How the economy grew in first quarter of 2003

Continuing with and confirming the recovery in economic activity since early 2002, Gross Domestic Product (GDP) grew by 5.5% during the first quarter of 2003, the Central Bank said yesterday. Following is the full text of its statement.

Overall Performance

The growth in the first quarter of 2003, the third consecutive quarter in which growth exceeded 5%, indicates that the economy has overcome the adverse situation experienced in the latter half of 2001. The growth of 5.5%, although lower than the 6.0% growth reported in the second half of 2002 was considerably higher than the 0.5% growth in the corresponding quarter of 2002.

The macro economic environment that prevailed was conducive to achieving this relatively higher growth. Prudent monetary policy measures provided adequate liquidity to the economy. The declining trend in interest rates encouraged private sector participation in economic activities. Greater fiscal discipline, a stable foreign exchange market and a falling inflation rate enhanced overall investor confidence. The cease-fire between the government and the LTTE that had continued for more than a year, impacted positively on both investment as well as consumer expenditure.

All three sectors recorded positive growth. The Services sector reported the highest growth of 7.6% and contributed 71% of the overall economic growth. The growth in Agriculture and Industry was 0.7% and 5.4%, respectively. The contributions of agriculture and industry to the overall growth were 3% and 26%, respectively.

Gross Domestic Product at 1996 Constant Factor Cost Prices

Sector	%Change		Percentage Share of GDP		
	02/01	03/02	2001	2002(a)	2003(b)
Agriculture	3.1	0.7	21.4	22.0	21.0
1. Agriculture, forestry & fishing	3.1	0.7	21.4	22.0	21.0
1.1 Agriculture	3.6	1.2	17.2	17.7	17.0
Tea	(9.3)	(0.8)	1.5	1.4	1.3
Rubber	4.1	0.9	0.4	0.4	0.4
Coconut	(2.4)	(15.9)	1.3	1.3	1.0
Paddy	9.9	6.7	4.6	5.1	5.1
Other	3.30.	0.8	9.3	9.6	9.2
1.2 Forestry	3.0	3.0	1.8	1.8	1.8
1.3 Fishing	0.3	(4.8)	2.4	2.4	2.2
Industry	(3.0)	5.4	27.6	26.6	26.6
2 Mining & quarrying	(10.8)	8.2	2.2	2.0	2.0
3. Manufacturing	(2.2)	3.2	15.1	15.3	15.0
3.1 Processing of tea, rubber & coconut kernel product	(4.9)	(7.0)	1.9	1.8	1.6
3.2 Factory industry	1.8	4.6	12.7	12.4	12.3
3.3 Small industry	(2.0)	4.0	1.2	1.1	1.1
4. Construction	(0.3)	7.6	8.2	8.1	8.3
5. Electricity, water and gas	14.7	14.3	1.4	1.2	1.3
Services	1.2	7.6	51.0	51.4	52.4
6. Transport, storage and communication	5.5	10.4	11.9	12.1	3.1
7. Wholesale and Retail Trade	0.3	5.7	20.8	20.8	20.8
7.1 Imports	1.0	8.5	9.1	9.2	9.4
7.2 Exports	(6.0)	5.5	2.3	2.2	2.2
7.3 Domestic	1.3	2.9	9.3	9.4	9.2
8. Banking, insurance and real estate	(1.2)	14.9	7.6	7.5	8.2
9. Ownership of dwellings	1.4	1.4	1.8	1.8	1.7
10. Public administration and defence	(0.2)	0.2	4.8	4.8	4.5
11. Services (n.e.s.)	(1.0)	6.8	4.2	4.1	4.2
Gross Domestic Product	0.5	0.5	100.0	100.0	100.0

(a) Revised
(b) Provisional

Agriculture

The Agriculture, forestry and fishing sector expanded by 0.7% during the first quarter of 2003 in comparison to 3.1% growth in the corresponding quarter of the previous year. The sector was sustained by paddy production and the minor export crops sub sector, while other sub sectors declined or grew marginally.

