

2

NATIONAL OUTPUT, EXPENDITURE AND INCOME

2.1 Overview

The Sri Lankan economy expanded by 4.8 per cent in real terms in 2015 compared to 4.9 per cent growth in 2014, accommodated by generally supportive fiscal and monetary policies and favourable weather conditions amidst challenges from both domestic and external factors. On the domestic front, a low and stable inflation environment and low interest rates continued supporting the economy. Fiscal measures such as increase in public sector salaries and downward revision of administrative prices also contributed positively to induce the demand. However, a change in policy direction amplifying transparency and corresponding attempts to re-evaluate several large infrastructure projects curtailed the overall growth momentum to a certain extent and delayed possible capacity expansion in the economy. On the external front, spillovers from the subdued performance in the world economy weighed on economic activities. On the production front, growth was broad-based with positive contributions from overall growth in the Services, Industry and Agricultural activities. Services activities made the largest contribution

to growth driven mainly by the financial services which benefitted from a conducive interest rate environment in 2015. Industries showed moderate performance due to the slowdown in large scale infrastructure construction activities. Meanwhile, Agriculture largely benefitted from the favourable weather conditions.

As per the estimates of expenditure approach, both in nominal and real terms, the growth was buoyed by the domestic demand generated mainly through consumption which was stimulated by increase in household disposable income. Investment expenditure grew at a slower pace for several reasons including tightly contested general election which affected both public investments and investor sentiment. Net external demand in real terms, remained unfavourable due to the relative increase in imports when compared to exports. Import demand continued to increase fuelled by low global commodity prices and accessibility to credit though it was tempered by depreciation of rupee, increasing interest rates and revision of duties for certain categories of imports towards the latter part of 2015. Further, a slower than expected recovery in advanced economies, moderation in economic activities in China, and the

economic distress in Russia and some Middle East countries dragged down the demand for exports. On the other hand, the export prices declined at a slower pace compared to the significant drop in import prices as reflected by the improvement in terms of trade. Meanwhile, net services export improved in 2015. Accordingly, net external demand in nominal terms increased marginally. During 2015, domestic savings decelerated, led by government dis-savings and the slowdown in private savings. Meanwhile, net current transfers from rest of the world slowed down compared to the previous year, while net primary income contracted. These developments resulted in a deceleration in national savings and its share in Gross Domestic Product (GDP) compared to the previous year. However, deceleration in investments

than the national savings resulted in a narrowing down in the savings-investment gap of the country as a percentage of GDP. Using estimates based on the income approach, the gross operating surplus was the main component of income generation of the economy and as an institutional sector, household sector contributed to the majority of income generated during 2015.

2.2 GDP, GDP Per Capita and Gross National Income (GNI)

GDP at current market prices amounted to Rs. 11,183.2 billion (US dollars 82.3 billion) in 2015 compared to Rs. 10,448.5 billion (US dollars 80.0 billion) in 2014. Accordingly, GDP recorded a 7.0 per cent growth in nominal terms

Table 2.1

Gross Domestic Product by Industrial Origin at Constant (2010) Prices (a)(b)

| Economic Activity | Rate of Change (%) | | Contribution to Change (%) | | As a Percentage of GDP (%) | |
|---|--------------------|------------|----------------------------|--------------|----------------------------|--------------|
| | 2014 (c) | 2015 | 2014 (c) | 2015 | 2014 (c) | 2015 |
| Agriculture, Forestry and Fishing | 4.9 | 5.5 | 7.8 | 9.0 | 7.8 | 7.9 |
| Growing of Cereals (Except Rice) | 4.3 | 1.0 | 0.2 | 0.0 | 0.2 | 0.2 |
| Growing of Rice | - 7.0 | 23.3 | - 1.2 | 3.6 | 0.7 | 0.9 |
| Growing of Vegetables | 2.1 | 24.9 | 0.3 | 3.5 | 0.7 | 0.8 |
| Growing of Sugar Cane, Tobacco and Other Non-perennial Crops | - 6.3 | - 14.5 | 0.0 | - 0.1 | 0.0 | 0.0 |
| Growing of Fruits | 9.4 | 16.5 | 0.9 | 1.7 | 0.5 | 0.6 |
| Growing of Oleaginous Fruits (Coconut, King Coconut, Oil Palm) | 20.1 | 5.1 | 2.8 | 0.8 | 0.8 | 0.8 |
| Growing of Tea (Green Leaves) | - 1.1 | - 2.6 | - 0.2 | - 0.5 | 0.9 | 0.8 |
| Growing of Other Beverage Crops (Coffee, Cocoa etc.) | 16.4 | - 18.1 | 0.1 | - 0.1 | 0.0 | 0.0 |
| Growing of Spices, Aromatic, Drug and Pharmaceutical Crops | 13.1 | 1.3 | 1.7 | 0.2 | 0.7 | 0.7 |
| Growing of Rubber | - 24.5 | - 10.1 | - 2.4 | - 0.7 | 0.3 | 0.3 |
| Growing of Other Perennial Crops | 7.3 | 2.8 | 0.3 | 0.1 | 0.2 | 0.2 |
| Animal Production | 31.0 | 8.0 | 3.0 | 1.0 | 0.6 | 0.6 |
| Plant Propagation and Support Activities to Agriculture | 6.4 | 0.1 | 0.2 | 0.0 | 0.1 | 0.1 |
| Forestry and Logging | 10.2 | 1.9 | 1.2 | 0.2 | 0.6 | 0.6 |
| Fishing | 3.7 | - 2.7 | 1.1 | - 0.8 | 1.5 | 1.4 |
| Industries | 3.5 | 3.0 | 19.6 | 16.5 | 26.7 | 26.2 |
| Mining and Quarrying | 2.2 | - 0.9 | 1.2 | - 0.5 | 2.5 | 2.3 |
| Manufacturing | 2.3 | 4.7 | 7.6 | 15.5 | 15.7 | 15.7 |
| Electricity, Gas, Steam and Air Conditioning Supply | 3.3 | 7.8 | 0.7 | 1.6 | 1.0 | 1.0 |
| Water Collection, Treatment and Supply | 4.8 | 4.3 | 0.1 | 0.1 | 0.1 | 0.1 |
| Sewerage, Waste, Treatment and Disposal Activities | 11.9 | 24.8 | 0.5 | 1.1 | 0.2 | 0.3 |
| Construction | 6.6 | - 0.9 | 9.6 | - 1.3 | 7.2 | 6.8 |
| Services | 5.2 | 5.3 | 59.9 | 62.6 | 56.3 | 56.6 |
| Wholesale and Retail Trade, Transportation and Storage, and Accommodation and Food Service Activities | 4.0 | 4.6 | 19.3 | 22.5 | 23.3 | 23.2 |
| Information and Communication | 11.6 | 12.5 | 1.2 | 1.4 | 0.5 | 0.6 |
| Financial, Insurance and Real Estate Activities Including Ownership of Dwellings | 8.1 | 12.3 | 18.6 | 29.6 | 11.5 | 12.3 |
| Professional Services and Other Personal Service Activities | 4.3 | 1.3 | 11.0 | 3.3 | 12.2 | 11.8 |
| Public Administration, Defence, Education, Human Health and Social Work Activities | 5.5 | 3.2 | 9.8 | 5.8 | 8.8 | 8.7 |
| Equals Gross Value Added (GVA) at Basic Price | 4.7 | 4.6 | 87.3 | 88.1 | 90.8 | 90.7 |
| Taxes less Subsidies on Products | 6.9 | 6.2 | 12.7 | 11.9 | 9.2 | 9.3 |
| Equals Gross Domestic Product (GDP) at Market Price | 4.9 | 4.8 | 100.0 | 100.0 | 100.0 | 100.0 |
| Net Primary Income from Rest of the World | - 2.9 | - 3.7 | | | | |
| Gross National Income at Market Price | 4.9 | 4.8 | | | | |

(a) The data is based on the base year 2010 GDP estimates of the Department of Census and Statistics.

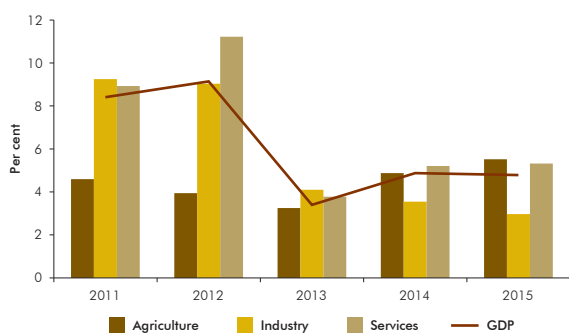
Source : Department of Census and Statistics

(b) Provisional

(c) Revised

Chart 2.1

Annual Growth Rate (a)



(a) The data is based on the base year 2010 GDP estimates of the Department of Census and Statistics.

in comparison to 8.9 per cent growth observed in 2014. This slowdown was a combined outcome of the deceleration of both real GDP growth and GDP implicit deflator. In real terms, GDP grew by 4.8 per cent in 2015 compared to 4.9 per cent in the previous year. Accordingly, real GDP in 2015 amounted to Rs. 8,622.8 billion in comparison to Rs. 8,229.0 billion in 2014. Meanwhile, the GDP implicit deflator decelerated to 2.1 per cent in 2015 from 3.9 per cent in 2014.

GDP per capita was estimated at Rs. 533,398 for 2015 compared to Rs. 503,032 in 2014, recording a 6.0 per cent growth in comparison to 7.9 per cent in 2014. This was mainly attributable to the growth in nominal GDP in the midst of a fairly stable mid-year population growth level. Per capita GDP denominated in US dollar terms also increased to US dollars 3,924 in 2015, from

US dollars 3,853 in 2014. Resulting growth in per capita GDP denominated in US dollars by 1.8 per cent in 2015 was a deceleration compared to 6.7 per cent growth recorded in 2014, mainly due to the slowdown in nominal GDP growth.

GNI, which is estimated by adjusting GDP for net primary income from rest of the world increased to Rs. 10,932 billion recording a growth of 7.1 per cent in nominal terms during 2015 compared to 9.0 per cent growth in 2014.

The net primary income from rest of the world, which consists of compensation of employees and investment income, remained negative as the primary income paid to the rest of the world exceeded the primary income received from rest of the world. The negative growth in primary income was a combined outcome of the decline in both the compensation of employees and the investment income in 2015 compared to last year.

2.3 Contribution from the Institutional Sectors

The gross value added of the Agriculture, Industry and Services activities under the production estimates can be further classified into institutional sectors as Non-Financial Corporations (NFC), Financial Corporations (FC), General Government (GG), Households (HH) and Non-Profit Institutions Serving Households (NPISH). HH and NPISH are considered together in the National Accounts estimation process.

Table 2.2

Gross Value Added by Institutional Sector at Current Market Prices (a) (b)

| Item | Percentage Share (%) | | | | | | | |
|----------------------------------|------------------------------|------------------------|--------------------|---|------------------------------|------------------------|--------------------|---|
| | 2014 | | | | 2015 | | | |
| | Non - Financial Corporations | Financial Corporations | General Government | Households and Non-Profit Institutions Serving Households | Non - Financial Corporations | Financial Corporations | General Government | Households and Non-Profit Institutions Serving Households |
| Agriculture | 17.5 | - | - | 82.5 | 18.1 | - | - | 81.9 |
| Industries | 60.2 | - | 3.2 | 36.6 | 60.5 | - | 2.6 | 36.9 |
| Services | 24.6 | 7.3 | 13.9 | 54.2 | 23.7 | 7.4 | 15.3 | 53.7 |
| Gross Value Added at Basic Price | 34.9 | 4.4 | 9.4 | 51.2 | 34.5 | 4.5 | 10.1 | 51.0 |

(a) The data is based on the base year 2010 GDP estimates of the Department of Census and Statistics.

Source : Department of Census and Statistics

(b) Provisional

Considering the sectoral estimates for 2014 and 2015, the HH and NPISH together represented the majority of economic activities. In 2015, the HH and NPISH's share in the economy was 51.0 per cent compared to 51.2 per cent in 2014. The HH and NPISH together grew by 6.1 per cent in nominal terms during 2015 compared to 9.5 per cent growth recorded in 2014. Meanwhile, NFC, the second major sector of the economy, grew by 5.3 per cent in 2015 in comparison to the 6.5 per cent growth recorded in 2014, representing 34.5 per cent of the economy. Further, the GG and FC grew by 13.6 per cent and 7.8 per cent, respectively, in 2015 compared to 14.3 per cent and 13.1 per cent growth, respectively, recorded in the previous year. Consequently, the GG and FC represented 10.1 per cent and 4.5 per cent, respectively, of the economy in 2015.

The gross value added of the Agriculture, as well as Services activities were driven by the HH and NPISH, while Industry activities were driven by the NFC sector in 2015. Accordingly, 81.9 per cent of the gross value added in Agriculture activities was generated from HH and NPISH in 2015, while the balance was from the NFC sector. It was observed that the contribution of the HH and NPISH sector was higher than that of the NFC sector in most of the Agricultural activities. The highest contribution to the Agricultural activities by the HH and NPISH was observed in marine fishing activities, while the contribution of the NFC sector was strong in the areas of animal production and growing of tea. Meanwhile, the NFC contributed 60.5 per cent of the gross value added in Industry activities in 2015, followed by 36.9 per cent from the HH and NPISH, and 2.6 per cent from GG. Gross value added in manufacture of food, beverage and tobacco products mainly contributed to the Industry share of the NFC, and HH and NPISH sectors, while the contribution from the GG was mainly visible in construction activities. In the meantime, the highest contribution to the Services activities was from the HH and NPISH, which represented 53.7 per cent,

followed by the NFC, which represented 23.7 per cent. Further, the GG and FC sectors contributed 15.3 per cent and 7.4 per cent, respectively, to Services activities in 2015. The HH and NPISH contribution to the Services activities mainly came from transport activities, while the contribution of the NFC sector was mostly in wholesale and retail trade activities. The GG sector largely contributed to public administration and defence; compulsory social security activities, while the FC sector contribution came from financial services and auxiliary financial services.

2.4 Output, Policies, Institutional Support and Issues

Agriculture

The Agriculture, forestry and fishing activities grew by 5.5 per cent in value added terms during 2015 compared to 4.9 per cent growth in 2014. The growth in Agriculture activities was largely attributable to the significant expansion in the growing of rice, as a result of the bumper harvest recorded during the year and the substantial contribution from the growing of vegetables. Moreover, growing of fruits, animal production and growing of oleaginous fruits (coconut, king coconut, oil palm) also significantly contributed to this growth. Further, forestry and logging, growing of spices, aromatic, drug and pharmaceutical crops, other perennial crops and other cereals, and plant propagation and support activities to agriculture contributed positively to the overall growth in Agriculture. However, the contraction in fishing, growing of rubber, tea, sugar cane, tobacco and other non-perennial crops and other beverage crops (coffee, cocoa etc.) dampened the growth in Agriculture in 2015.

Agriculture Production Index

The Agriculture Production Index, which measures the output of Agriculture and Fisheries sectors, recorded a growth of 6.4 per cent in 2015 compared to a decline of 1.6 per cent in 2014. Within the index, the sub indices of paddy, coconut and other crops (fruits, vegetables

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

| Item | 2014 (a) | 2015 (b) | Growth Rate (%) | |
|---------------------------|----------|----------|-----------------|-------------|
| | | | 2013/14 (a) | 2014/15 (b) |
| Agriculture and Fisheries | 119.9 | 127.6 | -1.6 | 6.4 |
| 1 Agriculture | 111.3 | 121.6 | -3.3 | 9.3 |
| 1.1 Agriculture Crops | 108.1 | 118.2 | -4.3 | 9.3 |
| Paddy | 90.4 | 128.9 | -26.9 | 42.6 |
| Tea | 108.5 | 105.6 | -0.5 | -2.7 |
| Rubber | 73.5 | 66.0 | -24.4 | -10.2 |
| Coconut | 101.3 | 107.9 | 14.2 | 6.5 |
| Other Crops | 139.2 | 142.1 | 11.1 | 2.1 |
| Vegetables | 135.8 | 136.1 | 0.5 | 0.2 |
| Fruits | 139.7 | 152.8 | 22.0 | 9.4 |
| Other Field Crops | 140.5 | 144.6 | 8.4 | 2.9 |
| 1.2 Livestock | 136.2 | 147.2 | 3.1 | 8.1 |
| 2 Fisheries | 160.4 | 155.9 | 4.4 | -2.8 |

(a) Revised

Source: Central Bank of Sri Lanka

(b) Provisional

and other field crops) increased, while tea and rubber sub indices declined in comparison to the previous year. The Livestock activities grew during the year, as reflected by the index, while a contraction was recorded in the Fisheries activities.

