.7	110.6	-1.0
Rubber	93.1	90.9	-2.3
Coconut	90.0	100.7	11.8
Paddy	152.2	128.3	-15.7
Other Crops	136.7	143.1	4.7
Livestock	128.5	146.2	13.7
2 Fishing	138.5	155.1	12.0

(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka

Chart 2.2 Paddy Production



Paddy

- **As a result of the drought conditions that prevailed in both 2013/14 Maha and 2014 Yala seasons, paddy production in 2014 is expected to decline by 23 per cent to 3.54 million metric tons, which would be the lowest paddy output in the last seven years.** The decline in paddy production in the year would be a combined outcome of the decline in production by 15.7 per cent to 2.4 million metric tons in 2013/14 Maha and the estimated decline by 35.5 per cent to 1.14 million metric tons in 2014 Yala. The net extent harvested during 2013/14 Maha season has declined by 20 per cent to 530,682 hectares compared to previous Maha season. The highest decline was reported from the Anuradhrapura and Kurunegala districts which was together 66,246 hectares. In order to manage the water for agriculture during 2014 Yala season, government encouraged farmers to cultivate other crops, which require less water in paddy lands. The total net extent harvested during 2014 Yala season is estimated to be 283,339 hectares, which is a decline by 30 per cent compared to previous Yala season.

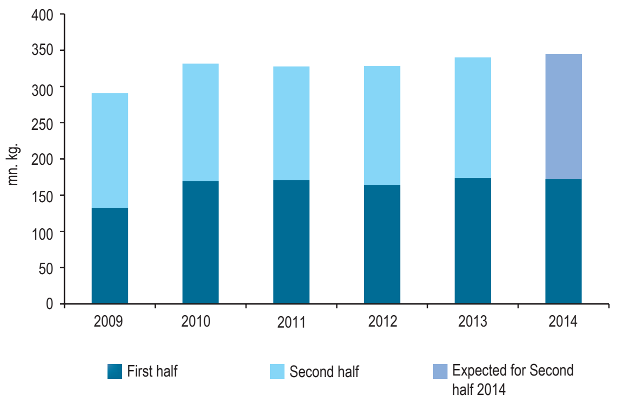
- **The availability of rice out of total paddy production in 2014 (i.e. 3.54 million metric tons) is estimated to be around 2.4 million metric tons.** This amount would be barely sufficient to meet total annual household rice consumption. The manufacturers of rice based products also compete in the market to purchase rice, and both paddy and rice prices remained under pressure even in the midst of harvesting periods. As a result, average paddy prices remained higher than the guaranteed price under the government paddy purchasing scheme during Maha and Yala. The government took several policy decisions to control the increase in rice prices in the domestic market. The effective tariff on imported varieties of rice was reduced to Rs. 5 per kg by introducing a Special Commodity Levy (SCL) in place of all tariffs that existed on rice imports with effect from April 2014 in order to encourage rice imports to supplement local supply. As a result, a stock of 129,210 metric tons of rice was imported during the first seven months of 2014 compared to 16,300 metric tons of rice imported in the corresponding period of 2013. The SCL on rice imports was further reduced to Rs. 1 per kg with effect from September 2014 to encourage rice imports. Further, the government also decided to import a quantity of 50,000 metric tons through Lak Sathosa to be maintained as a buffer stock of rice on a six monthly periodic stock renewal basis to stabilise rice prices in the market and to make use of it in case of an emergency situation.

Tea

- **Tea production in the first half of 2014 declined by around 1 per cent to 173 million kg.** This is a combined effect of the decline in tea output by 10 per cent during the first quarter due to dry weather conditions that prevailed in all tea growing regions and the growth in production by around 7 per cent in the second quarter with favourable weather conditions from April onwards in tea growing areas and also supported by continued high global demand for orthodox black tea. It is observed that the improved production in the second quarter in 2014 was the highest ever production (98.7 million kg) in any quarter which was largely reported from the low grown areas. The tea smallholders in the low grown areas contribute around 81 per cent of total smallholder production in the country and around 58 per cent of the total national tea production. In the first half of 2014, the remunerative prices fetched for green leaves encouraged the tea smallholders to adopt better agriculture practices. As a result, the production in the tea smallholder sector remained unchanged in the first half of 2014 (123 million kg) over the same period in 2013 in spite of adverse weather.

- **Colombo Tea Auction (CTA) maintained buoyancy in tea prices during the first half of 2014.** The average tea price (year-on-year) during the first half of 2014 increased to Rs. 478 per kg from Rs. 423 per kg in 2013. The highest increase in average tea price (year-on-year) in the first half was reported on low grown tea (14 per cent) followed by high grown tea (11 per cent). However, the average price of medium grown tea recorded only a marginal growth (1 per cent). In the meantime, the second quarter experienced some decline in tea prices due to excess supply. It is noted that during the first half, the entire value chain in the tea sector benefitted from high tea prices at CTA. The average price paid for tea smallholders for green leaves increased to Rs. 70 per kg in the first half of 2014 from Rs. 62 per kg in the first half of 2013 supported by stiff competition among tea factories to purchase green leaves.

Chart 2.3 Tea Production



Rubber

- **Rubber production in the first half of 2014 continued to decline for the second consecutive year by 2.3 per cent to 60,990 metric tons compared to the first half of 2013.** This is also a decline by 18 per cent compared to the average production in the same period for the last five years. In the first three months of 2014, prolonged dry weather conditions reported in most rubber growing areas affected the harvest and the lack of water affected the production in several plantations whilst intermittent showers disrupted tapping in some growing areas after April. Further, smallholders of rubber slowed down their tapping operations along with the overall drop in rubber prices. Of total rubber production, the sheet rubber production grew by 13 per cent to 31,579 metric tons mainly due to the increased demand from domestic tyre manufacturers, and latex crepe rubber production also grew by 11 per cent to 7,978 metric tons supported by increased export demand. Further, technically specified rubber category also grew by 28.7 per cent to 4,898 metric tons mainly due to the improved demand from domestic rubber manufacturers, which also caused a decline in the demand for scrap crepe rubber by 71 per cent to 539 metric tons. Meanwhile, the decline in the rubber production has mainly resulted from the latex and unspecified category by 27.9 per cent to 14,878 metric tons, caused by an increase in the importation of natural rubber latex supported by lower global natural rubber prices.

