

# 5

## EXTERNAL SECTOR DEVELOPMENTS AND POLICIES

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### 5.1 Overview

**T**he external sector improved in 2014 recording a lower current account deficit of 2.7 per cent of GDP and a surplus of US dollars 1,369 million in the balance of payments (BOP). Despite the widening of the deficit in the trade account with increased growth in merchandise imports, inflows from trade in services and workers' remittances helped to reduce the current account deficit. Meanwhile, the BOP recorded a higher surplus benefiting from the improved current account balance together with continued inflows to the financial account in terms of foreign direct investment (FDI) and receipts to the government, banking and private sectors, thereby improving the gross international reserves of the country to US dollars 8.2 billion, equivalent to 5.1 months of imports as at end 2014. Meanwhile, the Sri Lankan rupee appreciated during the first half of the year amidst higher inflows including higher export earnings, but this trend reversed during the second half of the year, mainly on account of increased expenditure on imports and net outflows associated with foreign investments in government securities. Consequently, the rupee remained relatively stable in 2014 while the real effective exchange rate indices appreciated during the year.

Notwithstanding the improvements observed in the external front, Sri Lanka's external sector highlighted certain potential challenges towards the end of 2014 due to both global and domestic factors. These challenges exerted some pressure on the exchange rate and foreign exchange reserves, indicating the need of building buffers through decisive policy measures to counter adverse developments that may arise in future, and thereby supporting macroeconomic stability. Particularly, the positive impact of the policies introduced by the Central Bank and the government in early 2012 to address the growing imbalances in the external sector was moderating by end 2014 due to the removal of some restrictions on imports, subdued global growth and increased global market volatility driven by unconventional monetary policy related measures. This together with the increased pressure on the domestic foreign exchange market due to higher demand for foreign exchange emphasised a potential challenge in the external front. Therefore, the government and the Central Bank initiated a number of measures to build up buffers, including entering into a currency swap agreement with the Reserve Bank of India and the issuance of Sri Lanka Development Bonds to improve the level of international reserves.

**Table 5.1** Balance of Payments Analytical Presentation  
(BPM6 Presentation Format)

Item	US\$ million		Rs. million	
	2013 (a)	2014 (b)	2013 (a)	2014 (b)
<b>Current Account</b>	-2,541	-2,018	-323,961	-263,428
<b>Trade Balance</b>	-7,609	-8,287	-979,074	-1,081,987
Exports	10,394	11,130	1,344,054	1,453,176
Imports	18,003	19,417	2,323,128	2,535,163
<b>Services (net)</b>	1,180	1,880	152,521	245,496
Receipts	4,685	5,605	605,104	731,863
Payments	3,505	3,725	452,583	486,367
<b>Primary Income (net)</b>	-1,751	-1,839	-226,086	-240,065
Receipts	132	153	17,003	20,040
Payments	1,883	1,992	243,090	260,104
<b>Secondary Income (net)</b>	5,639	6,227	728,678	813,128
Secondary income: credit	6,428	7,046	830,407	920,035
Workers' remittances	6,407	7,018	827,689	916,344
Government transfers	21	28	2,718	3,691
Secondary income: debit	788	819	101,728	106,906
<b>Capital Account</b>	71	58	9,188	7,684
Capital account: credit	90	73	11,596	9,586
Capital account: debit	19	15	2,409	1,903
<b>Current and Capital Account</b>	-2,470	-1,960	-314,773	-255,744
<b>Financial Account</b>	3,064	1,936	388,700	252,409
<b>Direct Investment: Assets</b>	65	67	8,399	8,725
<b>Direct Investment: Liabilities</b>	933	944	120,817	123,304
<b>Portfolio Investment: Assets</b>	...	...	-29	-29
Debt securities	...	...	-29	-29
<b>Portfolio Investment: Liabilities</b>	2,068	1,996	265,723	260,728
Equity	226	184	29,048	24,063
Debt securities	1,843	1,812	236,676	236,665
<b>Financial Derivatives</b>	-	-	-	-
<b>Other Investment: Assets</b>	-191	688	-24,531	89,993
Currency and deposits	-459	276	-58,839	36,115
Trade credit and advances	225	98	29,128	12,795
Other accounts receivable	42	314	5,181	41,082
<b>Other Investment: Liabilities</b>	1,048	1,298	137,452	169,506
Currency and deposits	108	-292	14,960	-38,152
Loans	1,118	1,847	144,640	240,985
Central Bank	-453	-719	-57,683	-93,904
Deposit-taking corporations	124	1,358	15,940	177,243
General government	841	646	108,284	84,199
Other sectors	605	563	78,099	73,447
Trade credit and advances	-235	-407	-30,495	-53,256
Other accounts payable	58	151	8,348	19,929
Special Drawing Rights (SDRs)	-	-	-	-
<b>Reserve Assets</b>	1,112	1,548	151,454	202,442
Monetary gold	351	9	44,862	1,154
Special Drawing Rights	12	-6	1,410	-748
Reserve position in the IMF	-	-	-	-
Other reserve assets	749	1,545	105,182	202,036
Currency and deposits	1,297	496	176,818	64,720
Securities	-548	1,049	-71,636	137,316
<b>Net Errors and Omissions</b>	-594	24	-73,927	3,335
<b>Overall Balance (c)</b>	985	1,369	226,086	397,126
<b>As a Percentage of GDP</b>				
Trade Balance	-11.3	-11.1		
Goods and Services	-9.6	-8.5		
Current Account	-3.8	-2.7		
Current and Capital Account	-3.7	-2.6		