Paddy

The paddy production in 2015 increased to an all time high level, supported by conducive policies and favourable weather conditions. The production of paddy, which was severely affected by extreme weather conditions in 2014, increased by 42.6 per cent to 4.8 million MT in 2015. Significant improvement in the extent sown and harvested, together with the increase in the average yield,

contributed to the higher production during the year. The net extent harvested during the year increased by 37.3 per cent to 1,088,374 hectares while the paddy yield increased to 4,429 kg per hectare in 2015 from 4,264 kg per hectare in 2014. In terms of seasonality in paddy cultivation, the quantum produced during the 2014/15 Maha season increased by 28.7 per cent to 2.9 million MT, accounting for 60 per cent of total annual production, while paddy output in the 2015 Yala season increased by 69.7 per cent to 1.9 million MT. Government intervention in the form of guaranteed paddy purchase price, fertiliser subsidy and purchase of stocks by the Paddy Marketing Board (PMB) contributed to the significant improvement in the paddy sector in 2015. It is estimated that the annual paddy production in 2015, equivalent to 3.3 million MT of rice, is sufficient to meet the rice demand of the country for approximately 17 months. The increased paddy production during the year and the large volatility observed in production in the past few years highlight the need for the country to build a rolling stock of paddy through improved storage facilities, while encouraging the manufacturers of value added rice based products, and exploring the possibility of exporting excess rice production.

Table 2.4 Paddy Sector Statistics

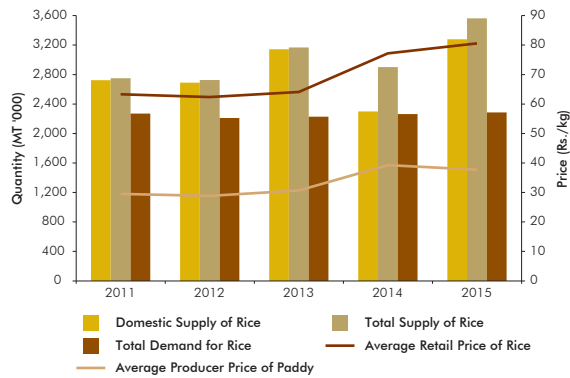
| Item | Unit | 2014 (a) | | | 2015 (b) | | |
|-----------------------------|---------------|----------|--------|---------|----------|--------|---------|
| | | Maha | Yala | Total | Maha | Yala | Total |
| Gross Extent Sown | hectares '000 | 651 | 313 | 964 | 773 | 481 | 1,254 |
| Gross Extent Harvested | hectares '000 | 580 | 301 | 881 | 735 | 476 | 1,211 |
| Net Extent Harvested | hectares '000 | 521 | 272 | 793 | 659 | 429 | 1,088 |
| Production | mt '000 | 2,236 | 1,145 | 3,381 | 2,877 | 1,942 | 4,819 |
| | bushels '000 | 107,155 | 54,872 | 162,027 | 137,882 | 93,091 | 230,973 |
| Average Yield (c) | kg/ hectare | 4,222 | 4,204 | 4,264 | 4,364 | 4,527 | 4,429 |
| Credit Granted | Rs.mn | 3,174 | 1,588 | 4,762 | 3,114 | 2,088 | 5,202 |
| Rice Imports | mt '000 | - | - | 600 | - | - | 286 |
| Paddy Equivalent of Imports | mt '000 | - | - | 858 | - | - | 409 |

(a) Revised

(b) Provisional

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

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

Chart 2.2 Rice: Supply and Demand

Paddy and rice prices moved in response to policy changes and market conditions during 2015. Rice prices, which remained at elevated levels during early 2015 declined gradually due to the availability of the increased paddy harvest during the 2014/15 Maha season and rice imports during the early part of the year. Meanwhile, in response to the bumper harvest in 2015, the government revised taxes on rice imports upward with a view to stabilising local prices and ensuring remunerative prices to farmers. Rice prices increased again during the fourth quarter of the year following the gradual increase in paddy prices due to increase in purchase price under the government paddy purchasing programme. Accordingly, the average retail price of Samba was Rs. 91.20 per kg in 2015 compared to Rs. 84.14 per kg in 2014 while that of Nadu was Rs. 77.95 per kg in comparison to Rs. 78.37 per kg in the previous year. Meanwhile, rice imports decelerated from the second quarter of 2015 in response to higher taxes and reduced to 285,604 MT during the year, registering a 52.4 per cent decline over the previous year.

Tea

Tea production continued to decline in 2015 for the second consecutive year. Total tea production in 2015 declined by 2.7 per cent to 329 million kg from 338 million kg in 2014 due to supply side factors as well as in

response to demand conditions. From the supply perspective, unfavourable weather conditions during the greater part of the year, and the "go slow" labour action in the plantation sector in July demanding a wage hike affected tea production. On the demand side, global conditions were not favourable with lower demand from major export destinations, which experienced economic setbacks owing to declining oil prices and increased geo-political uncertainties. Both high grown and low grown tea production, which collectively accounted for around 85 per cent of the overall production during 2015, declined by 2.5 per cent and 3.6 per cent to 77 million kg and 202 million kg, respectively. However, the production of medium grown tea increased marginally by 1.0 per cent to 50 million kg. As in the previous years, the smallholder tea sector continued to dominate the overall tea industry contributing over 73 per cent to total tea production in 2015.

The declining trend in tea prices observed since September 2014 continued throughout 2015. The contraction in the demand from major tea importers adversely affected tea prices in 2015. Lower demand from the Middle Eastern economies that were affected by the decline in international oil prices and the sharp depreciation of currencies of countries such as Russia and Ukraine had an adverse impact on tea prices. Accordingly, the average price of tea at the Colombo Tea Auction (CTA) declined by 12.5 per cent to Rs. 401.46 per kg in 2015 in comparison to Rs. 459.01 per kg recorded in the previous year. The highest year-on-year decline in average tea prices at the CTA was recorded for low grown tea (14.2 per cent) followed by medium grown tea (11.3 per cent) and high grown tea (7.1 per cent). The average export price (FOB) also declined by 8.7 per cent to Rs. 593.08 per kg in 2015 from Rs. 649.44 per kg in 2014. The average price received by smallholders for green leaf declined to Rs. 58.80 per kg in 2015 from Rs. 67.54 per kg in 2014. As the tea industry

is currently experiencing a decline in output prices and a high cost of production along with low productivity, which has posed a challenge to the profitability and sustainability of the sector, remedial measures should be taken to increase productivity as well as value addition in the period ahead. Going forward, it is expected that the removal of economic sanctions on Iran, which is one of the major export destinations for Sri Lankan tea, and possible improvements in global demand would help stabilise tea prices.

Rubber

A decline in rubber production was observed for the fourth consecutive year in 2015 largely as a result of low international market prices. Rubber production declined by 10.1 per cent to 88,570 MT in 2015 from 98,573 MT in 2014. In particular, smallholders slowed their tapping operations in response to lower rubber prices. Furthermore, the unfavourable weather conditions that prevailed during the second and the third quarters of the year along with the high cost of production, poor management of the fields and over aged trees contributed to the decline in production. The production of sheet rubber, which accounted for 50 per cent of the total rubber production of the country, declined to 44,390 MT in 2015 reflecting a drop of 8.5 per cent in comparison to the previous year. Crepe rubber production, accounting for 13 per cent of the total rubber production, also recorded a substantial decline of 27.3 per cent to 11,091 MT during the year. The production of other categories of rubber decreased by 6.2 per cent to 25,480 MT in 2015. Meanwhile, low prices for natural rubber resulted in a reduction in new plantation and replantation of rubber during 2015. However, the average yield per hectare in 2015 increased by 6.9 per cent to 950 kg. The continuous decline in natural rubber prices caused smallholders in major producing countries to shift towards other agricultural activities leading to a reduction in global production.

Following the drop in international market prices, rubber prices in the domestic market also continued their declining trend during 2015. The average price of natural rubber per metric ton in the international market, which is influenced by global economic conditions and petroleum prices, declined by 20.4 per cent to US dollars 1,560 in 2015 from US dollars 1,960 recorded in 2014. In response to weak prices in the global market, the average price of ribbed smoked sheet No.1 (RSS1) at the Colombo Rubber Auction declined by 13.2 per cent to Rs. 248.17 per kg in 2015 from Rs. 286.05 per kg in the previous year. Low prices in the global market together with lower domestic production resulted in an increase in rubber imports by more than two fold in 2015.

Coconut

Coconut production surpassed 3,000 million nuts in 2015, which was the highest level of output recorded since the year 2000. Coconut production grew by 6.5 per cent to 3,056 million nuts compared to 2,870 million nuts in the previous year. The improvement in production was attributed to favourable rainfall in coconut growing areas and conducive air temperature during 2014 and early 2015. Further, improved agricultural practices and management also contributed to this satisfactory performance. With increased production, the output of major kernel products also rose during the period under review. In particular, the coconut oil production recorded an increase of 16.6 per cent to 52,790 MT compared to 45,268 MT in the previous year. The production of coconut cream, coconut milk powder and liquid coconut milk grew by 29.0 per cent to 31,885 MT during the year mainly due to enhanced demand for exports fetching premium prices. The virgin coconut oil industry, which produced 13,765 MT in 2015, has become an emerging industry with high demand in the global market and an impressive export performance. Accordingly, virgin coconut oil exports during 2015 increased significantly to 12,291 MT in comparison

to 6,014 MT recorded during 2014. In contrast, the production of desiccated coconut recorded a decline of 17.0 per cent to 41,795 MT in comparison to 50,367 MT produced in 2014, owing to lower export demand.

In spite of the increased supply of coconut in the domestic market, prices of coconut based products in 2015 remained at an elevated level, reflecting higher demand emerging from coconut based industries. The average farm gate coconut price increased to Rs. 34.00 per nut in 2015

from Rs. 32.50 per nut in 2014, while the average retail price of a coconut in 2015 also increased to Rs. 50.00 per nut from Rs. 45.50 per nut in 2014. Meanwhile, the price of desiccated coconut also increased further during the year. The average price of desiccated coconut in 2015 increased by 16.4 per cent to Rs. 296.10 per kg from Rs. 254.50 per kg in 2014. However, the price of coconut oil declined during the second half of the year following a reduction in prices of vegetable oils in the international market as well as the increase in domestic coconut oil production. Accordingly, the average retail price of a 750 ml coconut oil bottle decreased to Rs. 206.50 in 2015 from Rs. 212.00 in 2014. The average export price of coconut kernel products increased by 39.6 per cent to Rs. 54.54 per nut in 2015 from Rs. 39.08 per nut in 2014. Export earnings from coconut products increased by 2.6 per cent to Rs. 47,745 million in 2015 from Rs. 46,517 million in the previous year.

Table 2.5 Trends in Principal Agricultural Crops

| Category | Unit | 2014 (a) | 2015 (b) | Change (%) | |
|-------------------------------------|---------------|-------------|-------------|----------------|----------------|
| | | | | 2013/14 (a) | 2014/15 (b) |
| 1. Tea | | | | | |
| 1.1 Production (c) | kg mn | 338.0 | 329.0 | -0.6 | -2.7 |
| 1.2 Total Extent | hectares '000 | 203 | 203 | -8.6 | - |
| 1.3 Extent Bearing | hectares '000 | 195 | 195 | 6.0 | - |
| 1.4 Cost of Production (d) | Rs/kg | 475.11 | 478.23 | 12.4 | 0.7 |
| 1.5 Average Price | | | | | |
| - Colombo Auction | Rs/kg | 459.01 | 401.46 | 3.3 | -12.5 |
| - Export (FOB) | Rs/kg | 649.44 | 593.08 | 4.1 | -8.7 |
| 1.6 Replanting | hectares | 1,195 | 806 | -24.9 | -32.6 |
| 1.7 New Planting | hectares | 401 | 479 | 52.5 | 19.5 |
| 1.8 Value Added as % of GDP (e) | | 0.9 | 0.8 | - | -11.1 |
| 2. Rubber | | | | | |
| 2.1 Production | kg mn | 98.6 | 88.6 | -24.4 | -10.1 |
| 2.2 Total Extent | hectares '000 | 134 | 135 | - | 0.7 |
| 2.3 Area under Tapping | hectares '000 | 111 | 116 | 5.7 | 4.5 |
| 2.4 Cost of Production | Rs/kg | 160.00 | 170.00 | 6.7 | 6.3 |
| 2.5 Average Price | | | | | |
| - Colombo Auction (RSS 1) | Rs/kg | 286.05 | 248.17 | -24.1 | -13.2 |
| - Export (FOB) | Rs/kg | 362.83 | 342.03 | -6.9 | -5.7 |
| 2.6 Replanting (f) | hectares | 2,096 | 621 | 3.6 | -70.4 |
| 2.7 New Planting (f) | hectares | 1,428 | 769 | -52.1 | -46.1 |
| 2.8 Value Added as % of GDP (e) | | 0.3 | 0.3 | -40.0 | - |
| 3. Coconut | | | | | |
| 3.1 Production | nuts mn | 2,870 | 3,056 | 14.2 | 6.5 |
| 3.2 Total Extent | hectares '000 | 441 | 455 | 12.5 | 3.2 |
| 3.3 Cost of Production | Rs/nut | 13.67 | 15.25 | 0.7 | 11.6 |
| 3.4 Average Price | | | | | |
| - Producer Price | Rs/nut | 31.51 | 33.88 | 6.5 | 7.5 |
| - Export (FOB) (g) | Rs/nut | 39.08 | 54.54 | 33.1 | 39.6 |
| 3.5 Replanting / Under Planting (h) | hectares | 5,796 | 4,919 | 27.6 | -15.1 |
| 3.6 New Planting (i) | hectares | 30,771 | 14,408 | 30.0 | -53.2 |
| 3.7 Value Added as % of GDP (e) | | 0.8 | 0.8 | 14.3 | - |

| | |
|---|--|
| (a) Revised | Sources: |
| (b) Provisional | Sri Lanka Tea Board |
| (c) Including green tea | Tea Small Holding Development Authority |
| (d) Includes green leaf suppliers' profit margin | Ministry of Plantation Industries Department of Census and Statistics |
| (e) In growing and processing only | Rubber Development Department |
| (f) Extent covered by cultivation assistance schemes of the Rubber Development Department. | Coconut Cultivation Board Coconut Development Authority |
| (g) Three major coconut kernel products only | Plantations Companies Sri Lanka Customs |
| (h) Extent covered by cultivation assistance schemes of the Coconut Cultivation Board (CCB). | Central Bank of Sri Lanka |
| (i) The extent newly planted is calculated based on the amount of coconut seedlings distributed by CCB at a conversion rate of 158 seedlings for one hectare. | |

Minor Export Crops

The performance of minor export crops rebounded in 2015 registering a 12.9 per cent growth. The production of pepper, clove, cinnamon, cardamom and arecanut recorded a growth during the year, while the production of coffee, cocoa and nutmeg declined. Pepper production at 31,013 MT recorded a remarkable growth of 66.2 per cent driven by favourable weather conditions in the flowering and fruiting period and the expansion of the extent harvested, while the production of cloves increased by 62.9 per cent to 5,253 MT mainly due to the cyclical harvesting patterns which produces a bumper harvest every other year. The export volumes of pepper and cloves also increased significantly by 103.8 per cent and 348.4 per cent, respectively, during the year. Production of cinnamon increased marginally to 17,707 MT in 2015 from 17,600 MT in 2014. Production of arecanut grew by 5.1 per cent following a substantial growth in the previous

year owing to higher export demand during the first half of 2015, particularly from India. However, the production of coffee and cocoa declined by 20.5 per cent and 8.6 per cent to 2,126 MT and 457 MT, respectively, in 2015. Cashew kernel production also declined substantially by 33.3 per cent due to the unexpected rainfall during the flowering season, despite the increase in extent sown resulting in an increase in farm gate prices.

Other Field Crops

The production of other field crops increased amidst crop damages caused by heavy rain and floods in early 2015. In aggregate, the production of other field crops increased by 6.8 per cent in 2015 to 362,452 MT from 339,495 MT in 2014. This was the combined outcome of a growth of 5.6 per cent in the 2014/15 Maha season and a 10.8 per cent increase in the 2015 Yala season. The availability of sufficient water supply as well as remunerative prices supported the increased production. The output of maize, kurakkan, green gram, black gram, soya beans, ground nut and potatoes expanded in 2015 compared to the previous year, while the production of cowpea, big onion, red onion and chillies recorded a negative growth, which prompted increased imports of these commodities. The big onion production declined by 11.7 per cent to 89,323 MT during the year, and consequently, imports of big onion increased by 39.7 per cent to 210,253 MT. Although the production of potatoes increased by 17.7 per cent to 97,391 MT in 2015, the importation of potatoes also increased by 20.2 per cent, supported by low prices in the global market along with increased domestic demand. Meanwhile, it is estimated that the production of maize, cowpea and ground nut, exceeded the estimated domestic requirement in 2015 mainly due to the output from the third season cultivation. It is expected that the improved local supply of field crops would support domestic industries that use

such produce, negating the demand for imports. However, in order to strengthen domestic food security, further efforts are required to improve the supply of all other field crops by promoting off-seasonal production, expanding storage capacity and strengthening research and development activities on post-harvest technology and seed production.