- **A sharp drop in prices of natural rubber was observed in both domestic and overseas markets in the first half of 2014.** At the Colombo Rubber Auction, the average price of Ribbed Smoked Sheet 1 (RSS1) declined by 21 per cent to Rs. 301 per kg and latex crepe 1X declined by 17 per cent to Rs. 318 per kg. During the period under review, global rubber prices have fallen significantly. Stockpiles in China and Japan have increased so the demand from the worlds largest rubber consumers has weakened. Global natural rubber production has declined, particularly in the second quarter mainly due to a slowdown in tapping of small growers in major producing countries such as Thailand in response to low prices.

Coconut

- **Coconut production grew by around 12 per cent to 1,426 million nuts in the first half of 2014.** The growth in coconut supply was mainly supported by high rainfall in major coconut growing areas during 2013. The Desiccated Coconut (DC) industry grew significantly by 133 per cent to 26,107 metric tons during the period under review mainly due to improved coconut production and high demand in the international market. Meanwhile, the production of virgin coconut oil, coconut cream, coconut milk powder and milk together grew by 45 per cent to 14,531 metric tons in reflection of high export demand for these products. However, coconut oil production declined by 10 per cent to 23,289 metric tons in the period under review. The setback in the coconut oil industry was a combined outcome of increased cost of production as a result of high copra prices influenced by high fresh nut prices and the loss of its market share due to increased availability of imported and locally produced palm oil. During the first half of 2014, the nuts utilised in the coconut oil industry declined significantly by 21 per cent to 163.4 million nuts while palm oil imports increased significantly by 75 per cent to 69,000 metric tons supported by the decline in global palm oil prices considerably during the first half of 2014. However, the coconut oil industry benefitted from the growth in DC industry due to an increase in producing pairing oil, which is a byproduct in the DC industry. It is estimated that around 4,490 metric tons of coconut oil, which is around 19 per cent of the total coconut oil production in the first half of 2014 has been produced out of coconut pairing. Another important change taking place in the coconut sector is the very high export demand for king coconut and coconut water. During the period under review, king coconut exports increased to 790,072 nuts from 344,245 nuts in the same period in 2013.

- **Despite the improvement in coconut production during the first half of 2014, the price of coconut and coconut products including copra, coconut oil and desiccated coconut increased mainly due to very high industrial demand for coconut.** The average auction price of coconut increased to Rs. 32 per nut in the first half of 2014 from Rs. 29 per nut during the same period in 2013. The average price of coconut oil increased to Rs. 290 per litre from Rs. 250 per litre during the corresponding period of 2013. The average DC price at the Colombo Coconut Auction also increased to around Rs. 290 per kg during the first half of 2014 from Rs. 218 per kg during the corresponding period of previous year. Meanwhile, the average export price of DC increased to US dollars 2 per kg during first half of 2014 from US dollars 1.36 per kg in the first half of 2013. Notably, many DC mills operated at full capacity during this period.

Other field crops

- **Total production of other field crops (OFCs) increased by around 12 per cent to 663,818 metric tons in 2013/14 Maha.** The cultivation of crops such as maize, onion, chilies, cowpea, green gram, kurakkan and other subsidiary food crops has shown substantial progress during major seasons in 2014. Cumulative maize production in both major seasons in 2014 is estimated to have increased significantly up to around 254,429 metric tons, which is excess production compared to the estimated annual requirement of maize. Therefore, it is now necessary to encourage the export of maize to sustain the growth momentum. Further, the production of ground nuts and cowpea in both major seasons is also estimated to have exceeded the national demand in 2014. The production of black gram, red onion, gingelly is also estimated to have reached in the range of 80 to 85 per cent of total domestic demand for such crops. Further, the government continued to maintain a higher rate of SCL on the import of such commodities, which are close substitutes of locally grown crops to ensure remunerative prices for domestic farmers.

Vegetables

- **Vegetable production increased by 4.3 per cent to 694,420 metric tons in 2013/14 Maha.** Vegetable prices also decreased significantly with improved supply during the Maha harvesting period. However, the supply of vegetables decreased considerably by mid April 2014 and vegetable prices started to increase in the midst of festival demand in April. The inter-seasonal cultivation of vegetables in March was not carried out due to scarcity of water in many areas while cultivation in the Yala season was also delayed considerably in major growing areas due to delayed rain. As a result, the market supply of vegetables declined from May to mid July, increasing vegetable prices considerably during this period. Although higher prices appear to have encouraged vegetable farmers to expand production, water scarcity affected the progress of vegetable production. However, with the supply of the Yala harvest reaching the market, vegetable prices have started to decline since mid July.

Sugar

- **Sugar production increased considerably by 20 per cent to 11,450 metric tons in the first half of 2014.** This is a combined outcome of the increase in production by 75 per cent at the Sevenagala and Gal Oya factories and a decline in production by 49 per cent at the Pelwatta factory due to the impact of the drought. The cultivation of high yielding sugarcane varities, access to proper irrigation systems and field maintenance and timely supply of required services and materials contributed to the increase in production at Gal Oya factory. As a result, the share of Gal Oya factory to total sugar production in the first half of 2014 increased up to 41 per cent from 26 per cent in the corresponding period in 2013. However, the production at all factories is expected to increase during the second half of the year as the major share of sugar production usually comes during the second half. Therefore, total sugar production is expected to increase by 37 per cent to 72,730 metric tons in 2014, which would be equal to 10 per cent of national demand of sugar supported by remunerative producer prices as well as the influence of the measures implemented by the government to encourage sugar production with a view to reducing expenditure on imports of sugar in the medium term.

Fisheries

- **Fish production grew by 12 per cent to 258,760 metric tons in the first half of 2014.** Of total fish production, the marine fish sector which contributed 86 per cent to total fish production grew by around 5 per cent to 221,790 metric tons while the inland fishery sector grew significantly by 82 per cent to 36,970 metric tons. Therefore, the growth in the fishery sector during the first half was mainly driven by the growth in the inland fishery sector. The growth in the marine sector was a combined result of the growth in the coastal and lagoon sector by 5.6 per cent and deep sea fishery by 4.8 per cent. Although coastal fish production has reached its potential in recent times, the growth in deep sea fish production has not been satisfactory. This is in spite of the policy measures taken to enhance the contribution of deep sea fish catch in national fish production including the expansion of fishery infrastructure facilities, the provision of fishery gear to fisherman and the introduction of concessionary loan schemes to increase new multiday boats and modernise the existing boats. Several factors, in general have contributed to sluggish growth of the deep sea fish catch. Increasing expenses per fishing trip amidst a declining catch per such a fishing trip affected fisherman. The recent downward trend of fuel prices may reverse this trend to some extent. Further, it is necessary to take measures to reinforce efficient intermediation to ensure remunerative prices for fishers to encourage fishery activities. In the meantime, the significant improvement in inland fishery sector was mainly driven by the improvement of cultured fishery activities in the irrigated reservoirs during 2013 under the support of the Divi Neguma programme. The depleted water levels in tanks and rivers also helped to increase the inland fish catch.