In domestic agriculture, paddy production increased by 6.7%. This year recorded the highest ever Maha paddy output of 1.89 million metric tons, mainly due to the increase in cultivated area. The ongoing peace process enabled paddy cultivation in areas in the North and the East which had earlier been abandoned due to the civil conflict. Favourable weather conditions that prevailed also impacted positively on yields. Production of minor export crops increased during this period. Export volumes of pepper, nutmeg and mace, oil seeds, cardamoms, betel leaves and cashew nuts indicated increases compared to the same period of 2002. However, production of vegetables and subsidiary food crops remained at the same level as during the first quarter of the previous year. The animal husbandry sub-sector experienced a setback due to the decline in production of eggs, chicken and milk. Increase in cost of production in the poultry industry curtailed production as well as the value added in that sector. The plantation agriculture sector also faced difficulties during the first quarter of 2003. Tea production declined by 0.8%, due to the decline in medium and low grown production. Tea auction prices declined by 6.5% during the quarter as world demand fell amidst the Iraqi war. Though rubber prices increased by 82% due to the global supply shortage that prevailed, production increased by only 0.9%. Owing to the lagged effect of the drought, coconut production declined further by 16% during the first quarter of 2003.

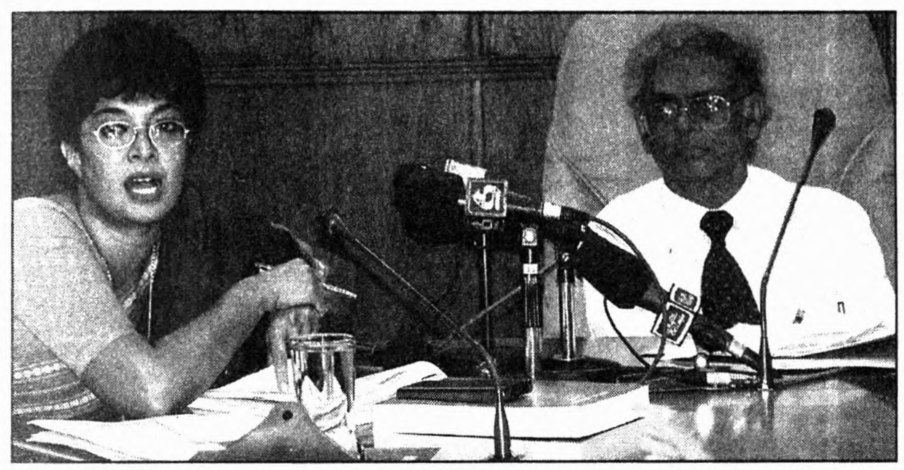
Fish production during the first quarter of 2003 declined by 4.8%. This decline was an outcome of the decline in output in both marine and acquaculture sectors by 4.9% and 4.1%, respectively. The decline in output was reflected in the increase in fish prices by 7.1%, on average.

Industry sector

Though overall economic activity recovered in 2002, the industry sector lagged behind as the Manufacturing and Construction sectors still faced difficulties. Performance in the first quarter of 2003 indicates that this sector is on the path to recovery. All four sub-sectors, namely, Manufacturing, Construction, Electricity, gas and water, and Mining and quarrying, grew positively in the first quarter.

The Manufacturing sector grew by 3.2%, as against a decline of 2.2% during the corresponding quarter of the previous year. The factory industry sub-sector, which covers large and medium scale enterprises, grew by 4.6% mainly due to the favourable performance of the export oriented industrial sector. Despite the slower recovery in world demand, the textiles and wearing apparel sub-sector grew by of 6.3% with increased demand from EU countries and the United States. In addition to the textiles sector, the other export oriented industries such as rubber products, ceramics and processed diamonds also performed well during the quarter. The domestic market oriented industries such as food and beverages, plastic and PVC products, pharmaceuticals and detergents, and cement also performed well in response to higher consumer demand.

The construction sector, which suffered a setback during the previous two years, grew by 7.6% in the first quarter of 2003. The growth was largely due to the increase in individual housing construction activities as well as wide spread construction of apartment complexes and condominiums. Government capital expenditure, which was centered on power supply, road construction, water supply and rehabilitation projects, also stimulated the construction industry. The growth in construction activities was reflected in statistics on the import and local sales of construction materials.



Central Bank Director Statistics Mrs. Anila Dias Bandaranayake (left) at the media briefing yesterday on the first quarter GDP estimates. Deputy Governor W.A. Wijewardena is also present. Pic by Samantha Perera

The Electricity, water and gas sector, which contracted by 14.7% in the first quarter of 2002, grew by 14.3% in the corresponding quarter of 2003. Electricity generation increased 21.4% during the quarter with the availability of adequate hydro and thermal power. The corresponding quarter in the previous year experienced power cuts. The value added in this sub sector increased by 16.9% as a result of high usage of thermal power, including emergency hired thermal power, which had high generation costs. During the quarter, 67.7% of the total electricity was generated thermally, in comparison to 62.4% in the same period of 2002. Meanwhile, water distribution increased marginally by 1.3%. Value added in the Mining and quarrying sector, which declined by 10.8% in the first quarter of 2002, increased by 8.2% during the first quarter of 2003. The mining of gems and other minerals improved during the period under review. The quarrying sub-sector performed well, as enhanced construction activities created demand for quarrying materials.