Vegetables

Vegetable production increased to 1,875,508 MT in 2015 registering a 2.2 per cent growth. This increase was supported by a 2.4 per cent increase in the 2014/15 Maha season and a 1.8 per cent growth during the 2015 Yala season. Meanwhile, there were wide fluctuations in vegetable prices throughout the year owing to extreme weather conditions. Weather related setbacks experienced during late 2014 resulted in crop damages, reducing the market supply and elevating prices of many vegetable varieties during the early part of 2015. Subsequently, the supply of vegetables increased during the peak harvesting period of the Maha season as well as the Yala season, thus lowering prices. Towards the end of the year, vegetable prices increased again displaying the regular seasonal pattern. Annual average retail prices of low country vegetables ranged from Rs. 70.00 to Rs. 256.00 per kg in 2015 in comparison to the range from Rs. 70.00 to Rs. 152.00 per kg recorded in the previous year, while annual average retail prices of upcountry vegetables ranged between Rs. 94.00 and Rs. 308.00 per kg in 2015 in comparison to a range of Rs. 93.00 to Rs. 229.00 in 2014. During 2015, 26 million kg of vegetables with a value of Rs. 4,142 million were exported. Meanwhile, post-harvest losses have been estimated at around 30 - 40 per cent of total vegetable production. Thus, measures are necessary to address this issue in order to protect the producer and the consumer, as well as to increase the productivity of the sector.

Fruits

The production of fruits increased in 2015 with significant contributions from avocado, melon, guava (kilo pera), rambutan and pineapple. Fruit production recorded a significant growth of 15.6 per cent in 2015 as against a 0.8 per cent decline in the previous year. During the year, 33 million kg of fruits worth Rs. 5,173 million were exported while 45 million kg of fresh fruits, including apples, mandarins, oranges and grapes valued at Rs. 5,637 million were imported. Post-harvest losses of the sector are estimated at around 30- 40 per cent.

Sugar

Sugar production increased in 2015 supported by favourable rainfall, increased extent cultivated and the higher purchase price of sugarcane. Sugar production increased by 7.0 per cent to 55,982 MT in 2015, although the performance of sugar production factories varied. The output at Pelwatte sugar factory, which accounts for half of the total domestic sugar production, increased by 53.7 per cent to 27,612 MT in 2015 while the production at Sevenagala and Gal Oya sugar factories declined by 0.3 per cent and 29.8 per cent to 14,377 MT and 13,994 MT, respectively. The Kantale sugar factory engaged in sugarcane cultivation with a view to recommencing its manufacturing operations in the near future. Meanwhile, the Sugar Recovery Rate, which partly reflects productivity, declined to 7.5 per cent in 2015 from 8.0 per cent in the previous year.¹ It is estimated that the overall domestic sugar production in 2015 was sufficient to meet around 10 per cent of the total sugar requirement of the country. The increased demand along with low sugar prices in the global market, led to an increase in sugar imports by 20.1 per cent to 623,971 MT

in 2015. Considering the potential for expansion of the sugar industry and the substantial amount of foreign exchange incurred in importing sugar, it is essential to revitalise the sugar industry with the use of improved varieties, better management practices and modern technology while undertaking measures to reduce the cost of production which is currently estimated above the retail price of sugar.

Fisheries

The fisheries sector experienced a setback in 2015. Fish production during 2015 declined by 2.8 per cent to 520,190 MT compared to the expansion of 4.3 per cent recorded in 2014. This was mainly due to a significant decline in inland fish production by 11.2 per cent to 67,300 MT. Within inland fish production, the decline in inland capture was driven by high water levels in major reservoirs that reduced the fish netting areas during early 2015 and the lower quantum of fingerlings released to tanks in 2014. However, the production in shrimp farm and aquaculture sub categories increased considerably during the year. In the meantime, marine fish production declined by 1.4 per cent to 452,890 MT in 2015, largely due to the drop in coastal and lagoon fish production, while offshore fish production increased marginally. In response to the decline in production, prices of both large and small fish varieties remained at elevated levels throughout the year compared to the previous

Table 2.6 Fish Production

| Sub-Sector | MT '000 | | | |
|--------------------|---|----------|------------|------------|
| | 2014 | 2015 (a) | Change (%) | |
| | | | 2013/14 | 2014/15(a) |
| Marine | 459 | 453 | 3.0 | -1.4 |
| Coastal and Lagoon | 279 | 269 | 4.1 | -3.5 |
| Off-shore | 180 | 184 | 1.4 | 1.9 |
| Inland Fisheries | 76 | 67 | 13.6 | -11.2 |
| Capture | 69 | 57 | 25.1 | -17.1 |
| Aquaculture | 2 | 3 | -76.1 | 77.0 |
| Shrimp Farms | 5 | 7 | 16.3 | 37.7 |
| Total | 535 | 520 | 4.3 | -2.8 |
| (a) Provisional | Source: Ministry of Fisheries and Aquatic Resources | | | |

¹ Sugar Recovery Rate = $\frac{\text{Sugar Produced}}{\text{Quantity of Cane Crushed}} \times 100$

year. Further, export earnings from fish products declined by 32.9 per cent to Rs. 22,130 million consequent to the ban on exports of fisheries products to the European Union (EU) from Sri Lanka. In the meantime, imports of canned fish increased significantly by 150.2 per cent to 49,016 MT in 2015 from 19,591 MT in 2014 partly due to the reduction in Special Commodity Levy (SCL) from Rs. 102 per kg to Rs. 50 per kg.

Livestock

The increasing trend in total national milk production continued in 2015. Milk production increased by 12.1 per cent to 374 million litres in 2015 compared to the growth of 1.4 per cent recorded in the previous year, owing to favourable producer prices for milk and growing demand for raw milk from large milk collectors with the increased capacity of milk factories. Cattle milk production increased by 11.9 per cent to 305 million litres whilst buffalo milk production increased by 13.2 per cent to 69 million litres. Further, the number of milking cows increased by 2.1 per cent to 392,710, of which buffalo milking cows increased by 1.5 per cent to 91,570. Milk production at the National Livestock Development Board (NLDB) increased to 11 million litres in 2015 from 10.8 million litres while MILCO (Pvt) Ltd. increased its production marginally by 0.5 per cent to 62 million litres. Calving of the imported cattle at Ridiyagama farm contributed to the increase in cattle milk. Ridiyagama farm of the NLDB, following the receipt of the first consignment of pure and cross bred cattle from Australia in 2014, was further expanded as a modern dairy farm where imported cattle could be nurtured under intensive management systems. Meanwhile, large scale producers increased their milk collection by 1.5 per cent to 219 million litres in 2015. This improvement was supported by the modernisation of Polonnaruwa, Digana and Ambewela factories of MILCO. The

national average cost of production of milk reduced by Rs. 2.24 per litre to Rs. 32.42 per litre while the average farm gate price increased by Rs. 7.34 per litre to Rs. 62.00 per litre leading to higher earnings for farmers. Further, the guaranteed price of milk, which was increased to Rs. 60.00 per litre by the Budget 2015, was increased further to Rs. 70.00 per litre from June 2015. Meanwhile, import of milk powder valued at Rs. 31,842 million increased by 21.7 per cent to 81,759 MT. Since the domestic production of milk is sufficient only to meet around 40 percent of the national requirement, it is vital to further encourage milk production while addressing the remaining bottlenecks. A majority of government investment in the sector over the years has gone into improving the quality of cows in the country. However, there is no effective market for calves where buyers and sellers can meet. In addition, small scale milk processing should be encouraged because the output of such producers becomes important when prices of powdered milk increase in the international market.

The poultry sector showed a mixed performance in 2015. Chicken production increased by 9.4 per cent to 164,450 MT in 2015. The number of broiler parents production increased by 8.3 per cent in 2015, while imports of broiler parents and layer parents declined by 21.9 per cent and 28.0 per cent, respectively. In spite of the increased production, chicken prices also rose in 2015. The average price of fresh chicken was at Rs. 508.00 per kg in 2015 in comparison to Rs. 453.00 per kg in the previous year while the ceiling price of broiler chicken remained at Rs. 380.00 per kg. The cost of production of chicken (dressed) also increased marginally to Rs. 291.16 per kg in 2015 from Rs. 290.89 per kg in 2014. The production of pork and mutton increased by 1.4 per cent and 0.7 per cent to 7,180 MT and 1,350 MT, respectively, while beef production declined by 5.4 per cent to 32,020 MT. During the year, average prices of pork, mutton, and beef increased by 13.4

Table 2.7 Livestock Sector Statistics

| Sub-Sector | 2014 (a) | 2015 (b) | Change (%) | |
|--|-------------|-------------|------------|------------|
| | | | 2013/14(a) | 2014/15(b) |
| 1. Total Herd (No.) (million) | 1.4 | 1.4 | -8.0 | -1.0 |
| Neat Cattle | 1.1 | 1.1 | -5.5 | -1.5 |
| Buffalo | 0.3 | 0.3 | -15.8 | 0.7 |
| 2. National Milk Production (million litres) | 333.9 | 374.4 | 1.4 | 12.1 |
| Cow Milk | 272.9 | 305.4 | 2.9 | 11.9 |
| Buffalo Milk | 60.9 | 69.1 | -4.8 | 13.2 |
| 3. Milk Products (million litres) (c) | 33.6 | 33.5 | 14.1 | -0.3 |
| 4. Producer Price - Cow Milk (Rs./litre) | 54.7 | 62.0 | -8.7 | 13.4 |
| 5. Egg Production (No) (million) | 1,721.0 | 1,899.0 | 5.1 | 10.3 |
| 6. Poultry Meat Production (MT '000) | 150.3 | 164.5 | 4.0 | 9.4 |

(a) Revised
(b) Provisional
(c) Includes Products of National Livestock Development Board and MILCO (Pvt) Ltd only.

Sources: Ministry of Rural Economic Affairs
Department of Census and Statistics
National Livestock Development Board
MILCO (Pvt) Ltd.

per cent, 8.6 per cent and 14.9 per cent to Rs. 614.00 per kg, Rs. 1,384.00 per kg and Rs. 664.00 per kg, respectively. Meanwhile, egg production increased by 10.3 per cent to 1,899 million while the average retail price of an egg increased to Rs. 14.80 in 2015 from Rs. 12.75 in 2014. The export of eggs declined by 14.0 per cent in 2015, compared to the previous year.

Forestry

According to the Forest Department, the forest cover of Sri Lanka in 2015 remained at 1,951,472 hectares, unchanged from the previous year. During the year, 422.6 hectares were deforested for timber extraction and 450 hectares were reforested. Under the "United Nations Programme on Reducing Emissions from Deforestation and Forest Degradation" (UN-REDD), which aims to mitigate the adverse effects of climate change, groundwork studies and research work were conducted to determine the key drivers of deforestation and forest degradation in Sri Lanka. The Sri Lanka Community Forestry programme, which is being implemented in 167 sites covering 18 districts located in dry and intermediate zones, was expanded to 37 new sites during 2015. The programme focused on forestry activities that involve communities in forest conservation and

minimisation of human led damages to the forest. In 2015, approximately 1,000 hectares of forest land benefitted from the community led forestry programmes such as enrichment planting and buffer zone planting and nearly 40 kilometers long forest belts have been improved with fire preventive measures by communities. In order to increase the forest cover of the country up to 32 per cent of the land area by 2019, the Forest Department commenced a forest enhancement programme in 2014, and activities were carried out for the rehabilitation of degraded forests and forest restoration during 2015.² Meanwhile, under the private sector reforestation programme, the extent of commercial scale private forest plantations was 437.9 hectares by end 2015.

Agricultural Policies and Institutional Support

Agriculture policy in 2015 focused on assuring food security, ensuring environment sustainability and developing economic opportunity. Successive governments in Sri Lanka have introduced a number of policies to increase agricultural production with a view to attaining food security in the country. While much attention was given to infrastructure development for the agriculture sector including irrigation schemes and support services such as agricultural research, extension and education, government interventionist policies have also provided subsidies such as the fertiliser subsidy and guaranteed prices for key agricultural commodities. Although domestic agriculture meets around 75 per cent of the country's food requirement, there is potential to produce the entire requirement within the country in terms of other field crops such as gram, potatoes, chillies and big onion, which is currently met partly through imports.

² According to the latest data, Sri Lanka's forest cover was 29.7 per cent based on the Forest Cover mapping done in 2010 by the Forest Department

Table 2.8

Food Balance Sheet with regards to Major Food Commodities

| Item | Unit | 2010 | | | 2014 | | | 2015 | | |
|-------------|-----------|------------|---------|---------------------------------------|------------|---------|---------------------------------------|------------|---------|---------------------------------------|
| | | Production | Imports | Per Capita Availability (Kg per Year) | Production | Imports | Per Capita Availability (Kg per Year) | Production | Imports | Per Capita Availability (Kg per Year) |
| Rice (a) | MT'000 | 3,011 | 126 | 152 | 2,367 | 600 | 143 | 3,373 | 286 | 175 |
| Maize | MT'000 | 162 | 16 | 9 | 241 | 99 | 16 | 261 | 79 | 16 |
| Wheat | MT'000 | - | 1,051 | 51 | - | 1,179 | 57 | - | 1,208 | 58 |
| Big Onion | MT'000 | 59 | 158 | 10 | 101 | 151 | 12 | 89 | 210 | 14 |
| Sugar | MT'000 | 31 | 548 | 28 | 52 | 520 | 28 | 56 | 624 | 32 |
| Potatoes | MT'000 | 52 | 130 | 9 | 83 | 118 | 10 | 97 | 142 | 11 |
| Fresh Fish | MT'000 | 385 | 14 | 19 | 535 | 21 | 27 | 520 | 34 | 26 |
| Cow Milk | Mn litres | 192 | - | 9 | 273 | - | 13 | 305 | - | 15 |
| Coconut Oil | MT'000 | 65 | 3 | 3 | 45 | 6 | 2 | 53 | 6 | 3 |

(a) 1 MT of paddy = 0.7 MT of rice

Sources : Department of Census and Statistics
Sri Lanka Customs

Further measures were taken to strengthen agriculture sector in the country. The government's agriculture policy is anchored to the strategy of making the country self-sufficient in maize, soya beans, chillies, big onions, and potatoes by 2018 through crop diversification and productivity improvement while gradually shifting from subsistence agriculture to agri-business with access to export markets by 2020. Further, it is expected to establish 23 Agricultural Development Mega Zones under the theme of "Sri Lanka - The Global Home Garden" to make Sri Lanka's agricultural products globally competitive. As part of the Western Region Megapolis Master Plan, 13 planning areas have been proposed, including a Plantation City and a Forest City. The Plantation City will consist of the plantation areas around Avissawella with pockets of residential development while the Forest City is aimed at creating certain types of residential and tourism regions among well protected agriculture and forest area. However, in order to address the challenges prevailing in the sector, it is highly important to undertake measures to shift the traditional low value agriculture to modern high value agriculture accompanied by efficient water management, introducing high yield seed varieties and utilisation of modern technology while increasing the investment on research and development activities and simplifying access to agricultural credit for smallholders and farmers.

In 2015, several measures were implemented to develop the paddy sector. The guaranteed purchase price of paddy was increased with the view of encouraging farmers to increase the yield and extent cultivated. The guaranteed purchase price of paddy (Samba) increased to Rs. 50 per kg in 2015 from Rs. 35 per kg while Nadu and other varieties increased to Rs. 45 per kg from Rs. 32 per kg in the previous year. Given the bumper harvest, the PMB purchased a stock of 335,270 MT of paddy from both 2014/15 Maha harvest (160,000 MT) and 2015 Yala harvest (175,270 MT). PMB's limited storage facilities and financial constraints affected its ability to purchase additional paddy stocks from farmers under the guaranteed price scheme during the year. Meantime as proposed in the Budget 2016, arrangements were made to reduce the purchase price of paddy of Keeri Samba and Samba varieties to Rs. 50 per kg and Rs. 41 per kg, respectively, while Nadu and other varieties were reduced to Rs. 38 per kg in order to stabilise rice prices in the market. With a view to discouraging rice imports on the back of a bumper harvest, the SCL on the importation of rice was increased to Rs. 20 per kg with effect from 22 January 2015 from Rs. 1 per kg in 2014 and further to Rs. 40 per kg from 26 March 2015. On 6 May 2015, the SCL was replaced with a Customs duty of Rs. 35 per kg and other taxes. Meanwhile, funds disbursed under the fertiliser subsidy scheme in

2015 increased to Rs. 49,571 million. Initiatives have been taken to provide a cash grant of Rs. 25,000 per hectare for a maximum extent of 2 hectares in place of the existing fertiliser subsidy, commencing from the 2015 Yala season, allowing farmers greater flexibility in selecting farm inputs thereby increasing productivity. In order to ensure food security, measures were taken to establish warehouse facilities to address issues pertaining to the storage and marketing facilities of agricultural crops. In this regard, the largest warehouse with state of the art facilities was constructed in Buttala at a cost of Rs. 260 million and commissioned in January 2016. It is estimated that around 20,000 MT of grain could be stored in this warehouse and grains stockpiled under this facility are subject to strict quality control processes to ensure durability. Meanwhile, the government has planned to construct three more warehouses in the areas of Kilinochchi, Polonnaruwa and Embilipitiya to curtail post-harvest losses while completing the remaining work of the Mannar warehouse. It is expected that these warehouses would provide good quality storage facilities for farmers to store their produce during glut periods enabling farmers to benefit from higher market prices during off season periods. As warehousing is a key aspect of agricultural marketing, which enables the farmer to think beyond subsistence and expand production while enhancing productivity and revenue, it is essential to ensure that warehouses would be up to acceptable standards. In the meantime, with the intention of preventing the use of highly toxic agrochemicals in farming sector, a three year national program was launched in early March 2016 under the theme of "A Wholesome Agriculture - A Healthy Populace - A Toxin Free Nation".