Livestock

- **Illustrating the success of the governments drive towards self sufficiency in milk, total cattle and buffalo milk production increased significantly by around 18 per cent to 205 million litre in the first half of 2014.** This growth was recorded on top of the 19 per cent growth in the first half of 2013. Total milk collection by large milk product manufacturers increased by 6.5 per cent to 99.5 million litres in the first half of 2014. It is expected that this would increase considerably with the completion of the modernisation of three main factories under MILCO. The gradual growth of the contribution of imported high yielding dairy cattle population in the total milk collection would also help to sustain the emerging demand from dairy industries. Further, the higher SCL on imported milk powder and the gradual shift of consumer preferences for domestic milk and milk powder resulted in a decline in imported milk powder by about 10 per cent to 32,500 metric tons in the first half of 2014. Total milk production is expected to increase by 6 per cent to 340 million litres in 2014, which would be a 45 per cent share of total national demand for milk.

Industry

- **Maintaining its growth momentum, the Industry sector recorded a growth of 12.4 per cent in value added terms during the first half of 2014, compared to 10.4 per cent growth recorded during the corresponding period of 2013, with all the sub sectors contributing positively towards this growth.** The sub sectors, namely, construction, manufacturing and mining and quarrying grew at higher rates, while the electricity, gas and water sub sector grew at a moderate level. With the expected positive developments, the Industry sector is projected to continue this growth momentum during the second half of the year.

Mining and Quarrying

- **Mining and quarrying sub sector continued to expand by 12.7 per cent during the first half of 2014 compared to 15.5 per cent during the corresponding period of 2013.** Expansion in gem exports during the first half of the year with favourable external demand for Sri Lankan gems contributed to the growth of 10.6 per cent in the gem mining sub sector over the 4.8 per cent growth recorded in the corresponding period of 2013. Other mining sub sector, the main contributor for the sector, grew by 13.3 per cent in line with increased demand for sand and other construction related raw materials with the expansion of the construction sub sector. Benefiting from favourable demand conditions, graphite and phosphate production contributed positively towards the growth in the sub sector. However, the contraction in mineral sand output dampened the growth observed within this sub sector.

Manufacturing

Processing

- **The processing sub sector grew by 6.1 per cent in the first half of 2014, compared to the marginal growth of 0.9 per cent recorded in the corresponding period of 2013**. This sub sector which consists of industries processing tea, rubber and coconut, was mainly benefited by the significant recovery in coconut production. Tea exports grew by 11.7 per cent during the first half of the year with favourable external demand which spurred a growth in the tea processing industry. Meanwhile, the contraction in rubber production continued during the first half of 2014, albeit at a lower rate compared to the corresponding period of 2013. The declining trend which is observed in natural rubber prices together with the lack of favourable weather conditions discouraged rubber producers.

Factory Industry

- **The value added in the factory industry which is the major contributor to the manufacturing sub sector grew by 10.2 per cent during the first half of 2014 as compared to the 6.2 per cent growth recorded during the corresponding period of 2013**. The Food, Beverages and Tobacco products category which is the main contributor to this growth grew by 9.3 per cent during the period. Meanwhile, Textile, Wearing Apparel and Leather products category and Chemicals, Petroleum, Coke, Rubber and Plastic products category supported this growth, expanding by 16.2 per cent and 10.5 per cent, respectively.

Factory Industry Production Index (FIPI)

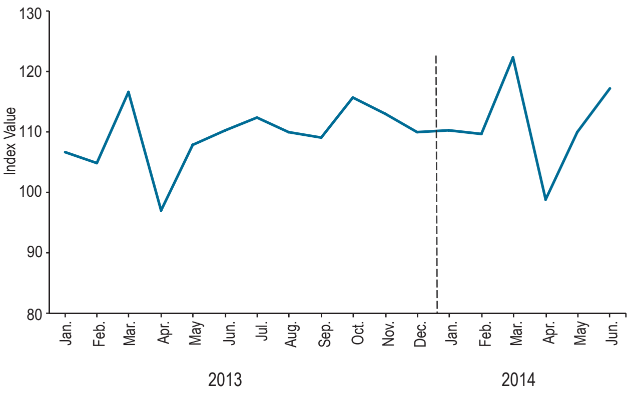
- **The Factory Industry Production Index[1] that measures the quantity of output in factory industry, expanded by 3.9 per cent during the first half of 2014.** This growth was largely supported by the better performance in both external and domestic demand. The gradual recovery in external demand stimulated the performance of Sri Lanka's export oriented industries during the period. Wearing apparel and rubber and plastic products sectors which contribute significantly to the country's external trade, boosted factory industry output during the first half of 2014. Domestic market oriented industries, such as beverages, coke and refined petroleum products, chemical products and fabricated metal products sectors, benefitted from increased domestic demand due to the continued expansion of economic activity, there by supporting the higher output of factory industry during the period.

1 The Factory Industry Production Index (FIPI) is computed covering 17 major sub-sectors and weights assigned for these industries using 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, which will be taken into account in the next revision to the FIPI.

- **Major export oriented industries, such as wearing apparel, textiles and leather, grew at a healthy rate during the first half of 2014**. The wearing apparel sector recorded a significant growth of 18.4 per cent in the first half of 2014, benefitting from an increase of orders placed by major international buyers. The expansion in orders was reminiscent of the increasing demand from the USA and the Euro region, which are Sri Lanka's key garment export destinations. Sri Lanka's reputation as a reliable supplier of quality garments at competitive prices opened up more export opportunities for the country. Meanwhile, the favourable performance of the apparel industry with higher domestic value addition supported the enhanced output of the textile industry. This industry, which mainly comprises of weaving and finishing of textiles, recorded a significant year-on-year growth of 11.0 per cent during the first half of 2014. Similarly, benefiting from increasing demand for footwear products in local and international markets, the leather related products sub-sector recorded a year-on-year growth of 2.9 per cent during the period.