Services sector

The Services sector maintained its relative importance in the economy and contributed most to overall economic growth. Of service activities, the Banking, insurance and real estate sector recorded the highest growth of 14.9%. The growth in the commercial banking sector was responsible for this growth. As experienced in the previous year, the commercial banking sector took advantage of the continuous decline in interest rates with the decline in deposit rates being greater than that in lending rates. This situation could adversely impact on the overall investment potential, as the full benefit of the reduction in interest rates is not made available to investors, but rather manifests itself in higher profits in the banking sector.

The Transport, storage and communication sector grew by 10.4% during the first quarter of 2003. The telecommunication sub-sector provided the impetus for this growth, maintaining continuously high growth rates and expanding by 25.6% during the quarter. The provision of cellular phones increased by 50% during the period under review, while that of inter-net and email services grew at 23%. The demand from the Northern and Eastern provinces for telecommunication services following on the cease-fire in February 2002 has not abated and contributed to this growth. Value added in port services, which declined by 5.5% in the first quarter of 2002, recorded a notable growth of 17.6 percent during the quarter. The number of ship arrivals and containers handled, transshipment activities and total cargo handled had improved considerably during the period under review. This high growth however, was over a low base in the previous year when the Colombo port suffered a setback due to the imposition of a war risk surcharge from August 2001 following the terrorist attack at Katunayake International Airport. The high growth also reflects enhanced productivity at the Sri Lanka Ports Authority (SLPA) and aggressive marketing by the Jaye Container Terminal (JCT) and the South Asia Gateway Terminal (SAGT), both providing world class container terminal facilities.

The transport sub-sector, which includes both passenger and freight transport, also performed well during the quarter with a growth of 2.7% as against 0.9% in the first quarter 2002. The demand for freight transport grew with the increase in domestic production and international trade activities. Passenger transport activities too expanded owing to the improved security environment.

The Wholesale and retail trade sector, the largest sector in terms of value added, grew by 5.6%. The recovery in external trade activities boosted this growth. The import trade sub-sector grew by 8.5% due to the higher demand for imported consumer goods, which increased volume terms by 14%, and investment goods, whose volume rose by 17%. The export trade sub-sector improved by 5.5% largely owing to the increase in exports of industrial goods (by 8.3%) and mineral exports (by 57%). Higher demand for consumer goods and enhanced trading activities between the North and the other parts of the country stimulated the domestic trading sub-sector. The Services (n.e.s.) category, which includes all other unclassified services such as hotel related services, advertising, private education and health, private security and janitorial services and community, social and personal services, grew by 6.8 percent against a decline of 1% recorded in same period of 2002. This was mainly due to enhanced activities in the hotel services, health, education and lotteries sub sectors. Hotel and related services, which suffered a setback due to a 31% drop in tourist arrivals during the first quarter of 2002, recovered strongly with the increase in tourist arrivals, mainly from India, U.K, Germany, France and Japan. Tourist arrivals rose by 30%, while total guest nights of all graded hotels recorded an increase of 40% during the period. The peaceful environment that prevailed in the country encouraged revival in the hotel industry as well as in most services in the Services (n.e.s.) category.

Conclusion

The growth reported in the first quarter of 2003 confirms that the Sri Lankan economy is steadily moving away from the gloomy economic situation experienced in 2001. The recovery in the Industry sector has been significant. If this trend continues, contribution of the Industry sector could play a greater role in economic expansion. Performance in the first quarter has been consistent with the annual growth projection for 2003 made at the beginning of the year. Continuation of a conducive macro-economic environment and the current investment climate, both government and private, could see a higher than projected growth rate realised by the end of the year. The substantial quantum of aid pledged at the Donors' conference in Tokyo indicates that funds are available for the government's reconstruction, rehabilitation and economic reforms programme. Macro-economic stability and productive investment of available funds towards effective implementation of key projects in the pipeline would be critical for achieving the envisaged higher growth path in the medium term. The continuation of the ongoing peace process and political stability are also crucial for the sustenance of the future growth of the economy.