The Sri Lanka Tea Board (SLTB) and the Tea Research Institute (TRI) continued to focus on improving productivity, value addition and competitiveness of the tea industry in 2015. The subsidy disbursed for replanting and new

planting with soil rehabilitation activities was increased to Rs. 500,000 and Rs. 400,000 per hectare from Rs. 350,000 and Rs. 250,000 per hectare, respectively, while the subsidy for new planting without soil rehabilitation increased to Rs. 310,000 from Rs. 195,000 per hectare during the year 2015. In response to the increased subsidy, around 806 hectares were replanted at a cost of Rs. 417 million while 479 hectares were newly planted at a cost of Rs. 128 million. Meanwhile, the SLTB undertook necessary steps to broaden the horizons of the Ceylon Tea market, especially in China, USA and the European market during the year while highlighting national promotion by participating in major overseas food and beverage trade fairs with lion logo packs under the SLTB subsidy scheme. Further, permission was granted to install a separate production line for CTC tea in existing orthodox tea factories within the allocated capacities in order to increase the production of CTC. The SLTB continued the "B Leaf 60" programme to upgrade average best leaf standard from 33 per cent to 60 per cent through awareness programmes, implementing regulatory activities and monitoring quality which would reduce post-harvest losses. Under this programme, a subsidy scheme of Rs. 80 per kg was introduced since March 2015 for smallholders who provide quality green leaf. Further, the government implemented a short term working capital loan scheme for registered tea factory owners with a view to enabling them to meet their obligations on time to tea smallholders while supporting to overcome financial difficulties due to the decline in auction prices. The interest subsidy of 2 per cent for this scheme was provided by the Central Bank.

The development strategy of the rubber sector largely concentrated on the expansion of rubber cultivation to nontraditional areas while improving productivity through promoting good agricultural practices. The subsidy scheme

for rubber replanting (Rs. 175,000 per hectare) and new planting (Rs. 150,000 per hectare) continued in 2015 as well. Accordingly, around Rs. 405 million and Rs. 190 million were disbursed for replanting and new planting activities, respectively, during the year. The new planting in traditional and nontraditional areas recorded around 219 hectares and 172 hectares, respectively. In comparison to the previous year, replanting in both corporate and smallholder rubber lands recorded a decline of 70.4 per cent to 621 hectares in 2015. Meanwhile, the government has undertaken steps to pay the difference between the monthly average price of RSS rubber in the Colombo Rubber Auction and the guaranteed purchase price of Rs. 350 per kg to smallholders since March 2015, with the intention of keeping the market price at competitive equilibrium level and thereby providing the remunerative price for smallholders. Under this scheme, around Rs. 1,409 million have been disbursed as at August 2015. Further, the Rubber Research Institute (RRI) implemented several policy measures to support the rubber sector amidst declining rubber prices in the global market. Accordingly, steps were taken to popularise newly developed technologies namely, improved tapping knife, power mat and single day drying system among beneficiaries while popularising new high yielding clones in the smallholder sector. Measures were also taken to introduce slow release of fertiliser for rubber nurseries to overcome problems associated with conventional practices while continuously inspecting quality planting materials for rubber growers. Further, measures were taken to develop technologies and identify suitable lands to expand rubber cultivation in the Eastern and Northern areas of the country. It is expected that the expansion of rubber cultivation to nontraditional areas would help to attain production targets of rubber over the medium term. However, it is vital to strengthen the domestic rubber based product industry to absorb the excess rubber production.

In the coconut sector, institutional support was further strengthened to promote new planting, replanting, upgrading of coconut institutions and promotion of research related activities while implementing measures to combat the spread of Weligama Coconut Leaf Wilt Disease (WCLWD). The WCLWD management programme to combat the spread of diseases was continued in 2015 by maintaining a buffer zone and uplifting the living status of affected farmers. Meanwhile, under the subsidy scheme for replanting and new planting, around Rs. 123 million were disbursed during the year. Accordingly, replanting and under planting areas were 4,919 hectares while new planting areas recorded 1,150 hectares. Meanwhile, the ban on fresh coconut exports, which was effective since December 2014 due to a severe fresh coconut shortage in the domestic market towards the end 2014, was removed in June 2015 considering the satisfactory performance of the sector, although taxes and levies on coconut product imports and exports remained largely unchanged during the year. However, non-tariff barriers were continued to discourage exports of fresh coconut nuts. Meanwhile, the import tariff on palm oil increased from Rs. 90.00 to Rs. 105.00 per kg, while palm kernel crude oil and other oil increased to Rs. 110.00 per kg and Rs. 125.00 per kg, respectively, during the year. Although the tariff revisions are likely to have a positive impact on the domestic oil industry, the continuous decline in edible oil prices in the global market, which remained lower than coconut oil prices, has resulted in an increase in imports of edible oil during 2015. Meanwhile, the capital expenditure incurred by government institutions for coconut sector development amounted to Rs. 663 million in 2015 in comparison to Rs. 767 million in 2014.

Policy measures to enhance domestic sugar production were further strengthened in 2015. Steps to expand sugarcane cultivation and establish small scale sugarcane based processing industries

in selected areas of Badulla, Kilinochchi and Nuwara Eliya districts continued during the year. Although policy measures undertaken to develop the Kantale sugar factory continued in 2015, the emergence of smut, leaf scald and white leaf diseases in major seed cane nurseries in Kantale destroyed most nurseries while new nurseries were established in an extent of about 25 hectares with six of the best varieties of sugar cane. Further, the Ministry of Plantation Industries has started the process of finding suitable entrepreneurs to recommence operations at the Kantale factory. It is often highlighted that the lack of cohesive policies and regulations, low productivity and the absence of a quality seed cane production system are major obstacles for the advancement of the industry. Hence, measures need to be taken to enhance product diversification, establish a stable market for sugarcane and introduce new improved sugarcane varieties, technology and know-how for the future development of the industry. Further, as there are a number of Ministries involved in monitoring the activities of major sugar factories, it is necessary to bring all three sugar factories under the purview of one Ministry, which would facilitate the development of the sugar industry.

During the year, institutes under the Department of Agriculture continued to carry out a number of programmes extensively geared towards promoting domestic agriculture while managing seasonal imbalances in agriculture production. In 2015, a new rice variety with better adaptability and a higher yield was released for local cultivation while three new varieties of other field crops (chilli, groundnut and corn) were released. At the same time, new varieties of capsicum, bitter gourd, spine gourd, long bean and mushroom were also released for cultivation. Further, three villages were selected as onion seed production model villages in three districts namely, Anuradhapura, Hambantota and Mannar aimed at enhancing domestic onion production.

In this regard, rain shelters were constructed in two hectares of lands in all three villages using materials imported from Korea under the project on "Seed multiplication and cropping technology development of big onion varieties for Sri Lanka". Further, about 2.2 million planting materials were produced and plants issued for the establishment of 54 fruit villages in selected districts under the "Fruit Village Development Programme". Meanwhile, the districts of Kandy, Matale, Kegalle, Mullaitivu, Killinochchi and Mannar have been identified as suitable areas for potato cultivation and it is estimated that around 500 hectares of new land could be brought under potato cultivation. Meanwhile, the Ministry of Agriculture organised the "National Food Production Programme" at Iranamadu in Kilinochchi in October 2015 with a view to attaining self-sufficiency in selected agriculture commodities and curtailing imports of food items. The "Young Agro Entrepreneur Programme" was continued with a view of attracting youth to the agriculture sector and, 848 young entrepreneurs benefited under this programme in 2015. The research activities of the Institute of Post-Harvest Technology (IPHT) continued in 2015 to solve technological problems confronting the post-harvest industry. Accordingly, 13 research projects were carried out during the year. Further, extension activities of IPHT on disseminating technology were continued. In order to ensure effective technology transfer to a large number of stakeholders, 10 field centres were established at different districts island wide. Although several policy measures were taken to promote the production of other field crops, with respect to big onion, there were no proper onion storage methods available at farm level in Sri Lanka. Since the majority of farmers tend to sell their produce in the farm itself at a lower price leading to higher prices during the off season period, it is highly necessary to establish an onion storage structure at farm level in order to curtail unnecessary pressure on supply conditions and market prices. Further, a number of policy measures are proposed in the

Budget 2016 to enhance value added agriculture products while improving the research capacity of major agriculture research institutes. Meanwhile, since value chain of cinnamon is currently under many different agencies which stifle the growth of this industry, arrangements will be made to set up a Cinnamon Development Authority with private sector participation to bring all activities in the value chain under one entity.

Government activities aimed at improving the irrigation system of the country continued in 2015. With the increasing population along with increased economic activities, the country requires increasing water storage to cope with droughts and the impact of climate change. In this regard, two new irrigation projects namely, Rugam Kithul reservoir and Bentara Ganga Right Bank Drainage and Salt Water Extrusion Scheme commenced to facilitate irrigating land extents of 15,000 hectares and 810 hectares, respectively, during 2015. It is estimated that around 3,450 families will benefit under these two projects. Meanwhile, an expenditure of Rs. 7,086 million was incurred in developing two of the largest reservoirs in the country, Deduru Oya and Yan Oya during the year. However, silting of reservoirs has limited the availability of water thereby constraining the cultivation activities of farmers during low rainfall periods. Therefore, it is important to ensure de-silting of reservoirs on time to increase the volume of water stored in reservoirs while minimising the adverse impact of floods. Further, irrigation projects need to be built and managed efficiently minimising environmental hazards. It was also proposed to allocate Rs. 2,000 million to rehabilitate small tanks and canals to support rural agriculture.

The Department of Animal Production and Health continued to implement several programmes in line with the Livestock Sector Master Plan. In this respect, the Livestock

Breeding Project was implemented to upgrade the cattle population with a view to boosting milk production in the country. Progeny testing of bull calves and pasture development were the main activities carried out under this programme. A total of 227,108 artificial inseminations were carried out during the year supplementing the cattle and buffalo population in the country. Meanwhile, under the "Heifer Calf Rearing Project", where support was given to farmers to feed and manage artificially born female heifer calves, around 33,152 heifer calves were registered. Further, two new veterinary investigation centres were established in Dankotuwa and Agarapathana under the "Field Veterinary Services Improvement Programme", strengthening institutional support for livestock development. The government expects to further strengthen the sector while implementing prudent measures in 2016. Accordingly, in order to strengthen commercial scale dairy farming on a public private partnership (PPP) arrangement, it was proposed under Budget 2016 to provide underutilised or unutilised government land for a minimum investment of Rs. 25 million. Further, it was proposed to reduce the maximum retail price of a 400 gram domestically manufactured powdered milk packet to Rs. 295 from the existing price of Rs. 325 while providing a subsidy of Rs. 30 per 400 gram packet to manufacturers to encourage domestic milk producers.

Policies for the fisheries sector underlined the necessity to increase fish production from enhancing fishing activities in deep sea. The government of Sri Lanka undertook several steps to fulfill the regulations required to meet EU standards and to lift the ban on fish exports from Sri Lanka to the EU. With a view to supplying fish seed required for stocking in Northern reservoirs, the Aquaculture Development Centre at Iranamadu was established and a proposal was

put forward to setup an Industrial Aquaculture Park in Batticaloa. Further, a buy back system was established under PPP arrangement with a view to increasing freshwater prawn stocking in reservoirs and thereby increasing production. In the meantime, steps were taken to expand shrimp farming activities in Batticaloa during 2015. In addition to the utilisation of a large number of irrigation reservoirs for culture based fisheries, the National Aquaculture Development Authority (NAQDA) promoted and facilitated the development of non-traditional aquaculture such as sea bass culture, sea cucumber farming and sea weed farming with community and private sector participation. Under the memorandum of understanding (MOU) between Vietnam and NAQDA, expertise was provided to breed sea cucumber in private hatcheries and 239,000 sea cucumber juveniles were produced in 2015. Further, 250,000 fingerlings of sea bass were produced in a private hatchery under PPP arrangement. In order to develop marine fish farming, initiatives were taken to construct a marine fish hatchery in Tharmapuram. As inadequate development of the aquaculture value chain has become a key constraint in agriculture development, a draft strategic plan was prepared for aquaculture value chain development project with funding from the Food and Agriculture Organisation (FAO). In the meantime, as proposed by the Budget 2016 local fishery harbours will be developed and upgraded with state of the art technology. Further, an Agro Livestock and Fish Processing Park will also be created connecting the districts of Anuradhapura, Vavuniya and Kilinochchi to create agro and fish processing facilities. Meanwhile, SCL on the import of fish was increased to Rs. 50.00 per kg to protect the local fisheries industry while import duty on fishing nets will be reduced.

Industries

The Industrial activities comprise of mining and quarrying, manufacturing, electricity, water, waste treatment and construction. These activities collectively grew by 3.0 per cent in value added terms during 2015 compared to 3.5 per cent growth recorded in 2014. This was mainly buoyed by the robust growth in manufacturing activities. Meanwhile, electricity related activities, sewerage, waste treatment and disposal activities, and water collection, treatment and supply activities positively contributed to the growth in the Industry. However, mining and quarrying, and construction activities recorded a contraction during 2015, adversely affecting the growth in Industry activities.

Mining and Quarrying

The mining and quarrying activities contracted by 0.9 per cent in 2015 against the 2.2 per cent growth in 2014. The subdued performance observed in construction activities adversely affected the growth in mining and quarrying activities. Further, the mineral exports volume index contracted by 48.1 per cent in 2015 against the 95.7 per cent growth in 2014, while the local production of phosphate also recorded a contraction during 2015. However, a positive growth in the production of mineral sands was recorded during 2015, due to the substantial growth in illmenite production. The graphite production also recorded an expansion in 2015.

Manufacturing

Manufacturing activities, the largest segment of the Industrial activities, grew in value added terms by 4.7 per cent during 2015 compared to 2.3 per cent growth recorded in 2014. The growth in manufacturing was mainly driven by the manufacture of food, beverages and tobacco products, which grew by 5.6 per cent in 2015 compared to 1.3 per cent growth in 2014. Further,

Chart 2.3 Gross Value Addition in Industries (2010 Constant Prices)



sub categories of other manufacturing, repair and installation of machinery, manufacture of furniture, and manufacture of machinery and equipment also contributed significantly to the growth in manufacturing activities. However, manufacture of other non-metallic mineral products contracted by 2.8 per cent in 2015.

Factory Industry Production Index

The **Factory Industry Production Index (FIPI)** is a key indicator which highlights the manufacturing sector performance of the economy, in terms of production.³ The Index covers 17 major activities based on International Standard Industrial Classification (ISIC), Revision 4. Factory industry production continued its growth momentum in 2015, mainly fuelled by favourable domestic demand in certain key sectors. FIPI showed a year-on-year growth of 9.2 per cent during 2015 in comparison to a growth of 6.1 per cent in the previous year. This growth was mainly attributable to favourable performance of food, beverages, wearing apparel, tobacco products, chemicals and chemical products, fabricated metal products, basic metals, electrical equipment and other non-metallic mineral products subsectors. However, textiles, rubber and plastic products,

³ The weights in the FIPI are assigned for each industry using 2010 as the base year. 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. This will be taken into account in the next revision to the FIPI.

refined petroleum products, leather and related products subsectors recorded a decline during 2015 against the previous year.