- **The beverage products sector recorded a year-on-year growth of 1.9 per cent in the first six months of 2014.** Manufacture of liquor products, which accounts for more than 60 per cent of the beverages sector, recorded a year-on-year growth of 4.3 per cent. The increased output in beverages sector during this period was largely supported by the increased demand on account of the festive season and the growth of tourist arrivals. However, production of soft drinks, mineral water and bottled water sub-sector showed a contraction of 6.3 per cent during this period.

Chart 2.4 Factory Industry Production Index (FIPI) (2010 = 100)

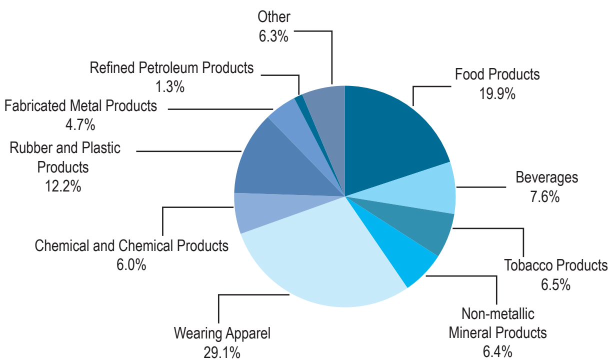


- **The output of rubber and plastic products expanded significantly recording a year-on-year growth of 13.9 per cent in the first half of 2014.** Manufacturing of rubber tyres and tubes, which represents more than 80 per cent of the rubber and plastic products sector, showed a significant growth of 17.0 per cent during the first half of 2014. Favourable developments in the foreign and local automobile industries underpinned the high demand for tyre and tube products. Meanwhile, the plastic products sub-sector recorded a significant growth during this period mainly supported by domestic demand.

- **Production of chemicals and chemical products showed a significant year-on-year growth of 11.7 per cent during the first half of 2014.** The expansion of this sector was mainly driven by higher output of fertilizer, soaps and detergents as well as paint and varnish products. The expansion in the plantation sector increased the demand for fertilizer while ongoing construction activities induced the demand for paint and varnish products. Similarly, refined petroleum products recorded a year-on-year growth of 5.1 per cent during the first half of 2014. The refinery yield improved with the usage of crude oil blends which are more suitable for the refinery.

- **The fabricated metal products sector, which mainly comprises ship building and ship repairing, showed a modest growth during the first six months of 2014 largely due to the supplies to India and Singapore as well as to the domestic market**. With the expansion of ports along with the introduction of free

Chart 2.5 Composition of Factory Industry Production Index (FIPI) - First Half 2014



port facilities, the ship building and repairing sub-sector is expected to grow further in coming years. Further, higher customs duties on imported boats would result in expanding the local boat building industry.

- **The food products sector shows signs of recovery**. Within the food products sector, preparing and preserving of fish as well as production of cocoa, chocolate and similar products expanded during the first half of 2014. However, the production of bakery products, manufacture of starches and starch products and dairy products sectors slowed during the period. As a result, the food products sector, which accounts for about a quarter of factory industry production, recorded a decline of 6.6 per cent for the first six months of 2014. Processing and preservation of fish recorded a year-on-year growth of 14.8 per cent during the first half of 2014 while production of cocoa, chocolate and similar products expanded by 9.2 per cent during the same period. However, the production of bakery products contracted by 10.3 per cent, year-on-year basis, while the manufacture of starches and starch products declined by 6.4 per cent during this period. The dairy products sector, which largely depends on imported milk powder, slowed due to higher tariffs imposed on milk powder imports by the government to promote local fresh milk production. The output of tobacco products contracted by 12.9 per cent year-on-year during the first half of 2014. An increase of excise taxes on cigarettes and public health concerns relating to tobacco consumption reduced the demand for tobacco products during this period.

- **The non-metallic mineral products sector contracted by 3.2 per cent year-on-year during the first half of 2014**. Manufacture of cement, lime and plaster, which accounts for about fifty per cent of this sub-sector, showed a decline of 4.5 per cent during this period. However, production of clay related building materials such as roofing tiles as well as porcelain and ceramic products recorded a growth during this period.

- **Initiatives taken by the government and other institutions to promote industrialization continued during the first half of 2014**. The Ministry of Industry and Commerce continued setting up Industrial Estates (IE) in different districts of the country with all infrastructure facilities to support both small and medium entrepreneurs. Work related to Stage II of the Trincomalee Industrial Estate commenced while the development of Mannar Industrial Estate progressed and is expected to be completed by end of 2014. In addition, the Ministry of Industry and Commerce (MIC) has planned to develop two dedicated IEs at Welioya and Musali for textile processing. The Ministry of Traditional Industries and Small Enterprise Development (MTISED) continued activities relating to the reactivation of the Achchuveli Industrial Estate, which provides employment for 525 people. MTISED also took action to upgrade and modernise 11 Main and Mini SME Industrial Estates.

- **Several programmes were carried out by the National Enterprise Development Authority (NEDA) for the SME sector during the first half of the year**. "Gamata Obina Vyapara", which aims to promote business at the village level, arranged study programmes in the Northern Province to identify competitive business opportunities, issues and challenges for development of businesses. Further, NEDA launched a special programme for university graduates with the support of Career Guidance Units of universities to develop students as successful entrepreneurs by improving their capabilities. In addition, NEDA also launched an entrepreneurship development programme for vocational trainees to promote an entrepreneurial culture among Sri Lankan youth. Meanwhile, the NEDA established 14 District Enterprise Forums (DEFs) and Regional Enterprise Forums (REF) in 22 divisional secretariats to support SMEs by directing SME issues to decision makers through district and divisional secretariat level enterprise forums. To improve entrepreneurial capacity of SMEs the NEDA initiated training programmes with the support of several commercial banks.

- **Several initiatives were taken by the government through the Budget 2014 to facilitate domestic industries and to promote local value addition**. The cess on importation of selected products in the food, beverages, chemical, rubber, basic metal and fabricated metal sectors was increased to encourage local value addition. Similarly, customs duty on importation of selected machinery such as machinery for tea manufacturing, tractors and wheelbarrows and imported boats was increased to encourage domestic value addition. Solar control films were exempted from customs duty to encourage energy saving and green manufacturing methods while customs duty on inputs of selected industries such as the manufacture of confectionery and branded items was revised downward. The Special Commodity Levy (SCL) on importation of 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.