(a) Revised Source: Central Bank of Sri Lanka

(b) Provisional

(c) Refer Table 5.11 and adjoining note for the derivation of overall balance.

## 5.2 External Trade Policies and Institutional Support

The focus of external trade policy on enhancing Sri Lanka's integration into the world economy continued further in 2014. Towards this end, various measures were implemented during the year by the Government and private sector institutions to enhance the prospects and performance of the export sector. Such measures included efforts to strengthen access to overseas markets for Sri Lankan products, further rationalisation of trade and tariff policies and encouragement of investment. While export promotion was considered as the main priority of external trade policy, certain policy measures were implemented to rationalise imports in order to protect selected domestic industries.

Measures were taken during the year to strengthen access for Sri Lankan products in overseas markets. Effective utilisation of existing trade agreements, seeking possibilities for entering into new trade agreements, strengthening market research activities and enhancing marketing and promotional campaigns in overseas markets were some of these measures. Further, the negotiation process to regain the Generalised Scheme of Preferences plus (GSP+) facility which provides concessional access to the EU, Sri Lanka's major export destination, commenced with the expectation of increasing market access for Sri Lankan products.

A satisfactory progress was observed on the utilisation of bilateral trade agreements in 2014. Sri Lanka's exports to India, under the India-Sri Lanka Free Trade Agreement (ISFTA) improved to the level of US dollars 376 million in 2014 compared to a sum of US dollars 367 million in 2013. Exports under the ISFTA comprised about 60 per cent of total exports to India from Sri Lanka in 2014. The second round of discussions between Commerce Secretaries was held in India, with the view of further strengthening the economic

cooperation between the two countries. Further, in order to resolve some pending issues under the Pakistan-Sri Lanka Free Trade Agreement (PSFTA) a Joint Working Group on Trade (JWGT) was set up and the areas considered comprised of customs cooperation, trade dispute resolution, non-tariff barriers and issues on market access. Under the PSFTA, Sri Lanka exported goods worth US dollars 52 million to Pakistan in 2014 which was about 70 per cent of Sri Lanka's total exports to Pakistan. Further, Sri Lanka continued its efforts to expand bilateral trade relations with China through the proposed free trade agreement. The second round of negotiations of the proposed China-Sri Lanka Free Trade Agreement (CSFTA) was held in November 2014, with a special emphasis on trade liberalisation and economic cooperation. Under the proposed CSFTA, the garment sector is identified as a thrust sector which would gain access to a large Chinese market.

**Trade under regional and multilateral agreements also continued in 2014.** Under the agreement on South Asian Free Trade Area (SAFTA), Sri Lanka exported goods worth US dollars 13 million in 2014 to Bangladesh, India, Maldives, Nepal and Pakistan in comparison to US dollars 2 million in 2013. Under this arrangement, the reduction of negative list by 20.0 per cent by each Member State was finalised and implemented. During 2014, Sri Lanka participated successfully in three sessions of Standing Committee meetings on Asia Pacific Trade Agreement (APTA) to discuss ways of deepening tariff concessions, relaxation of Rules of Origin and the road map for implementation of the Framework Agreement on Trade Facilitation, Investment and Services. The total value of exports from Sri Lanka to APTA member countries amounted to US dollars 120 million during 2014 in comparison to US dollars 84 million in 2013. Among APTA members, China is the main market for Sri Lanka, accounting for about 75 per cent of exports.

Further, during 2014, member countries of SAARC (South Asian Association for Regional Cooperation) Agreement on Trade in Services (SATIS) engaged in the finalisation of Schedules of Commitments under SATIS and Bangladesh, Bhutan, India and Nepal submitted the approved Final Offer Lists, while the Schedule of Commitments of Sri Lanka is being reviewed.