The food products subsector, the largest subsector in FIPI, demonstrated a positive performance for most part of 2015, culminating in an annual growth of 4.9 per cent for the year in comparison to the contraction of 2.8 per cent observed in 2014. The growth was mainly due to the increased output in dairy products supported by enhanced milk collection, prepared meals and dishes, bakery products, macaroni, noodles and similar products as well as prepared animal feed. Further, the manufacturing of sugar grew significantly by 34.4 per cent as a result of increased sugarcane cultivation supported by favourable rainfall during the year. However, processing and preserving activities of fish showed

Table 2.9 Factory Industry Production Index (FIPI) 2010 = 100

| Division | Index | | | |
|--|--------------|--------------|----------------|----------------|
| | 2014 (a) | 2015 (b) | 2013/14 (a) | 2014/15 (b) |
| 1 Food Products (23.7%) | 102.3 | 107.3 | -2.8 | 4.9 |
| 2 Beverages (8.1%) | 111.8 | 123.1 | 9.2 | 10.1 |
| 3 Tobacco Products (8.4%) | 87.6 | 95.4 | -9.3 | 8.9 |
| 4 Textiles (1.6%) | 132.9 | 131.0 | 3.4 | -1.4 |
| 5 Wearing Apparel (23.1%) | 149.5 | 173.4 | 19.7 | 16.0 |
| 6 Leather and Related Products (0.8%) | 97.0 | 86.4 | -1.4 | -10.9 |
| 7 Wood and Products of Wood, except Furniture (0.1%) | 108.9 | 121.7 | -4.9 | 11.7 |
| 8 Paper and Paper Products (0.1%) | 126.6 | 126.6 | 2.6 | 0.0 |
| 9 Printing and Reproduction of Recorded Media (0.7%) | 112.4 | 112.4 | 1.9 | 0.0 |
| 10 Refined Petroleum Products (2.2%) | 86.0 | 82.6 | 3.1 | -3.9 |
| 11 Chemicals and Chemical Products (6.3%) | 82.2 | 88.3 | 10.8 | 7.5 |
| 12 Pharmaceuticals, Medicinal Chemical and Botanical Products (0.1%) | 142.8 | 142.2 | -22.9 | -0.4 |
| 13 Rubber and Plastic Products (10.5%) | 134.2 | 131.3 | 13.6 | -2.2 |
| 14 Other Non-metallic Mineral Products (7.2%) | 102.9 | 118.5 | -0.3 | 15.1 |
| 15 Basic Metals (1.0%) | 112.9 | 115.0 | 10.3 | 1.8 |
| 16 Fabricated Metal Products, except Machinery and Equipment (3.8%) | 97.1 | 109.8 | -12.7 | 13.0 |
| 17 Electrical Equipment (2.3%) | 99.5 | 130.6 | -7.6 | 31.3 |
| Factory Industry Production Index | 114.9 | 125.4 | 6.1 | 9.2 |

(a) Revised

Source: Central Bank of Sri Lanka

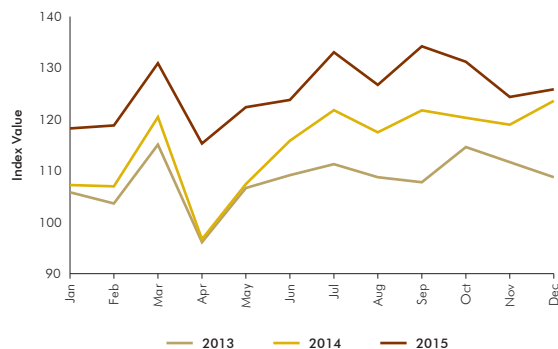
(b) Provisional

Notes: 1) Weight in the FIPI (2010=100) is given within parentheses.

2) Industrial Production Index (IPI) has been renamed as Factory Industry Production Index (FIPI) in 2013.

Chart 2.4

Factory Industry Production Index (2010=100)



a negative growth of 2.8 per cent largely due to the decline in marine fishing with the drop in coastal and lagoon fish production coupled with poor inland fish production, which was mainly affected by the adverse weather conditions that prevailed during the early part of 2015.

The wearing apparel subsector, which is an equally dominant subsector as food products in FIPI and a key contributor to economic activities of the country, continued to perform favourably during 2015 as well. The overall growth in this subsector was 16.0 per cent, somewhat lower than the growth of 19.7 per cent recorded in the previous year. Apparel sector of Sri Lanka has been recognised for its excellence in speedy delivery and reliability while keeping quality and innovation at global standards. Further, good industrial practices in labour management and environmental conservation has made Sri Lanka an attractive destination for apparels made under ethical labour and environmental conditions. Furthermore, the likely reinstatement of GSP plus and progress towards improving labour productivity through increased automation would also contribute positively to the apparel industry in the near future. However, given the stiff competition from low cost apparel producers who also benefit by trade concessions from major export markets, the industry should focus on enhancing its price competitiveness,

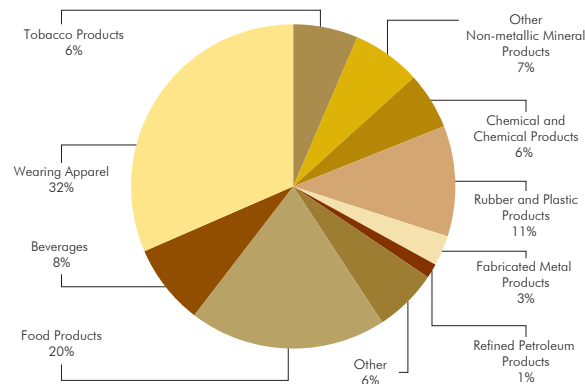
identifying niche markets, incorporating brand identity and also market diversification to look into new non-traditional export markets.

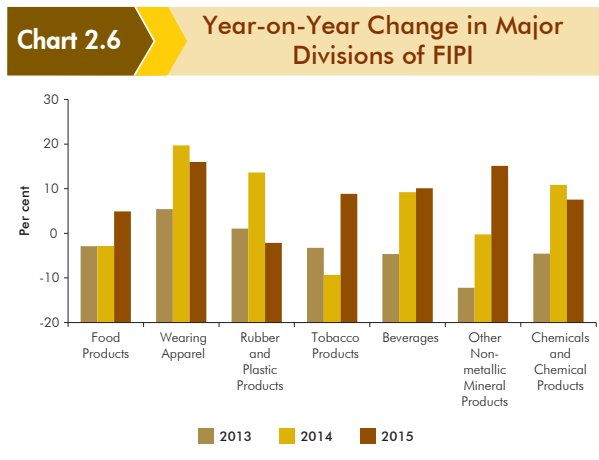
A notable year-on-year growth of 10.1 per cent was reported for the beverages subsector during 2015 following the growth of 9.2 per cent in 2014. Increased production of hard liquor, which accounts for a majority share of this subsector, was the key driver of this growth. In addition, the growth in the manufacturing of soft drinks, mineral water and bottled water by 18.2 per cent and malted milk products by 8.8 per cent, too contributed to the overall growth in the beverages subsector. The increased tourist arrivals during the year largely contributed to the expansion in this subsector.

The chemicals and chemical products subsector reflected a year-on-year growth of 7.5 per cent in 2015 compared to the growth of 10.8 per cent in 2014. The expanded output of paints and varnishes recording a significant growth of 53.9 per cent drove the enhanced performance of this subsector. Further, the production of soap and detergents too increased by 4.3 per cent supporting the overall performance of this subsector. Meanwhile, the production of fertiliser, being a key contributor to the output of this subsector, increased by 0.8 per cent during the year.

Chart 2.5

Composition of Factory Industry Production Index (FIPI) - 2015





The fabricated metal products subsector, which mainly consists of ship building and repairing, performed positively during the year in comparison to the sharp contraction observed in the previous year. Despite increasing competition from regional counterparts, ship building and repairing activities expanded by about 20 per cent mainly due to increased demand for offshore support vessels utilised for oil drilling. In addition, Sri Lanka's geographic location in the cross currents of international shipping routes continued to provide an opportunity for the industry to attract international business for ship building and repairs. However, the industry is expected to improve its technology and quality standards with higher productivity to face competition from emerging shipyards in the region. In this context, the scope of extending the product line to include vessels for leisure and passenger service in the export market should be explored.

The other non-metallic mineral products subsector reflected a healthy performance recording a growth rate of 15.1 per cent in 2015 compared with the sluggish performance during the previous year. The growth in production of cement, lime and plaster, by 21.1 per cent and articles of concrete, cement and plaster, by 24.5 per cent driven by higher consumer demand, were the dominant contributory factors for the enhanced output of this subsector. Further, despite

competition from imported products, ceramic and porcelain products managed to record a growth of about 2.4 per cent. The government's recent decision to consider a possible ban of asbestos products effective from the year 2018 due to health concerns would have a favourable effect on clay based building materials, although there will be a negative impact on asbestos based products.

The production of electrical equipment, which contributes 2.3 per cent to FIPI, recorded a significant growth of 31.3 per cent during the year as opposed to the negative growth of 7.6 per cent in the previous year. Increased manufacturing of transformers, cables and batteries to cater to higher demand from the domestic power sector as well as export markets contributed to the improved performance in this subsector.

The tobacco products subsector posted a year-on-year growth of 8.9 per cent during 2015, reversing the contractionary trend observed during the last three years. The first half of the year observed a surge in demand for tobacco products, in comparison to the previous year, mainly as a result of increased incomes. However, during the fourth quarter of 2015, the subsector experienced a contraction of 6.1 per cent mainly due to the upward revision of cigarette prices resulting from the increase in excise duty and also due to the impact of the government regulation on compulsory display of 80 per cent pictorial warnings on cigarette packages.

The basic metals production grew by about 1.8 per cent during 2015 compared to the growth of 10.3 per cent in 2014. The contraction in the manufacturing of basic iron and steel products owing to the lower demand from the construction activities of the country, which experienced a setback during the early part of the year, led to a lower output during the first half of the year. However, increased demand during the latter part of the year supported the overall growth in this subsector.

The refined petroleum based products subsector consisting solely of the output of the oil refineries of the Ceylon Petroleum Corporation (CPC) contracted by 3.9 per cent during 2015 in comparison to the 3.1 per cent growth recorded in the previous year. Lower refinery activities due to the closure of the refinery of the CPC for maintenance during the early part of 2015 was the main reason for the contraction of this subsector during the year.

The rubber and plastic products subsector indicated a slowdown in the performance almost throughout 2015 when compared with the previous year. This subsector contracted by 2.2 per cent during the year. The drop in the production of rubber tyres and tubes, which represents the majority of the output of this subsector, by more than 4.1 per cent, was the key reason for this decline. Lower exports, resulting from sluggish demand from main export markets such as the USA and Europe was mainly attributable to this dismal production. At the same time, the decline in oil prices are expected to reduce prices of synthetic rubber, which would further affect the demand for natural rubber adversely, leading to a negative impact on the manufacture of rubber based products. Benefiting from low natural rubber prices and improved domestic and external demand, the production of plastic products and other rubber products, such as gloves, performed well reflecting a growth rate of 30.3 per cent and 3.9 per cent, respectively. The rubber and plastic products subsector has a potential for growth with many export market opportunities. Sri Lankan tyre manufacturers cater to a majority share of the global solid tyre demand and the products are recognised as some of the best in the world. Rubber based products of Sri Lanka include a wide range of value added products such as medical, industrial and household gloves, tubes, automotive and aviation tyres. However, this category of

products accounted for only about 8 per cent of total merchandise exports of the country during 2015. Thus, more attention should be given to attract FDIs to this sector which has a significant potential in the international as well as the domestic market with the possibilities of integrating into the global value chain as a component manufacturer for high value products.

The textile subsector experienced a setback recording a contraction of around 1.4 per cent during 2015 in comparison to the 3.4 per cent growth reported in 2014. The availability of imported textiles and textile articles at relatively low prices had an unfavourable impact on the domestic textile manufacturing subsector. Thus, the domestic manufacturers should seek methods to build a competitive edge in terms of price or quality to face the competition. In this context, the potential to develop the local handloom sector, which is one of the oldest industries of the country, should be explored. This sector has greater opportunities in the international market in view of the growing demand for environmental friendly, handmade products.

The manufacturing of leather and related products subsector continued to experience a weak performance during 2015. The subsector reported a negative growth of 10.9 per cent in comparison to the contraction of 1.4 per cent in 2014. The drop in manufacturing of footwear was the main reason for this negative performance. Low demand for leather products and competition from imported low price synthetic products are the key factors that affect local footwear manufacturing adversely.

Industrial Policies and Institutional Support

The government continued to facilitate industrial sector development with efforts to align the sector with its export-led economic

policies. Accordingly, The Regional Industrial Development Programme of the Ministry of Industry and Commerce (MIC) was further expanded during the year. Development work relating to Stage II of the Trincomalee Industrial Estate continued in 2015 where majority of land development activities have been completed. As a further extension, stage III of this Industrial Estate is due to commence in an adjoining land area of 50 acres. Meanwhile, the infrastructure necessary for setting up of Thiraimadu Industrial Estate in Batticaloa district on a 24 acre state land was provided in 2015. The development activities including infrastructure facilities of Nawagampura Industrial Estate in Ampara were also finalised during the year, with 7 factories functioning at present. The approval of the Cabinet of Ministers was granted to set up an Industrial Estate in Welioya in Mullaitivu district mainly catering to garment and garment related industries to promote industries in the Northern province, which will help generate employment opportunities in this province as well. As a further boost to promote industrial production in this area, the MIC has decided to construct 3 factory buildings in this Estate, where preliminary activities related to the construction of the same have already been commenced.

During the year, general policy initiatives were made to boost the development of the SME sector while promoting industrial products in international markets. The Industrial Development Board (IDB) carried out several training and technology transfer programmes for micro level institutions and SMEs, the majority of which were from food and beverages and chemicals and chemical products sectors. The National Policy Framework for SME development, including an action plan for its implementation in 20 districts, has been formulated by the MIC with the aim of promoting globally competitive SMEs that will contribute significantly to economic

development. Meanwhile, the Export Development Board (EDB) facilitated the promotion of local industrial products in the international markets by arranging trade delegations, training programmes and trade exhibitions. The Footwear and Leather exhibition was held during 2015 to strengthen the image of Sri Lankan footwear and leather products internationally. Footwear is a promising export sector with high potential for growth following the apparel sector. EDB co-organised the 16th Congress of the International Colored Gemstone Association, with the objective of positioning Sri Lanka as the Sapphire hub of the world, and the International Gem and Jewellery show to promote the local gem and jewellery industry. Some of the other major activities undertaken by EDB included the facilitation of the promotion of Sri Lanka's competences in boat building for the international market, seeking new international markets for apparels and helping to promote the Ceylon cinnamon brand internationally. In addition, EDB facilitated participation in more than 22 international trade fairs, and organised nearly 29 awareness programmes locally in 2015. National Gem and Jewellery Authority (NGJA) took several measures to develop the gem and jewellery industry in 2015. A laboratory for assaying and hallmarking as well as for testing gems is expected to be established in Galle to guide and assist jewellery craftsmen to manufacture their jewellery in accordance with international standards and regulations. In addition, NGJA provided training and other capacity building techniques to upgrade the skills of technicians and other stakeholders engaged in the industry.

The Coordinating Secretariat for Science, Technology and Innovation facilitated science, technology and innovation based initiatives by providing technical advisory service on numerous areas to enhance the industrial sector value addition of the country. The Sri Lanka Innovation Dashboard, which provides

information about the current status of the country with regard to science, technology and innovation, was launched during the year. The main purpose of the dashboard is to support the national science, technology and innovation strategy by providing relevant information in electronic form. Furthermore, the budget 2016 also has made a number of proposals including setting up of an Innovation Accelerator and a National Innovation Centre in the Ministry of Science, Technology and Research, and facilitating the acquisition of international patent rights by providing technical and financial assistance through Sri Lanka Inventors Commission, etc., to promote science, technology and innovation towards achieving a higher economic growth. In addition, the proposed development of a Science and Technology City is a key strategy, enabling the necessary structural transformation of the economy into a knowledge-based innovation-driven economy under the Western Region Megapolis Master Plan. It will be designed to promote a major high-tech manufacturing and tradable services sector with strong emphasis on exports. Further, the National Science Foundation (NSF) too has taken several initiatives to encourage local researchers by providing flexible funding schemes, infrastructure facilities, collaborations for knowledge gain and transfers, capacity building of research scientists and introducing policy proposals to promote private sector involvement in R&D.

The chambers of commerce and industries continued to support industrial sector development by organising bi-lateral trade sessions, investment forums, promoting trade facilitation, conducting regional seminars, workshops and trade exhibitions. Accordingly, the Sri Lanka Food Processors' Association (SLFPA) organised the 'Pro-Food/Pro-Pack & Ag-Biz 2015' food, beverage and packaging exhibition, promoting the latest technology

developments in the field. Assistance was given to a number of SMEs and micro institutions to showcase their products at this exhibition, which showed a healthy regional participation. In addition, SLFPA conducted training programmes and knowledge sharing sessions mainly on 'Food Safety and Hygiene' for these institutions. The SLFPA has proposed the establishment of a 'National Food Authority' to centralise the handling of all food and beverage related issues, broadly in line with Food and Drug Administration (FDA) of USA.

An expansion in credit was observed for a majority of the private sector industry categories during the year. Industrial sector credit accounted for the major share of more than 40 per cent of total credit granted by commercial banks to the private sector in 2015. Further, credit facilities to the industrial sector have increased by 25.0 per cent during the year, compared to the previous year. A larger portion of credit had been granted to the construction sector representing 18.6 per cent of total credit with 3.8 per cent on textile and apparel sector. However, lending to the textile and apparel sector has declined by 12.6 per cent during the year, as opposed to a growth in the other sectors. Other main sectors for which the credit was granted include fabricated metal products, machinery and transport equipment (3.6 per cent) and food and beverages (2.5 per cent). Further, general initiatives were taken by the government to encourage commercial banks to enhance lending to SMEs, such as instructing establishing a separate centre or a dedicated unit for SMEs, requirement of less paperwork for a speedy service, etc.