- **In line with the science and technology development policy of the government, several measures were taken to create a technopreneurial culture aimed at increasing high tech industrial exports**. Research and development in Nanotechnology for ten thrust areas was identified by the Ministry of Technology and Research. Ten expert groups were appointed representing the line ministries and institutions relevant to each thrust area to study and recommend research and development priorities in respect of each of the ten focus areas. Meanwhile, Sri Lanka Institute of Nanotechnology (SLINTEC) has filed for eleven patents up to date. Among them two patents, in the area of slow release fertilizer, have been granted and they were sold to an Indian company. SLINTEC is also seeking to create synthetic chemistry and synthetic biology laboratory facilities at the Nanotechnology and Science Park to capitalize on the chemistry capability within Sri Lanka and promote the pharmaceutical industry in the country.

Cottage Industry

- **The value added in the cottage industry sub sector grew by 2.1 per cent in the first half of 2014 as compared to the 4.4 per cent growth in the corresponding period of 2013**. The sub sector benefitted through continuous positive growth momentum observed in the construction sector. The growth observed in this sub sector was supported by the initiatives taken by the Ministry of Traditional Industries and Small Enterprise Development in establishing traditional handy craft villages and introducing new credit schemes to facilitate credit access for micro and small industrialists. Further, various training programmes, conducted with the aim of enhancing the skills required for the industry and to pass on those skills to younger generations, will help in sustaining the positive growth momentum of this industry in the future.

Electricity, Gas and Water

- **Electricity, gas and water sub sector expanded marginally by 1.6 per cent during the first half of 2014, compared to the growth of 13.6 per cent recorded in the corresponding period of 2013.** Slowdown in growth observed in this sub sector was mainly due to the lower growth observed in the electricity sub sector which grew marginally by 1.3 per cent over the higher growth of 15.2 per cent recorded in the corresponding period of 2013. This was mainly due to contraction in hydropower generation by 54.1 per cent as a result of dry weather condition which prevailed in the catchment areas. As a result, the utilization of total thermal power generation was increased by 63 per cent, while coal power generation was increased by 51.7 per cent in the first half of 2014 as compared to the corresponding period of 2013. Value added in this sub sector will be further improved with the expansion of coal power generation capacity, which is more cost effective, substituting oil based thermal generation. Supported by growth in gas consumption especially in the domestic sector, the gas sub sector contributed to the overall growth expanding by 2.9 per cent as compared to the contraction observed in the first half of 2013. With the increase in water distribution and consumer accounts, the water sub sector also grew by 6.3 per cent.

Construction

- **Value added in the construction sub sector grew by 21.1 per cent during the first half of 2014 as compared to 18 per cent recorded during the corresponding period of 2013, continuing the positive growth momentum experienced within the sector.** The growth momentum in the construction sector is predominantly driven by the public sector which was supported by the private sector construction activities. Public sector investments in transport sector development projects such as highways and expressway development contributed in sustaining the growth momentum observed within this sector. Continuous public sector investment in existing road network improvement and rehabilitation projects such as Northern Road Rehabilitation Project together with regional infrastructure development projects that focus on promoting inclusive growth further contributed to the positive impetus observed. Public sector involvement in urban development focusing on developing a prime commercial capital within the city of Colombo and other important regional centers of Sri Lanka supported the growth in the sub sector. This sub sector further benefited with initiatives taken in constructing uprise apartment complexes under the Urban Regeneration Programme. Meanwhile, the private sector also contributed in maintaining the positive trend observed within the sector with mega hotel projects, condominiums and housing units, together with shopping mall developments.

Services

- **The Services sector, which accounts for the largest share of the economy, grew by 6.1 per cent during the first half of 2014, compared to 5.5 per cent growth registered in the corresponding period of 2013.** This growth was largely attributable to the revival in value added of the wholesale and retail trade sub sector led by both domestic and external trade activities. Further, continued growth momentum of the hotels and restaurants sub sector accompanied by the increase in cargo handling – ports and civil aviation value added, supplemented the services sector growth. In the meantime, transport, post and telecommunication and banking, insurance and real estate sub sectors recorded moderate level of growth, yet at healthy levels. The sector is expected to gather momentum in the second half of the year with some positive signs emerging in the external economic environment subject to geopolitical developments.

- **Recognising the potential of the Services sector to drive the growth momentum of the Sri Lankan economy, the government has initiated the five plus one hub strategy by including knowledge, energy, maritime, commercial, aviation and tourism industries.** This has outlined the future growth path of the country by establishing itself as a key destination for the identified economic activities. Policies are being directed towards putting in place the necessary infrastructure both hard and soft to facilitate the country to emerge as the South Asian Economic Hub. Infrastructure development has also been targeted to facilitate the growth strategy with developments in the transportation network including the road network, ports and airports. These developments facilitate to maintain the current economic expansion in sustaining the growth of the traditional services such as wholesale and retail trade activities as well as inspiring non-traditional service segments such as knowledge based services. This has enabled Sri Lanka to venture into services such as software development, business/knowledge process outsourcing, financial intermediation, business services, communications, legal and technical services which are envisaged to grow at a higher pace.

Wholesale and Retail Trade

- **Wholesale and retail trade sub sector, the largest sub sector of the economy rebounded during the first half of 2014 by achieving a 7.1 per cent growth in comparison with the 3.5 per cent growth recorded during the corresponding period of 2013.** The robust recovery posted by the export trade sub sector which contracted in value added terms during the first half of 2013 mainly contributed to this growth which was supplemented by the positive contribution made by the domestic and import trade sub sectors.

- **Import trade sub sector grew marginally by 1.2 per cent during the first half of 2014 over the 0.2 per cent contraction recorded in the first half of 2013.** This marginal growth was largely attributable to the decline in import volumes growth during the second quarter of the year in all three main import categories of consumer goods, intermediate goods and investment goods. The import quantities of investment goods also moderated during the first half of the year due to the accumulation of inventories during the recent period and the completion of some large-scale construction projects. Further, the increase in domestic production which was reflected by the growth in the manufacturing sub sector also contributed to the decline in imports. Accordingly, the total imports volume index contracted by 1.1 per cent during the first half of the year posting a marginal improvement over the 1.8 per cent contraction recorded during the same period of the previous year and the non-oil imports volume index contracted by 3.5 per cent from the positive growth of 2.7 per cent achieved in the first half of 2013.