Recognising the need for assisting the development of the industrial sector towards the desired direction, various proposals were unveiled in the Budget 2016. In order to develop the commercial fruit and vegetable industry, the Budget has proposed to extend an interest subsidy of 50 per cent on loans to be taken from banks

for the dehydrated and canned fruit industry. Further, machinery utilised in this industry was exempted from import duties. The SCL applicable on vegetable fat was proposed to be reduced with the aim of encouraging the local confectionery industry. To promote the domestic manufacturing of canned fish products, a buy back mechanism through Lak Sathosa Ltd was suggested. Encouraging the private sector to venture into establishing Pharmaceutical Zones as public private partnerships, buy-back arrangements to purchase the government requirement of the respective pharmaceutical items manufactured, etc., was proposed to boost the local pharmaceutical industry. With the aim of providing environmental friendly roofing materials to enable Sri Lanka to be free of asbestos by 2018, manufacturing of red clay tiles will be encouraged by granting a half tax holiday on income tax for a period of 3 years. Greater emphasis is placed on channelling credit towards economically viable sectors, particularly those with great export potential and also for emerging sectors such as BPO and ICT. Similarly, industries showing potential of entering into global value chains or generating economic benefits as import substitutes need to be strengthened. Hence, banks are encouraged to tilt their loan portfolios more towards investment oriented credit rather than consumption.

To promote regional industrialisation, Budget 2016 has proposed to establish a new economic zone in Vavuniya and Industrial Development Zones in Hambantota, Raigama, Mahaoya and Trincomalee along with Information and Agricultural Technology Zones in Kandy. It has also proposed to allocate government land in Hambantota and Trincomalee ports to encourage ship building, ship breaking and ship repair activities. In addition, the facilities in existing industrial estates are to be rehabilitated and upgraded, while Mirigama and Horana are to

be developed as industrial cities under the Western Region Megapolis Master Plan. The industrial city in Mirigama is expected to be developed as a specialised zone for food processing, mainly export oriented, while the one at Horana is aimed at concentrating some of the SMEs scattered across the region to facilitate both import substitution and export development.

To promote the construction sector of the country, Budget 2016 has proposed that any foreign contractor undertaking construction work in the country should enter into a joint venture agreement with a local contractor. In addition, a number of other concessions are proposed to encourage the local construction industry, including the removal of the Construction Industry Guarantee Fund Levy, introduction of a Payment Guarantee Security Act and several other measures to ensure availability of building materials at low prices through tax concessions on imported machinery for purifying sea sand, cranes, concrete mixers, etc.

Several proposals were made to encourage the expansion of micro institutions and SMEs in the medium term, in line with the inclusive growth strategy of the government. The establishment of a fund that will be a “Fund of Funds” to provide equity financing through a venture capital approach has been proposed to minimise funding issues faced by this sector. The fund will comprise banks, insurance companies, state-owned funds such as Employees' Provident Fund (EPF), Employees' Trust Fund (ETF) and foreign funds. The corporate income tax applicable on these firms will be reduced by 50 per cent for a period of 5 years. Further, mini industrial parks will be constructed as incubators in Moneragala, Puttalam, Jaffna/Vanni and Ampara. A 50 per cent reduction in the applicable tax rate will be effective on these activities as well, for a period of 3 years from the initial year of profit generation.

Electricity, Water and Waste Treatment

Electricity, gas, steam and air conditioning supply activities grew by 7.8 per cent in 2015 compared to 3.3 per cent growth in 2014. This expansion was reflected by 6.0 per cent growth in electricity generation during the year, in comparison to 3.9 per cent growth recorded in 2014. Considering the electricity generation, hydropower generation grew by 35.1 per cent in 2015, driven by the conducive weather conditions that prevailed throughout 2015, recovering from 39.4 per cent contraction recorded in 2014. Coal based power generation also expanded by 38.8 per cent during 2015, albeit at a slower rate, compared to 117.9 per cent growth in 2014, while fuel oil based power generation recorded a 47.1 per cent contraction in 2015 against the 32.1 per cent growth in 2014. The decline in fuel oil based power generation is attributable to the increase in hydro and coal power generation. In the meantime, gross value added in water collection, treatment and supply activities expanded by 4.3 per cent in 2015 in comparison to 4.8 per cent growth in 2014. The distributed water units by the National Water Supply and Drainage Board (NWS&DB) increased by 5.8 per cent in 2015 compared to 8.8 per cent growth recorded in 2014. Meanwhile, the sewerage, waste treatment and disposal activities grew substantially by 24.8 per cent in 2015 compared to 11.9 per cent growth in 2014.

Construction

Construction activities, the second largest Industrial segment, contracted by 0.9 per cent in 2015 against the 6.6 per cent growth recorded in 2014. The comparative slowdown in large-scale infrastructure development projects was a notable dampener of construction activities during 2015. However, the availability of cement grew by 5.8 per cent in 2015 recovering from the stagnant performance in 2014, mainly driven by the growth

in local production, amidst the marginal contraction in cement imports. Moreover, the building material imports volume index also expanded by 9.7 per cent in 2015, recovering from 0.6 per cent contraction recorded in 2014. Further, the credit to the private sector granted by Licensed Commercial Banks (LCBs) for construction activities, increased significantly by 36.1 per cent as at end December 2015 compared to its 22.3 per cent growth as at end December 2014, of which credit granted to the personal housing construction activities by the LCBs grew by 35.3 per cent, reflecting the increase in private sector construction activities.

Services

Services activities, the major contributor to the economy grew by 5.3 per cent in gross value added terms in 2015 compared to 5.2 per cent growth in 2014, accounting for 56.6 per cent of the GDP. This growth was largely buoyed by the robust growth in financial service activities, supported by the transportation of goods and passengers including warehousing, real estate activities including ownership of dwellings, and wholesale and retail trade activities. Further, the expansion in public administration services, other personal service activities, insurance, human health activities, telecommunication and IT programming services positively contributed to this growth. However, professional services, education, accommodation, food and beverage services, and postal and courier activities contracted in 2015 compared to 2014, decelerating the overall growth in Services.

Wholesale and Retail Trade

The value added in wholesale and retail trade activities grew by 4.7 per cent in 2015 when compared to 4.5 per cent growth recorded in 2014. The imports volume index recorded a 10.6 per cent growth in 2015 compared to 9.5 per cent growth in 2014, reflecting the increase in trade

activities. Import of consumer goods volume index posted a significant increase of 24.1 per cent in 2015 compared to 20.2 per cent growth in 2014. The higher demand for consumer goods was largely attributable to the surge in vehicle imports. Further, investment goods imports volume index recovered during the year, recording a growth of 13.6 per cent, compared to 0.3 per cent marginal growth recorded in 2014. Within the index, all the sub-indices including machinery and equipment, building materials and transport equipment, grew significantly during the year. However, the intermediate goods imports volume index slowed down in 2015 compared to 2014, mainly due to the contraction in the importation of petroleum products. In the meantime, the exports volume index grew by 4.6 per cent in 2015 compared to 4.3 per cent growth in 2014. Industrial exports, which is the major contributor to total exports, continued its growth by 8.4 per cent in volume terms, albeit the marginal contraction in the export of textiles and garments category, which represents a greater portion of industrial exports index. However, agricultural exports index contracted by 7.4 per cent in volume terms during the year, mainly due to the decline recorded in tea, rubber and sea food exports. Meanwhile, the domestic trade activities were supported by the increase in agricultural production and the manufacturing output.

Transportation and Storage

The transportation of goods and passengers including warehousing activities grew by 5.5 per cent in 2015 compared to 3.6 per cent growth in 2014. The total number of passenger kilometers operated by the private sector and the Sri Lanka Transport Board (SLTB) respectively grew by 6.1 per cent and 19.6 per cent in 2015 compared to respective 12.7 per cent and 2.5 per cent growth recorded in 2014. Further, the passenger kilometers operated by the Sri Lankan Railways (SLR) grew by 8.3 per cent during the

year. Furthermore, the passenger kilometers collectively flown by Srilankan Airlines and Mihin Lanka recorded a marginal growth of 0.1 per cent against the 2.7 per cent contraction in 2014. Further, the container traffic (Twenty Foot Equivalent Units - TEUs) and cargo handled by Sri Lankan ports grew by 5.7 per cent and 4.3 per cent, respectively, in 2015 compared to the respective 14.0 per cent and 12.3 per cent growth posted in 2014. However, the freight ton kilometers transported by the SLR contracted by 2.3 per cent in 2015. Moreover, the freight ton kilometers flown by Srilankan Airlines and Mihin Lanka further contracted during the year. In the meantime, postal and courier activities contracted by 5.6 per cent in 2015 compared to 7.1 per cent contraction recorded in 2014. Inland mail handled by the Department of Posts slowed down, while inland parcels handled contracted during the year. However, foreign mail handled by the Department of Posts expanded during this period.

Accommodation and Food Service Activities

Accommodation, food and beverage services contracted by 1.3 per cent in 2015 against the 4.0 per cent growth in 2014. The estimated value for this category basically reflects the movements in the Value Added Tax data, which was available at the time of estimation. However, the room occupancy rate in graded hotel establishments approved by the Sri Lanka Tourism Development Authority (SLTDA), marginally increased to 74.5 per cent in 2015 compared to 74.3 per cent in 2014. The tourist arrivals recorded a 17.8 per cent increase during the year, compared to 19.8 per cent growth in 2014. Among the regions, majority of tourist arrivals were from Western Europe. Meanwhile, considering the country of residence, China came second as a tourist sourcing country, next to India, as a result of the noteworthy increase in tourist arrivals. Both foreign and local visitors

to the National Botanical Gardens, Pinnawala Elephant Orphanage, and the National Zoological Garden in Dehiwala increased at a higher rate in 2015, reflecting the growth in tourist activities during the year. Meanwhile, earnings from tourism substantially increased during 2015 registering a growth rate of 22.6 per cent to US dollars 2,980.7 million.

Information and Communication

Information and communication activities grew by 12.5 per cent in value added terms in 2015 in comparison to 11.6 per cent growth recorded in 2014. This growth was largely attributable to telecommunication activities, the major sub activity within the segment, which grew by 10.1 per cent in 2015 compared to 13.1 per cent growth recorded in 2014. Considering the developments in telecommunication activities, a continuous increase in cellular subscribers was noted, while a contraction was observed in fixed access wireless connections. Further, internet connections, including mobile broadband, expanded during the year, reflecting the vast demand for data communication services in the country. Meanwhile, IT programming consultancy and related activities significantly grew by 21.1 per cent in 2015 compared to 9.3 per cent growth recorded in 2014. Further, programming and broadcasting activities and audio/video productions also recorded a 5.5 per cent growth in 2015 compared to 3.8 per cent growth in 2014.

Financial, Insurance and Real Estate Activities including Ownership of Dwellings

Financial, insurance and real estate activities including ownership of dwellings further expanded by 12.3 per cent in 2015 in comparison to 8.1 per cent growth recorded in 2014 in value added terms. This continuous growth was mainly driven by financial service

activities and auxiliary financial services, which grew by 15.8 per cent in 2015 compared to 10.4 per cent growth in 2014. The gross loans and advances of the banking industry and the non-bank financial institutions grew by 21.1 per cent and 30.6 per cent, respectively, during 2015 when compared to respective growth rates of 13.7 per cent and 16.0 per cent in 2014. Meanwhile, the deposit base of the banking industry and the non-bank financial institutions grew by 15.3 per cent and 16.1 per cent, respectively, in 2015 compared to respective 12.4 per cent and 22.8 per cent growth, recorded in 2014. Accordingly, the deposit plus loans base of the banks and non-bank financial institutions grew by 18.7 per cent compared to 13.5 per cent growth in 2014, reflecting the expansion in business activities. Further, the post-tax profits of the banking sector and non-bank financial institutions grew by 10.3 per cent and 2.3 per cent, respectively, in 2015. Real estate activities including ownership of dwellings expanded by 9.6 per cent in value added terms in 2015 in comparison to 6.5 per cent growth recorded in 2014. Further, insurance, reinsurance and pension funding activities grew by 9.3 per cent in 2015 compared to 5.8 per cent growth recorded in 2014. The premium earned plus claims incurred by the insurance industry grew by 16.6 per cent in 2015 compared to 8.8 per cent growth in 2014, reflecting the increase in insurance business activities.

Professional Services and Other Personal Service Activities

The value added in professional services and other personal service activities grew by 1.3 per cent in 2015 compared to 4.3 per cent growth recorded in 2014. The recorded growth was buoyed by the expansion in the category of other personal service activities, the largest sub activity within the segment, which includes creative arts and entertainment, photography, hairdressing and other beauty treatment, washing and dry

BOX 3

Business Conditions Surveys as a Signal of Business Sentiment

Business conditions surveys such as Business Outlook and Purchasing Managers' Index (PMI) enable policy makers to gather real time information to identify the pulse of an economy through ascertaining views of market participants. The information thus collected is timely and more forward looking in comparison to official statistics which come with a time lag. Therefore, data gleaned from business conditions surveys provides a vehicle to understand emerging economic developments and detect potential risks early, so that pre-emptive policy actions can be taken. Understanding the importance of gathering such timely information, Central Bank of Sri Lanka introduced Business Outlook Survey (BOS) from mid-2014 and PMI survey for Manufacturing and Services sectors since May 2015, to capture qualitative data to ascertain movements in economic activity in the country. PMI survey focuses on Purchasing Managers of the Manufacturing and Services Industries to ascertain the 'Month on Month' change in each variable considered. The PMI-Manufacturing consists of five sub-indices covering trends of New Orders, Production, Employment, Supplier's Delivery Time and Stock of Purchases. PMI-Services also consists of five sub-indices and covers trends in New Businesses, Business Activity, Employment, Backlogs of Work and Expectations for Activity. The findings of the PMI survey will be available for public once a reasonably long series of information is established. The BOS which is now available for public access is the focus of this article.

The Business Outlook Survey (BOS)

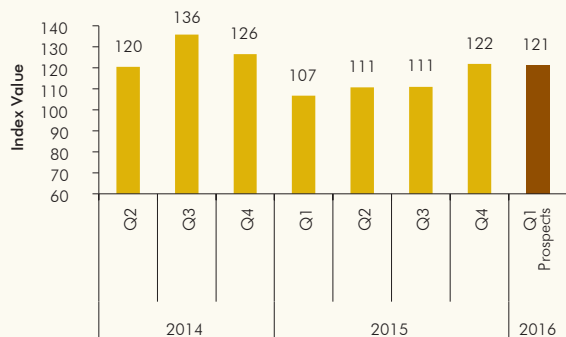
BOS is a snapshot of business sentiment regarding the ongoing and expected state of economic activities and a timely exercise of gathering perceptions of the business community on key areas of economic activities. The information collected through the BOS can be considered as qualitative representations because respondents are asked to assign qualities rather than quantities to the various measures of economic activities. For instance, in an assessment of the direction of sales, a respondent may be asked to evaluate whether the direction of sales shows an increase, no change or decrease compared to a corresponding period. In conventional surveys this may be asked to be quantified requiring respondent's time.

Importance of a Business Outlook Survey

Using of quantitative data in studying the activities in an economy might fail to capture all the developments taking place during a period, even with sophisticated analytical techniques. Also, such quantitative data are often available with a considerable time lag leaving substantial delays in foreseeing the developments in the economy. Therefore, relying solely on quantitative data may lead to a tunnel vision, only capturing a part of the

Chart B 3.1

Trend of the Business Condition Index



developments in an economy. To avoid such drawbacks surveys are designed to directly communicate with economic agents in order to capture more recent trends and perceptions on the real economic activities. The BOSs are commonly carried out in countries where reasonably sophisticated survey applications are feasible to enable swift evaluation of the current business situation and forecast of short-term developments through qualitative indicators until such time that quantitative data become available for policy making. The BOS has proved to be particularly useful in monitoring current economic situations and forecasting turning points in a business cycle. Information screened will provide assessments and expectations of the economic situation by economic agents and will provide an early warning of changes in aggregate economic activity, which cannot be captured by scientific models as such models might be unstable when there is variability like an economic crisis.

Country Experience and International Acceptance

Central Banks such as Bank of Korea, Banco de Mexico, Bank of Thailand, Bank of Canada, Riksbank, Federal Reserve System of the United States of America and many others around the world conduct surveys on business outlook. Further, Organization of Economic Corporation and Development (OECD) published a manual to encourage countries to adopt a harmonized system of BOS for ease of international comparisons. The BOS conduct by the Central Bank of Sri Lanka follows internationally accepted best practices as proposed by the OECD manual.

Experiences across countries highlight that time series of indices developed based on the BOS and economic data resonate higher correlations. For example, expectation on future sales measured as an activity in the BOS generally move down or deteriorate before economic slowdowns, and move up ahead of economic recoveries. Further, the BOS may generally indicate

higher inventories than desired levels signaling that investment intentions have turned negative ahead of economic slowdowns.