- **Export trade sub sector posted a commendable growth of 11.9 per cent in value added terms during the first half of 2014 recovering from the contraction of 0.4 per cent reported in the first half of 2013.** The export volume upsurge was evidenced in all the main merchandise export categories namely, industrial, agricultural and mineral, amidst slower than anticipated growth of the country's major export destinations such as the United States. This was also reflected by the total export volume index growth of 13.6 per cent recorded during the first half of the year against the contraction of 3.4 per cent experienced during the same period of last year.

Being the major contributor to the exports, the flourishing garments sub category spearheaded this growth; which was supported by the recovery in the conventional markets as well as the attraction of non-traditional markets along with the implementation of strategies such as backward integration and quality improvements which enhanced value added contribution from the industry. Further, positive volume growth in tea, coconut and food, beverages and tobacco sub categories also complemented the export performance during the first half of 2014.

- **Domestic trade sub sector continued its positive momentum and achieved a 9.2 per cent growth during the first half of 2014 in comparison with the 7.2 per cent growth recorded in the first half of last year.** The established retail chains further penetrated into untapped regions of the country by expanding their outlet network, supporting domestic trade activities. The growth in manufacturing industries also provided the supply side stimulus for the expansion in domestic trade activities. However, considering the evolution in domestic consumer demand, the decline in domestic agriculture production hindered the potential growth of the sub sector to some extent during the period.

Hotels and Restaurants

- **Hotels and restaurants sub sector continued its growth momentum by achieving a 21.9 per cent growth in the first half of 2014 compared to the 19.8 per cent growth recorded in the corresponding period of 2013.** This was largely supported by the significant improvement in tourist arrivals by 24.6 per cent during the period yielding a 33.8 per cent increase in earnings from tourism. The sub sector was largely supported by the gradual recovery of the western economies as well as emerging markets such as China. With the expansion of Chinese and Indian middle income population Sri Lanka's effort towards positioning itself as a tourist destination, the tourism industry could gather higher growth momentum with arrivals from those countries. Meanwhile, as Sri Lanka being recognised as one of the best tourist destination in the world, with the expansion of the necessary infrastructure facilities to cater more higher end tourists Sri Lanka also has the potential to expand in the western market.

Transport and Communication

- **Transport and communication sub sector expanded by 7.4 per cent in the first half of 2014 compared to the 9.5 per cent expansion recorded in the corresponding period of 2013.** All the sub sectors contributed positively towards this growth. The passenger kilometres operated by the Sri Lanka Transport Board and the Sri Lankan Railways improved during the first half of the year while passenger kilometres operated by the private bus operators declined. Meanwhile, passenger kilometres flown by the domestic airlines grew commendably during the first half of the year facilitating tourist mobility.

- **Cargo handling - ports and civil aviation sub sector accelerated its growth by 8.6 per cent in the first half of 2014 compared to 1 per cent marginal growth recorded during the respective period of the previous year.** This growth was largely due to the gradual revival of trade activities in line with the recovery of the global economy. Accordingly, the container throughput and transshipment volumes (excluding re-stowing) in terms of twenty-foot equivalent units (TEUs) increased by 11.9 per cent during the period compared to the modest growth of 2.3 per cent achieved in the first half of last year. Further, the total cargo tonnage handled also increased by 9.6 per cent against the 0.1 per cent growth recorded during the corresponding period of last year. The opening of the Colombo South Terminal and expansion of services at Magam Ruhunupura Mahinda Rajapaksa Port has also added impetus to the growth in port activities.

- **Post and telecommunication sub sector grew by 9.8 per cent during the first half of 2014 compared to the similar growth observed in the first half of 2013.** Growth in this sub sector is vital to the country's development of the 5 +1 hubs strategy due to its high level of connectivity to other sectors. The telephone density of the country had continuously increased to 114.6 at end June 2014 from 109.0 at end June 2013, due to gradual growth in fixed access wired subscribers and cellular subscribers amidst significant dip in fixed access wireless connections. The continuity of the rapid expansion of data communication services of both fixed and mobile broadband ahead of voice usage was witnessed during the period, indicating the increasing demand for value added telecommunication services in the country. Though in level of penetration industry exhibits some saturation, the value added services are to grow at healthy levels with the rapidly expanding Information Technology (IT) and Business/ Knowledge Process Outsourcing (BPO/KPO) sectors of the economy.

Banking, Insurance and Real estate

- **Banking, insurance and real estate sub sector grew in value added terms by 5.6 per cent in the first half of 2014 compared to the 6.2 per cent growth recorded during the first half of 2013**. The performance of the sector was dampened largely by the moderation of credit expansion, particularly due to the decline in pawning advances. The non-performing loans ratio of both bank and non-bank financial institutions increased during the period weakening the asset quality of the industry. Accordingly, the profitability indicators of both bank and non-bank financial institutions declined marginally during the period. Moreover, the insurance industry also recorded moderate performance during the period as a combined outcome of the moderation of premium and investment income and the increase in claims incurred. However, the real estate companies indicated comparatively better performance in their business operations in line with the decline in interest rates. It is expected that an array of monetary policy measures which were taken during the first half of 2014 to improve the imputes of this sector including a credit guarantee scheme for pawning advances, widening the investment horizon of the banks and the progression of the financial sector consolidation as planned along with other monetary policy measures, would bring this sector into its growth momentum during the second half of the year. The financial sector developments that have taken place in relation to financial institutions, markets and instruments have played a strong supportive role in the economic growth of the country by mobilising and channeling resources into diverse economic activities. However, there is still enormous potential for further financial deepening to support the drive for sustained high economic growth. The Master Plan on Consolidation of the Financial Sector unveiled by the Central Bank aims to build stronger financial institutions that are able to meet the financing needs of a growing economy with increasing global linkages.

Private Services

- **The value added in the private services sub sector increased by 6.1 per cent in the first half of 2014 compared to the growth of 6.7 per cent recorded in the corresponding period of 2013.** Economic activities such as private education and medical services contributed substantially to the increase in value added of the sub sector. With the increase in disposable income levels and change in the people's lifestyle, the value added in the private services is expected to grow at healthy levels in the medium term. Private education sector indicates a potential to expand further in line with the strategy of converting the country into a knowledge hub. The private health sector also exhibits the potential for attracting external demand by promoting health tourism while catering the increasing domestic demand. Demand for entertainment activities has also increased with the change in lifestyles and increase in disposable income, contributing positively to the expansion of the sector. Meanwhile, personal care services such as beauty salons, laundry services and manpower services have also being more formalised and contributing to the expansion of this sector.

Expenditure

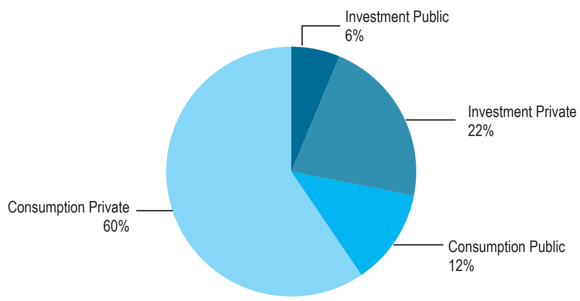
- **Gross Domestic Expenditure (GDE), which consists of aggregate demand generated from consumption and investment activities, is projected to increase by 11.3 per cent in nominal terms during 2014 compared to the expansion of 10.3 per cent in 2013.** This growth is basically expected to be driven by the increase in investment activities in line with reduction in interest rates together with the expansion of consumption expenditure although at a lower rate than the increase in investment spending. Indicators, such as banking sector credit for private consumption witnessed a decline during the first half of the year reflecting the slowdown in growth of consumption expenditure. Meanwhile, GDP at market price, which is the sum of GDE and net exports, is projected to grow by 13.7 per cent to Rs. 9,865 billion as a combined outcome of real GDP growth of 7.8 per cent and an implicit GDP deflator of 5.5 per cent during 2014. Further, favourable developments in external trade which is reflected by the higher growth in exports compared to imports growth is expected to continue during the remainder of the year, supporting the growth in GDP at a higher rate compared to GDE.

Consumption

- **Consumption expenditure, the sum of private and government sector consumption, is expected to grow by 9.6 per cent in 2014 compared to 10.1 per cent growth recorded in 2013.** This slight slowdown in consumption expenditure growth in nominal terms reflects the lower inflationary expectations during the year compared to the last year. Further, expenditure on consumer goods imports is expected to grow during the remaining period of the year contributing to the expected growth in expenditure on consumption. Meanwhile, private consumption expenditure, which accounts for around 83 per cent of the total consumption expenditure expected to grow at around 8.5 per cent compared to 9.9 per cent recorded in 2013.

- **Government consumption expenditure is projected to grow by 15.4 per cent in 2014, compared to 11.3 per cent recorded in 2013.** Increase in recurrent expenditure on civil administration on par with the increase in Cost of Living Allowance (COLA) and other purchases of goods and services would mainly contribute to the expected growth in government consumption expenditure. Accordingly, expenditure on salaries and wages and other civil administration related purchases are projected to grow by 4.4 per cent and 51.7 per cent, respectively.

Chart 2.6 Composition of Domestic Demand - 2014



Investment

- **Investment expenditure which consists of both private and public investments is projected to grow during 2014 accelerating the growth momentum.** Accordingly, investment expenditure is projected to grow by 15.7 per cent in 2014 from the 10.7 per cent recorded in 2013. Significant growth in construction industry recorded in the first half of the year is expected to continue to the second half of the year reflecting the investment growth. However, import of investment goods indicates a negative growth in the first half of the year compared to the corresponding period of the last year. This contraction is mainly attributable to the build-up of inventories in the recent past and the completion of few mega construction projects. Meanwhile, expenditure on investments such as imports of machinery and equipment and building material witnessed a favourable development in June 2014 which is expected to continue during the remainder of the year contributing to the future development in investment activities. In the backdrop of these developments, investment to GDP ratio is projected to be around 30 per cent.

- **Private sector investments, which accounts for around 78 per cent of total investments is expected to improve during 2014 contributing positively to investment growth.** The construction industry, which represents around 60 per cent of total investments, grew during the first half of the year which is also expected to continue during the remainder of the year with increased participation of the private sector.

- **Government investment expenditure is projected to increase in 2014 in line with the commitment to maintain public investment of around 6.5 per cent of GDP in the medium term facilitating the growth momentum.** Government capital expenditure and net lending increased by 3.7 per cent during the first half of the year indicating the growth in public investments. Public investments basically focus on infrastructure development, rural development and human resources development. Further, development projects under "Gama Neguma", "Maga Neguma" and "Pura Neguma" were continued during the year accelerating regional growth. These developments together with the ongoing investment commitment of the government will contribute to the increase in overall investments, thereby facilitating the high growth trajectory.

- **Inflows of Foreign Direct Investment (FDI) to the Board of Investment (BOI) registered companies in the first half of 2014 amounted to US dollars 853.0 million compared to**

Chart 2.7 Investment and Savings as a Percentage of GDP

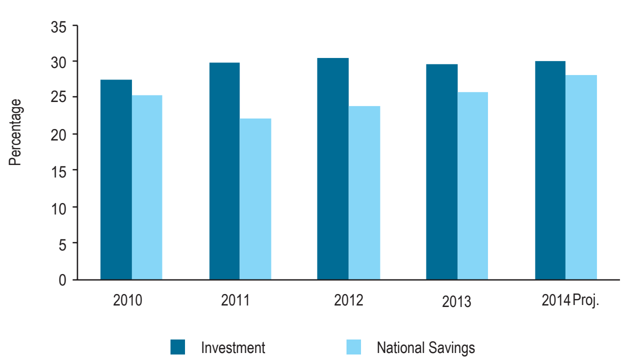
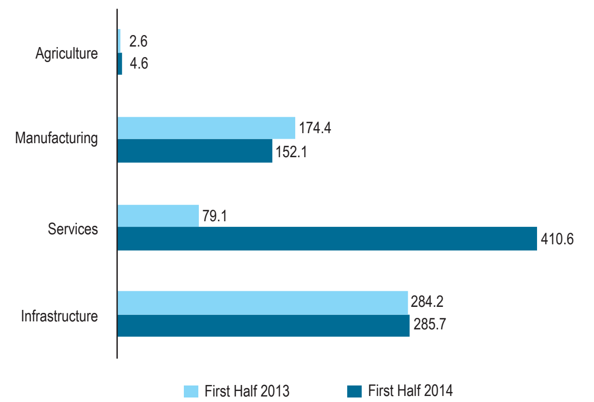


Chart 2.8 Foreign Direct Investment of BOI Enterprises (US$ million)



US dollars 540.2 million in the first half of 2013, recording a year-on-year growth of around 58 per cent. Nearly 50 per cent of total FDI (US dollars 410.6 million) during the period was on account of services sector related projects in hotels and restaurants, IT-BPO and other services subsectors. Infrastructure development projects absorbed around 33 per cent of total FDI inflows (US dollars 285.7 million) whereas FDI in the manufacturing sector amounted to US dollars 152 million.