Methodology of Business Outlook Survey (BOS)

Target population of the BOS conducted by the Central Bank is large scale enterprises covering Agriculture, Industry and Services activities. The sample was selected using the judgmental sampling method with stratification based on sectoral contribution to the Gross Domestic Product (GDP). Data based on a standard questionnaire is collected through face to face or telephone interviews or through emails depending on the preference of the respondents. The survey is conducted with a quarterly frequency during the last week of each quarter and first week of the succeeding quarter. The survey results are summarized by computing *Business Sentiment Indices (BSIs)*, namely, *Business Condition, Profitability, Skilled Labour Availability, Sales, Capacity Utilization and Demand*. The BSIs are computed by assigning;

- +1 for a response given in a positive direction
- 0 for a response for a no change in direction
- -1 for a response given in a negative direction

These scaled values are averaged off and rescaled to 100 to compile an index for each sector. These sector BSIs are combined by assigning them the respective GDP weight. Compiled BSIs will consist of values ranging from 0 to 200, where the general interpretation reads as follows;

- BSI=100 means business sentiment is unchanged compared to a corresponding period
- BSI>100 means business sentiment has improved compared to a corresponding period
- BSI<100 means business sentiment has worsen compared to a corresponding period

Trends of the computed Business Sentiment Indices (BSIs)

As per the results of BOSs carried out since Q2 2014 (Chart B 3.1 and Table B 3.1), the Business Condition Index in 2015 is above 100, which means overall

business condition remained positive while forward looking indicators of business activity, i.e., Sales and Demand also remained positive in 2015. Considering the level of the index, a slowdown in overall Business Condition could be observed during 2015 in line with the weakening of the Profitability BSI compared to the corresponding period in 2014. However, a gradual improvement in the overall Business Condition was observed towards the latter part of 2015. Further, it is evident that, on average, the Capacity pressures increased with the increase in Demand in 2015 compared to 2014. As stated by the survey respondents, labour shortage has been identified as an obstacle to meet the increasing Demand which is reflected by the deteriorating of the index of Skilled Labour Availability. Some companies highlighted skill and perception mismatch as a restriction, while others highlighted skilled labour migration as a challenge.

The balance of opinion on expected business outlook for the Q1 2016 indicates encouraging signs although the respondents highlighted the requirement of policy certainty while being cautious about tightening external business conditions.

The Way Forward

Success of the BOS depends on the contribution made by the companies who are the data providers or the respondents. The survey has been able to create an effective communication channel between the economic agents and the Central Bank in ascertaining early indicators and warnings on economic conditions. Further, the BOS enables to evaluate the economic agent's perception on given policies and its direction. Thus, timely submission of accurate information is important to gauge the business outlook to track trends in the overall economic activities. The findings of the BOS are published in aggregate form on a quarterly basis for the information of the general public in the Central Bank website which can be accessed via www.cbsl.gov.lk/htm/english/08_stat/s_8.html.

Table B 3.1

Business Sentiment Indices (a)

| Index | 2014 | | | 2015 | | | | 2016 |
|-------------------------------------|------|-----|-----|------|-----|-----|-----|--------------|
| | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 Prospects |
| Business Condition | 120 | 136 | 126 | 107 | 111 | 111 | 122 | 121 |
| Skilled Labour Availability (Y-o-Y) | 73 | 101 | 90 | 102 | 84 | 100 | 76 | 86 |
| Demand (Y-o-Y) | 131 | 137 | 136 | 122 | 139 | 129 | 146 | 137 |
| Sales (Y-o-Y) | 134 | 127 | 140 | 123 | 145 | 142 | 142 | 138 |
| Capacity Utilization (Y-o-Y) | 128 | 122 | 138 | 131 | 134 | 138 | 124 | 126 |
| Profitability (Q-o-Q) | 85 | 120 | 117 | 97 | 97 | 106 | 112 | 100 |

(a) As per the results of BOSs from Q2 2014 to the latest BOS for Q4 2015 which was carried out during 21st December 2015 to 11th January 2016.

cleaning activities, etc., which collectively grew by 2.9 per cent in 2015, yet at a slower rate compared to 4.7 per cent growth in 2014. However, professional, scientific, technical, administration and supporting service activities contracted by 7.1 per cent in 2015 against the 2.8 per cent growth in 2014. Professional services capture the value added developments in services, such as architectural and engineering activities, technical testing and analysis, legal and accounting activities, scientific research and development, and advertising and market research, with potential for high value addition.

Public Administration, Defence, Education, Human Health and Social Work Activities

Public administration, defence, education, human health and social work activities expanded by 3.2 per cent in value added terms in 2015 compared to 5.5 per cent growth in 2014. This growth was mainly attributable to 6.9 per cent growth in public administration and defence; compulsory social security activities in 2015, which grew by 5.2 per cent in 2014. Further, human health activities, residential care and social work

activities also grew by 5.5 per cent in 2015 when compared to 1.0 per cent growth in 2014. However, gross value added in education services contracted by 7.5 per cent during the year against the 10.3 per cent growth recorded in 2014, moderating the overall growth in public administration, defence, education, human health and social work activities.

2.5 Expenditure

Gross Domestic Expenditure (GDE) generated from domestic consumption and investment expenditure was estimated at Rs. 12,013.7 billion in nominal terms for 2015.

The 6.5 per cent growth of GDE in 2015 compared to 8.3 per cent growth in 2014 was mainly attributable to the expansion in consumption expenditure, while the investment expenditure grew at a marginal rate. In real terms, GDE grew by 6.3 per cent in 2015 when compared to 6.1 per cent growth in 2014, which was also driven by consumption expenditure. Meanwhile, the net external demand grew marginally by 0.7 per cent in nominal terms during 2015 against the 1.2 per cent contraction in 2014, as a combined outcome of 3.5 per cent growth in rupee value of imports and 5.1 per cent growth in rupee value of exports. In

Table 2.10

Aggregate Demand (a)

| Item | Current Market Prices (Rs.mn) | | | Constant (2010) Prices (Rs.mn) | | |
|----------------------------------|-------------------------------|-------------------|-------------------|--------------------------------|------------------|------------------|
| | 2013 | 2014 (b) | 2015 (b) | 2013 | 2014 (b) | 2015 (b) |
| A. Domestic Demand | | | | | | |
| Consumption | 7,229,352 | 7,943,796 | 8,652,180 | 5,881,197 | 6,216,685 | 6,645,913 |
| (% Change) | 13.7 | 9.9 | 8.9 | 7.0 | 5.7 | 6.9 |
| Gross Domestic Capital Formation | 3,189,326 | 3,341,174 | 3,361,546 | 2,597,115 | 2,782,904 | 2,920,219 |
| (% Change) | -6.5 | 4.8 | 0.6 | -8.8 | 7.2 | 4.9 |
| Total Domestic Demand | 10,418,678 | 11,284,971 | 12,013,727 | 8,478,312 | 8,999,589 | 9,566,132 |
| (% Change) | 6.7 | 8.3 | 6.5 | 1.6 | 6.1 | 6.3 |
| B. External Demand | | | | | | |
| Export of Goods and Services | 1,949,158 | 2,185,039 | 2,295,423 | 1,470,967 | 1,533,668 | 1,605,147 |
| (% Change) | 12.6 | 12.1 | 5.1 | 6.6 | 4.3 | 4.7 |
| Import of Goods and Services | 2,775,711 | 3,021,530 | 3,125,930 | 2,103,077 | 2,304,271 | 2,548,455 |
| (% Change) | 0.3 | 8.9 | 3.5 | -1.5 | 9.6 | 10.6 |
| Net External Demand | -826,553 | -836,492 | -830,507 | -632,110 | -770,603 | -943,307 |
| (% Change) | 20.2 | -1.2 | 0.7 | 16.4 | -21.9 | -22.4 |
| C. Total Demand | 9,592,125 | 10,448,479 | 11,183,220 | 7,846,202 | 8,228,986 | 8,622,825 |
| (% Change) | 9.8 | 8.9 | 7.0 | 3.4 | 4.9 | 4.8 |

(a) The data is based on the base year 2010 GDP estimates of the Department of Census and Statistics.

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

(b) Provisional

this regard, the decline in global commodity prices, especially that of oil, contributed to reduce import prices at a higher rate compared to export prices. The net export of services also improved in nominal terms, contributing to the recorded growth in net external demand. However, the higher demand for imports owing to low commodity prices and increase in household disposable income, together with the drag in demand for exports, resulted in a decline in net exports in real terms. This tendency in external demand was reflected by the import and export volume indices where import volumes grew at a higher rate than the export volumes. The growth in import values as well as the volumes were mainly driven by the consumption and investment goods imports, while intermediate goods imports moderated in volume, and contracted in value terms. Considering export values and volumes, the industrial exports improved, while agricultural and mineral exports contracted during 2015. Accordingly, GDP at current market prices, which is GDE adjusted to the net external demand, increased by 7.0 per cent to Rs. 11,183.2 billion, which consists of a real growth of 4.8 per cent and a GDP implicit deflator of 2.1 per cent during 2015.

Consumption

Consumption expenditure, the major expenditure component of the economy, grew by 8.9 per cent in nominal terms in 2015 amounting to Rs. 8,652.2 billion compared to 9.9 per cent growth recorded in 2014. This growth was mainly attributable to the growth in private consumption expenditure (PCE), which accounts for 88.6 per cent of the aggregate consumption expenditure. Accordingly, PCE grew by 8.4 per cent in 2015 when compared to 9.1 per cent growth recorded in 2014. The increase in disposable income, decline in global commodity prices and certain tax changes, encouraged the demand for consumer goods. The growth in consumption demand was reflected by the surge in consumer goods import index, especially goods such as vehicles and telecommunication devices. Meanwhile, government consumption expenditure (GCE) grew by 13.4 per cent in 2015 compared to 16.6 per cent growth recorded in 2014. This growth was mainly attributable to the growth in the individual final consumption expenditure of the government, such as education and health, while collective final consumption expenditure also improved mainly on general public services.

Table 2.11 Composition of Private Consumption Expenditure at Current Market Prices (a)

| Category | Share of Total PCE (%) | | | Rate of Change (%) | |
|---|------------------------|--------------|--------------|--------------------|------------|
| | 2013 | 2014 (b) | 2015 (b) | 14/13 (b) | 15/14 (b) |
| 1. Food and Non-alcoholic Beverages | 26.3 | 25.6 | 26.8 | 6.2 | 13.6 |
| 2. Alcoholic Beverages, Tobacco and Narcotics | 1.9 | 1.9 | 1.9 | 8.7 | 10.3 |
| 3. Clothing and Footwear | 4.3 | 3.9 | 3.8 | -1.7 | 5.7 |
| 4. Housing, Water, Electricity, Gas and Other Fuels | 10.6 | 10.6 | 10.9 | 9.0 | 11.5 |
| 5. Furnishings, Household Equipment and Routine Household Maintenance | 1.3 | 1.3 | 1.2 | 10.2 | 0.9 |
| 6. Health | 2.8 | 2.6 | 2.9 | 1.3 | 22.1 |
| 7. Transport | 20.9 | 21.9 | 22.3 | 14.5 | 10.3 |
| 8. Communication | 0.9 | 0.9 | 1.0 | 6.6 | 17.9 |
| 9. Recreation and Culture | 1.1 | 1.3 | 1.4 | 22.2 | 15.7 |
| 10. Education | 1.6 | 1.7 | 1.6 | 17.2 | -0.3 |
| 11. Restaurants and Hotels | 4.4 | 4.3 | 4.0 | 7.3 | -1.1 |
| 12. Miscellaneous Goods and Services | 24.8 | 26.1 | 24.9 | 14.6 | 3.6 |
| 13. Direct Purchases Abroad by Residents | 2.5 | 2.5 | 2.7 | 7.3 | 16.5 |
| 14. Less: Direct Purchases in Domestic Market by Non-residents | 3.5 | 4.5 | 5.3 | 42.7 | 27.4 |
| Total Private Consumption Expenditure | 100.0 | 100.0 | 100.0 | 9.1 | 8.4 |

(a) The data is based on the base year 2010 GDP estimates of the Department of Census and Statistics.

Source: Department of Census and Statistics

(b) Provisional

The food and non-alcoholic beverages category, the major contributor to PCE, grew by 13.6 per cent in 2015 compared to 6.2 per cent growth recorded in 2014. This expansion in expenditure was also reflected by the increase in food inflation of the Colombo Consumers' Price Index (2006/07=100) to 4.9 per cent in 2015 compared to 3.8 per cent in 2014. As a result, the share of household final consumption expenditure on the above category increased to 26.8 per cent of PCE in 2015 from 25.6 per cent in 2014.

Meanwhile, the share of household final consumption expenditure on alcoholic beverages, tobacco and narcotics, and clothing and footwear remained at lower levels. PCE on alcoholic beverages, tobacco and narcotics grew by 10.3 per cent in comparison to 8.7 per cent growth in 2014. The household expenditure on clothing and footwear grew by 5.7 per cent in 2015 recovering from 1.7 per cent contraction recorded in 2014. This was reflected by the significant growth in the importation of clothing and accessories to the country in 2015.

The housing, water, electricity, gas and other fuels category of PCE grew by 11.5 per cent in 2015 compared to 9.0 per cent growth in 2014. The electricity tariff revision made in September 2014, which passed through to 2015 benefitted the consumers in low usage categories, reducing their consumption expenditure per unit of electricity usage. The electricity sales to the domestic sector grew by 9.7 per cent in 2015 denoting the expansion in electricity consumption in the country with increase in access and diversifying needs of the households. Further, benefit of the downward revision in water tariffs made in November 2014 passed through to 2015 while consumption of water further increased during the year. Meanwhile, the periodic downward revisions in administratively determined prices of diesel, petrol and liquid petroleum gas reduced the cost of consumption, encouraging the demand for such expenditure categories.

PCE on transport activities grew by 10.3 per cent in 2015 recording a deceleration when compared to 14.5 per cent growth in 2014. The downward revision of passenger transport fares on average, by 8.2 per cent in February 2015 contributed to reduce PCE. Further, the cut down in fuel prices also supported the reduction of transport cost. However, the registration of motor cars and motor cycles showed a significant growth, although some moderation was reported towards the latter part of 2015.

The household expenditure on health activities grew by 22.1 per cent, while that on education contracted by 0.3 per cent in 2015. The PCE share of the above categories remained at lower levels, mainly due to the expansion in government expenditure in delivering educational and health services. The government annually spends around 30 per cent of its final consumption as an individual final consumption expenditure in providing health and educational services at no charge or at a lower rate, reducing the household consumption expenditure on those categories. The production approach estimates also reflects the greater role of the government, where the gross value added in education and human health activities were mainly driven by the government sector.

PCE on communication continued its momentum, recording a 17.9 per cent growth in 2015 when compared to 6.6 per cent growth in 2014. This was supported by the increase in the usage of telecommunication services, which was reflected by the continuous growth in telephone and internet connections in the country. The upward revision in postal rates from August 2014 had increased the PCE of the household users of the postal services. The 67.2 per cent growth in the import rupee value index of telecommunication devices denotes the increased demand for telecommunication equipment in the country.

The household consumption expenditure on recreation and culture also grew by 15.7 per cent in 2015 compared to 22.2 per cent growth in 2014. The increase in disposable income levels, developments in the transportation network and road infrastructure, usage of private vehicles with affordable fuel prices along with the peaceful environment largely supported the domestic mobility, which in turn increased the demand for recreational and cultural activities.

GCE consists of the collective final consumption expenditure of the government, which is the expenditure incurred by the general government for the benefit of the community as a whole, and the individual final consumption, which is the expenditure incurred by the general government for the benefit of individual households. The collective final consumption expenditure of the government, which includes the expenditure on general public services, defense, public order and safety, economic affairs, environmental protection, housing and community amenities, recreation, culture and religion, and social protection, accounted for 67.6 per cent of the total GCE in 2015. During 2015, the government collective final consumption grew by 9.5 per cent in nominal terms when compared to 17.2 per cent growth recorded in 2014. This growth was mainly attributable to the 33.6 per cent growth in the final consumption expenditure on general public services, which includes the GCE on salaries and wages, and the 15.4 per cent growth in expenditure on social protection in 2015. However, expenditure on major government expenditure categories, including defense, and public order and safety moderated in 2015, while expenditure on economic affairs, and recreation, culture and religion contracted. Meanwhile, the individual final consumption of the government, which is the sum of health and education expenditure, grew by 22.6 per cent in 2015 when compared to 15.1 per cent growth observed in 2014, representing 32.4 per

cent of the GCE in 2015, which was mainly attributable to the government final expenditure on education. Accordingly, the government final consumption expenditure on education and health grew by 28.4 per cent and 16.1 per cent, respectively, in 2015 compared to the respective 12.5 per cent and 18.1 per cent growth recorded in 2014.