Savings

- **Indicating the developments in the resource side, both domestic and national savings are expected to improve in 2014**. Consequently, domestic savings is projected to be around 23 per cent of GDP. A noteworthy development in government savings amounting to around 1.1 per cent of GDP is expected in 2014 compared to continued dis-savings recorded during the past. This favourable development in the fiscal side is expected to be achieved through rationalisation of recurrent expenditure of the government, thereby improving the government current account balance with continuous effort on fiscal consolidation. At the same time, private savings is also expected to improve supported by slow growth in private consumption. Meanwhile, national savings is expected to grow amounting to 28.2 per cent of GDP with the expected development in foreign remittances and slowing down in net outflows of factor income from abroad.

Prospects for 2015

- **Continuing the growth momentum, the Sri Lankan economy is expected to grow by around 8 per cent in 2015 as projected under the medium term macroeconomic framework**. Favourable developments in domestic economic conditions and the gradual recovery in global economic environment would stimulate the growth momentum in 2015. In the domestic front, continuation of low interest rates prevailing in the market in line with low and stable inflationary environment and prudent monetary measures are expected to contribute in boosting private investment activities during 2015. In the fiscal front, commitment of the government to facilitate the growth trajectory through infrastructure development would continue in 2015 as well. In the external front, recovery of major trading partner economies would accelerate external demand contributing to an improved trade balance. Consequently, all major sectors of the economy i.e., Agriculture, Industry and Services are expected to grow favourably contributing to the projected growth.

- **Performance in the agriculture sector is expected to rebound strongly in 2015**. Food security position in the country is expected to improve with the expected increase in domestic production of staple food commodities including paddy, other supplementary crops, milk and fish. Moreover, it is also expected that the performance in the plantation sector would improve with the expected recovery in the rubber sector driven by higher global natural rubber demand. However, the production of coconut is expected to decline, and consequently exports of coconut products would also be affected and coconut prices could continue to increase. Meanwhile, domestic milk production would continue to grow improving the local supply up to around 50 per cent of the domestic requirement during 2015. Further, domestic sugar production would also increase to meet around 13 per cent of total demand in 2015. With these improvements, the expenditure on imports of major food commodities such as milk, sugar and several other supplementary crops would decline further in 2015. Meanwhile, total fish production in the country is expected to show a considerable improvement in 2015 with the expected expansion of deep sea fish production and inland fish catch contributing to increase fish exports and stabilise fish prices.

- **Performance of factory industry is expected to gather momentum in 2015 with more favourable external and domestic economic conditions.** Export demand for textiles and wearing apparel, rubber based products and ceramic products are expected to expand further with the gradual recovery of advanced economies. The blooming tourism industry is expected to propel domestic demand in the food and beverages sectors. Continuation of state-driven infrastructure development projects are expected to stimulate the key factory industry sectors through forward and backward linkages. Moreover, prevailing low interest rates and stable exchange rates alongside low inflation provide a conducive environment for industries to perform well in 2015. However, in order to take manufacturing up in the value chain, it is required to transform resource based labour intensive industries into knowledge based technology intensive industries. For this purpose, the industrial policy thrust should focus on promoting hi-tech products backed by proper research and development. Such a strategy would increase Sri Lanka's techno-based industry output and generate substantial export earnings for the country in the medium term.

- **The Services sector is envisaged to maintain its high growth momentum in 2015 with the 5+1 strategic development roadmap mainly focusing on the Services sector.** The reforms undertaken to the underlying sectors such as higher education, information technology, knowledge based services, research and development and financial intermediation services; coupled with the public and private sector investments in those sectors would stimulate this growth. With the anticipated upsurge in imports of advanced economies in 2015, the value added in the export trade sub sector is expected to prosper while the cargo handling sub sector will benefit from the increase in global trade activities. The hotels and restaurants sub sector is also expected to maintain its high growth momentum with the continuous effort made to intensify the attractiveness of the country for tourists. Accordingly, acceleration of tourist arrivals witnessed in the first half of the year is expected to continue to the future, thereby increasing the value added contribution to the economy. In addition, the financial sector is also expected to gather momentum with the relatively eased monetary policy stance; which will facilitate the growth of other sectors in the economy.

- **The IT and BPO/KPO services would contribute immensely to the growth in the services sector.** Sri Lanka is ranked in the 16th position of the Global Services Location Index (GSLI) in 2014 which assesses the best destinations in providing off-shoring services including IT services/support, contact centres and back-office support. With the current trend in product engineering such as mobile based applications, outsourcing high-end analytical work including financial, legal, engineering and design, beside of the conventional customised software development, testing and maintenance and operating contact centres; would support the industry vision in achieving US dollar 5 billion exports target in 2022 while generating 200,000 job opportunities. The ongoing efforts in mainstreaming the education system to match with the skill requirement of the industry would stimulate the value added of this industry. Further, initiative taken to improve the IT literacy of the country and encouraging tax benefits given to the industry would support the future growth of IT and BPO/KPO services.

- **Government investment in infrastructure projects will continue in 2015 helping in sustaining the growth within the construction sector**. Proposed Northern, Kandy and Rathnapura Expressways that are due to commence construction in 2015 will facilitate investment in tourism industry and other commercial activities in strategic locations in these areas. Public sector investment on rural infrastructure development projects as well as urban regeneration projects together with private sector involvement especially in the area of building construction such as hotel projects, condominiums and housing units will continue to facilitate in sustaining the prevailing growth.

- **Improvement in domestic savings is vital in achieving growth prospects**. It is projected that investments would be around 31 per cent of GDP to facilitate the expected level of growth in 2015. Private and public savings both in the domestic front have to be improved, reducing the savings – investment gap in order to bring down the reliance on external financing. Accordingly, the continuation of current relatively eased monetary policy stance in 2015, while maintaining inflation at a low and stable level facilitating investments and also promoting long term private savings are material in improving private savings and investment. From the fiscal front, improving the current account balance through continuation of fiscal consolidation efforts in order to achieve and sustain a positive level of government savings as envisaged in the budget 2014 would contribute to improve domestic savings and investment climate.