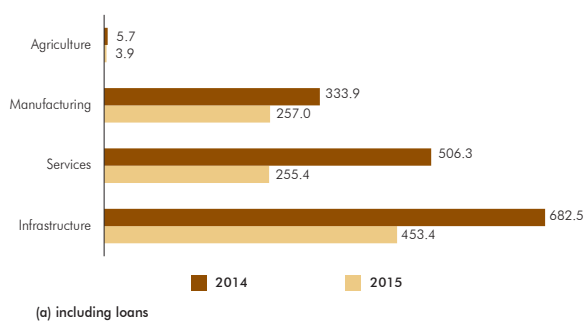
Investment

Investment expenditure, which includes private and public investments, grew by 0.6 per cent in nominal terms in 2015 when compared to 4.8 per cent growth recorded in 2014. The expenditure on machinery and equipment, and weapons systems, continued to grow by 6.8 per cent in 2015 when compared to 4.1 per cent growth in 2014. This growth was reflected by the recovery in the rupee value index of machinery and equipment imports. Meanwhile, construction expenditure grew by 2.3 per cent against the 7.3 per cent contraction recorded in 2014. The importation of building materials which are used in construction activities turned positive, recovering from the contraction observed in 2014. Further, a significant growth was observed in credit to the private sector by LCBs for the purpose of construction activities, reflecting the involvement in construction activities by the private sector. However, the re-evaluation of the public investment driven construction activities during 2015, impacted the growth in construction activities. Further, investment on transport equipment grew by 1.0 per cent in 2015 in comparison to 9.9 per cent growth in 2014. The newly included investment categories of information and communication technology equipment, cultivated biological resources and intellectual property products, positively contributed to the growth in investment activities during 2015. However, the contraction in changes in inventories and acquisition less disposals of valuables dampened the investment growth in 2015.

Inflows of Foreign Direct Investments (FDI), including loans to the Board of Investment (BOI) registered companies amounted to US dollars 969.7 million in 2015 compared to US dollars 1,528.4 million in 2014, reflecting a year-on-year decline of around 36.6 per cent. The main reason for the contraction in investment inflows during the period was the decrease in inflows to infrastructure projects by 33.6 per cent and services by 49.6 per cent. FDI inflows to manufacturing too declined by 23.0 per cent. The majority of FDI during the period was on account of infrastructure related projects mainly on housing and property development representing around 46.8 per cent of total FDI (US dollars 453.4 million). FDI in the services sector amounted to around 26.3 per cent of total FDI inflows (US dollars 255.4 million), whereas FDI in the manufacturing sector amounted to US dollars 257.0 million representing about 26.5 per cent of total FDI during 2015.

Total estimated investments of projects approved in 2015 under section 16 and 17 of the BOI Act are estimated at Rs. 429.3 billion. Investment value of project approvals in the services and wearing apparel and leather sectors declined

Chart 2.7 Foreign Direct Investment of BOI Enterprises (a) (US\$ million)



slightly while the estimated investment of projects approved in non-metallic mineral products sector reduced substantially compared to 2014. However, estimated investment in approved projects in food, beverages and tobacco and fabricated metal sectors recorded a higher investment value compared to last year. The estimated investment value of projects contracted under section 17 was Rs. 282.6 billion, which was an increase of 7.2 per cent compared with 2014. Estimated investments of projects which commenced commercial operations under sections 16 and 17 of the BOI Act were Rs. 4,603.1 billion as at end 2015. The cumulative realised investment of the BOI by end 2015 was Rs. 1,991.8 billion.

Table 2.12

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

| | No. of Projects | | Estimated Investment (Rs. million) | | | | | | Employment (No.) | |
|---|-----------------|----------|------------------------------------|-----------|-----------|-----------|-----------|-----------|------------------|----------|
| | 2014 (a) | 2015 (b) | 2014 (a) | | | 2015 (b) | | | 2014 (a) | 2015 (b) |
| | | | Foreign | Local | Total | Foreign | Local | Total | | |
| BOI (Under Act No. 4 of 1978) | | | | | | | | | | |
| Projects Approved | 214 | 233 | 229,235 | 172,544 | 401,780 | 186,252 | 243,054 | 429,305 | 34,216 | 34,275 |
| Under Section 17 (c) | 187 | 217 | 217,041 | 172,207 | 389,247 | 184,409 | 241,688 | 426,096 | 30,938 | 33,502 |
| Under Section 16 | 27 | 16 | 12,195 | 338 | 12,533 | 1,843 | 1,366 | 3,209 | 3,278 | 773 |
| Projects Contracted Under Section 17 (c) | 152 | 150 | 98,942 | 164,627 | 263,569 | 147,510 | 135,122 | 282,632 | 25,476 | 22,516 |
| Realised Investment Under Section 17 (d)(e) | 1,951 | 1,989 | 1,133,006 | 622,696 | 1,755,702 | 1,236,251 | 755,557 | 1,991,808 | 484,675 | n.a. |
| Projects in Commercial Operations (d) | 2,748 | 2,823 | 425,027 | 4,127,910 | 4,552,937 | 452,541 | 4,150,540 | 4,603,081 | 412,658 | 421,967 |
| Under Section 17 (c) | 2,030 | 2,097 | 402,038 | 4,117,317 | 4,519,356 | 417,950 | 4,139,766 | 4,557,716 | 375,735 | 384,809 |
| Under Section 16 | 718 | 726 | 22,989 | 10,593 | 33,582 | 34,591 | 10,774 | 45,365 | 36,923 | 37,158 |
| MIC | | | | | | | | | | |
| Companies Registered (d) | 2,192 | 2,276 | - | - | 203,764 | - | - | 204,522 | 306,781 | 311,698 |

(a) Revised

(b) Provisional

(c) Includes expanded projects

(d) Cumulative as at end of year

(e) Cumulative actual investment values are given

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

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

Availability and Utilisation of Resources

The amount of resources available in the economy continued to expand in nominal terms to Rs. 14,309.1 billion, recording a growth of 6.2 per cent in 2015 compared to the growth of 8.9 per cent in 2014. The resulted deceleration in growth in 2015 was a combined outcome of the slower growth in both the GDP and external resources in nominal terms, compared to 2014. The growth in domestic resources was driven by the positive contribution from Agriculture, Industry and Services activities. The slowdown in expenditure on imports in nominal terms was largely attributable to the decline in global commodity prices, including the expenditure on petroleum products. This resulted in an increase in contribution of domestic resources in nominal terms to 78.2 per cent in sustaining demand compared to 77.6 per cent in 2014. In real terms, total resource availability increased at a rate of 6.1 per cent when compared to the expansion of

Table 2.13 Total Resources and Their Uses at Current Market Prices (a) (b)

| Item | Percentage Share % | | Percentage Growth % | |
|--|--------------------|--------------|---------------------|------------|
| | 2014 | 2015 | 2014 | 2015 |
| A. Resources | | | | |
| Gross Domestic Product | 77.6 | 78.2 | 8.9 | 7.0 |
| Import of Goods and Services | 22.4 | 21.8 | 8.9 | 3.5 |
| Total | 100.0 | 100.0 | 8.9 | 6.2 |
| B. Utilisation | | | | |
| Consumption | 59.0 | 60.5 | 9.9 | 8.9 |
| Gross Fixed Capital Formation | 20.9 | 20.5 | 0.0 | 4.3 |
| Changes in Inventories and Acquisition less Disposals of Valuables | 4.0 | 3.0 | 40.3 | -18.8 |
| Export of Goods and Services | 16.2 | 16.0 | 12.1 | 5.1 |
| Total | 100.0 | 100.0 | 8.9 | 6.2 |

(a) The data is based on the base year 2010 GDP estimates of the Department of Census and Statistics.

(b) Provisional

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

5.9 per cent in 2014. This growth was attributable to the increase in the GDP at constant prices and the growth in external resources in real terms.

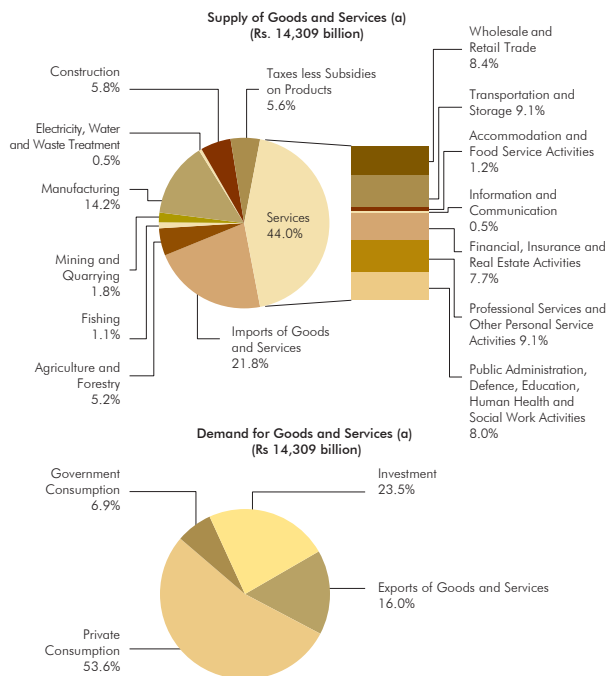
The available resources were utilised to satisfy the consumption, investment and export needs of the economy. The utilisation of resources for consumption purposes accounted for 60.5 per cent in nominal terms in 2015, marginally ahead of 59.0 per cent share recorded in 2014. Meanwhile, the utilisation of resources for investment purposes remained at 23.5 per cent in 2015, slightly below the 24.8 per cent share in 2014. This was a combined outcome of the decline in respective shares of gross domestic fixed capital formation and the change in inventories and acquisition less disposals of valuables in 2015. Meanwhile, exports, as a percentage of the total utilisation of resources, declined to 16.0 per cent in 2015 from 16.2 per cent share in 2014. This was mainly attributable to the slowdown in global demand.

Savings

Domestic savings of the economy increased to Rs. 2,531.0 billion recording a 1.1 per cent growth in 2015 when compared to 6.0 per cent growth in 2014. The deceleration in domestic savings was a combined outcome of the slowdown

Chart 2.8

The Economy in 2015 (at Current Prices)



(a) The data is based on the base year 2010 GDP estimates of the Department of Census and Statistics.

Table 2.14

Consumption, Investment and Savings at Current Market Prices (a) (b)

| Item | Rs. million | | % Change | | As a per cent of GDP | |
|---|--------------|--------------|----------|-------|----------------------|-------|
| | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 |
| 1. Gross Domestic Product at Market Price | 10,448,479 | 11,183,220 | 8.9 | 7.0 | 100.0 | 100.0 |
| 2. Consumption Expenditure | 7,943,796 | 8,652,180 | 9.9 | 8.9 | 76.0 | 77.4 |
| Private | 7,074,658 | 7,666,365 | 9.1 | 8.4 | 67.7 | 68.6 |
| Government | 869,138 | 985,815 | 16.6 | 13.4 | 8.3 | 8.8 |
| 3. Investment | 3,341,174 | 3,361,546 | 4.8 | 0.6 | 32.0 | 30.1 |
| 4. Domestic Savings | 2,504,682 | 2,531,040 | 6.0 | 1.1 | 24.0 | 22.6 |
| Private | 2,632,374 | 2,777,819 | 8.3 | 5.5 | 25.2 | 24.8 |
| Government | -127,692 | -246,779 | -88.5 | -93.3 | -1.2 | -2.2 |
| 5. Domestic Savings - Investment Gap | -836,492 | -830,507 | -1.2 | 0.7 | -8.0 | -7.4 |
| 6. Net Primary Income from Rest of the World | -236,669 (c) | -251,288 (c) | -4.7 | -6.2 | -2.3 | -2.2 |
| 7. Net Current Transfers from Rest of the World | 813,128 | 833,498 (c) | 11.6 | 2.5 | 7.8 | 7.5 |
| 8. National Savings | 3,081,142 | 3,113,250 | 7.5 | 1.0 | 29.5 | 27.8 |

(a) The data is based on the base year 2010 GDP estimates of the Department of Census and Statistics.

(b) Provisional

(c) The difference with the BOP estimates is due to the time lag in compilation.

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

in private savings and the widening of government dis-savings, which was reflected by the substantial growth in government recurrent expenditure against the comparatively low growth in government revenue. The growth in government recurrent expenditure was mainly due to the significant increase in salaries and wages, the main recurrent expenditure category of the government. As a result, domestic savings as a percentage of GDP, declined to 22.6 per cent in 2015 when compared to 24.0 per cent in 2014.

National savings of the economy increased to Rs. 3,113.2 billion during the year, which was a 1.0 per cent growth when compared to 7.5 per cent growth in 2014. Apart from the slowdown in domestic savings, the deceleration in net current transfers from rest of the world and the contraction in net primary income from rest of the world adversely affected the national savings. Accordingly, national savings as a percentage of GDP declined to 27.8 per cent from 29.5 per cent in 2014. However, as a result of the significant deceleration in investment expenditure, the national savings-investment gap declined to 2.2 per cent of GDP in 2015 from 2.5 per cent of GDP in 2014.

2.6 Income

The income approach estimates of the National Accounts show the disaggregated components that generated the income within the economy during a certain time period. The income components of the gross value added are Compensation of Employees (CE), Gross Operating Surplus (GOS) and Other Taxes less Subsidies on Production. These components could be further classified into institutional sectors that generated the income in the economy. The CE represents the income accruing to individuals in return for their labour input into production processes. The GOS is the income generated from factors of production other than labour, which includes Net Operating Surplus (NOS), Mixed Income (MI) and Consumption of Fixed Capital (CFC). The NOS is the GOS excluding MI and CFC, where CFC represents the decline in value of the fixed capital used in the production process during the period. The MI is the income generated by the household sector by utilising household labour for the production process. Hence, MI is only generated by the household sector engaged in production activities. Considering the institutional sector wise contribution to the income, HH and NPISH has the highest contribution followed by NFC, GG and FC, respectively.

Table 2.15

Income Components by Institutional Sector at Current Market Prices (a) (b)

| Item | Percentage Share (%) | | | | | | | | | |
|--|----------------------------|------------------------|--------------------|---|---------------|----------------------------|------------------------|--------------------|---|---------------|
| | 2014 | | | | | 2015 | | | | |
| | Non-Financial Corporations | Financial Corporations | General Government | Households and Non-Profit Institutions Serving Households | Total Economy | Non-Financial Corporations | Financial Corporations | General Government | Households and Non-Profit Institutions Serving Households | Total Economy |
| Compensation of Employees | 31.6 | 6.3 | 27.0 | 35.2 | 100.0 | 30.1 | 5.1 | 29.3 | 35.5 | 100.0 |
| Gross Operating Surplus | 36.0 | 3.6 | 2.4 | 58.0 | 100.0 | 35.4 | 4.1 | 2.2 | 58.2 | 100.0 |
| Net Operating Surplus | 40.1 | 4.3 | 1.3 | 54.3 | 100.0 | 39.6 | 4.9 | 1.1 | 54.4 | 100.0 |
| Mixed Income | - | - | - | 100.0 | 100.0 | - | - | - | 100.0 | 100.0 |
| Consumption of Fixed Capital | 38.5 | 1.8 | 13.5 | 46.2 | 100.0 | 38.5 | 2.5 | 12.7 | 46.3 | 100.0 |
| Other Taxes less Subsidies on Production | 91.3 | 8.4 | - | 0.3 | 100.0 | 92.0 | 7.8 | - | 0.3 | 100.0 |
| Gross Value Added at Basic Price | 34.9 | 4.4 | 9.4 | 51.2 | 100.0 | 34.4 | 4.5 | 10.1 | 51.1 | 100.0 |

(a) The data is based on the base year 2010 preliminary GDP estimates of the Department of Census and Statistics.

Source: Department of Census and Statistics

(b) Provisional

The GOS, followed by the CE, represented the major income component of the gross value added of the economy. The GOS grew by 5.1 per cent in nominal terms, albeit at a slower rate compared to 8.8 per cent growth in 2014. This slowdown was mainly attributable to the deceleration in NOS and CFC, the two main income categories in the GOS, which grew by 4.6 per cent and 5.5 per cent in 2015 compared to the respective 9.3 per cent and 7.7 per cent growth recorded in 2014. Meanwhile, the MI grew by 8.5 per cent in 2015 compared to 5.8 per cent growth in 2014. Further, the CE of the economy grew by 8.4 per cent in 2015 compared to 9.4 per cent growth in 2014. Meanwhile, taxes less subsidies on production grew significantly in 2015, contributing positively to the growth in income.

In 2015, the HH and NPISH sector represented the majority of income generation, followed by the NFC. From the total GOS of the economy, the HH and NPISH represented 58.2 per cent, while NFC accounted for 35.4 per cent. Considering CE, the HH and NPISH accounted for 35.5 per cent, followed by the NFC, which represented 30.1 per cent. Further, the GG also accounted for 29.3 per cent of the CE. Meanwhile, the taxes less subsidies on production was dominated by the NFC sector. It could be noticed that even though the HH and NPISH sector contributed for 51.1 per cent of the gross value added in 2015, the contribution for taxes less subsidies on production from HH and NPISH sector was only 0.3 per cent.