**Institutional support for trade promotion was enhanced further in 2014.** The Export Development Board (EDB), which embarked on formulating the National Export Strategy for 2015-2020, implemented several programmes to enhance supply chain efficiency, market and product diversification, and promotion of value added exports. The market development programmes of the EDB covered the EU region, USA, Asia, Middle East and Africa, while the market research campaigns were mainly focused on Brazil, South Africa and China. Further, the EDB registered the trade mark of 'Ceylon Cinnamon' in main markets such as the USA, EU, Colombia and Peru and also at the World Intellectual Property Office (WIPO). In order to facilitate exports further, it was proposed to introduce a one-stop service centre at Sri Lanka Customs, which provides banking facilities, quarantine and quality certificates on an online platform along with an online payment system for export and import transactions. Sri Lanka Export Credit Insurance Corporation (SLECIC) continued to provide insurance coverage for exporters against commercial and political risk. Insurance facilities provided by the SLECIC during 2014 showed a significant increase of 21.0 per cent, in both traditional and non-traditional markets. Reflecting the enhanced participation of the non-government sector in export development, the Joint Apparel Association Forum (JAAF) employed several measures to promote textiles and garments exports. With a view of penetrating to non-traditional markets, JAAF actively participated at the negotiations of the proposed free trade

agreement with China and at the trade dialogue with Japan on a potential preferential trade agreement. During the year, the JAAF organised a trade delegation to Brazil and the concept of 'Apparel made in Sri Lanka' was promoted particularly in markets, such as China, Thailand and Indonesia. Further, the JAAF introduced an electronic system for the processing of export documentation for garment factories within the Export Processing Zones of Sri Lanka. This would enable companies to reduce the transaction time and cost, which is vital in the highly competitive garment industry. Meanwhile, the Ceylon Chamber of Commerce also organised several programmes to promote international trade and investment in 2014, some of which were outward business promotion missions to countries such as Oman, Singapore, Indonesia, Japan, Maldives, China and Germany.

**Several measures were introduced in 2014 to promote investment in export oriented industries.** It was proposed to establish several economic zones for promoting specified products, such as gem and jewellery and dried fish. The 300 per cent tax allowance introduced by the 2014-Budget in respect of expenditure on research and development, innovation and brand promotion was proposed to continue to encourage research and development activities. With the view to encourage exports, it was proposed a reduction on income tax applicable on manufacturers of exports while an increase in provision for depreciation of advanced machinery was proposed to encourage investment.

**Trade and tariff policies were relaxed in 2014 to enhance integration of trade promotion in the national development framework.** Identifying the timely need of shifting to a high value-added and hi-tech industrial products exporting economy, a high level of Cess on exports of tea, rubber, coconut, cinnamon and other spices in primary form is continued to maintain. Further, 50 per cent of the Cess collected on tea exports is proposed

to be used for promotional campaigns in the international market for Ceylon tea. Financial assistance is proposed to small holder tea factories to modernise the factories while subsidies were proposed to increase for replanting and new planting. The current ceiling for exemption of VAT on export of samples for business was increased providing more space for exporters to exhibit their products at international trade fairs and exhibitions. Further, export of jewellery was promoted by way of providing duty waivers for the import of gold as input for making jewellery for the export market.

**Several measures were introduced to rationalise expenditure on imports.** High taxes prevailed on imports of edible oil, coconut oil and palm oil from 2013 continued to maintain in 2014 with a view to promote the coconut industry. Local rubber production was encouraged with the implementation of a guarantee price of Rs. 350 while Cess on rubber imports increased by Rs.10 per kg. During the recent past, initiatives were taken to increase domestic dairy production. High Cess applicable on importation of milk powder, butter, yoghurt, and other dairy products were further strengthened in 2014. Further, the guaranteed price for local liquid milk was proposed to increase by Rs. 10 per liter to Rs. 70 per liter and price deductions were introduced to encourage production and consumption of locally manufactured dairy products. These policy measures are expected to reduce import expenditure on dairy products and to provide more employment opportunities in the dairy farming sector. In an effort to encourage the usage of more energy saving motor vehicles, customs based tax on electric cars was reduced and excise duty was imposed in lieu of several taxes, in order to simplify the tax structure on motor vehicles imports. Further, in 2015, import taxes on motor cars with an engine capacity less than 1,000 cc was reduced while excise taxes applicable on hybrid vehicles were revised upwards.

**Sri Lanka continued to engage in multilateral initiatives of the World Trade Organisation (WTO) during 2014.** The WTO members initiated discussions on the implementation of the Bali Package, which was concluded at the 9th Ministerial Conference, held in December 2013. As the Doha Round showed sluggish progress since 2008, member countries agreed to work on the Bali Package, which covers limited areas including trade facilitation, agriculture, and developing country issues. During the year, the key area of focus was the agreement on trade facilitation, which had been negotiated over a period of 10 years. Accordingly, members including Sri Lanka conducted a legal review of the Agreement on Trade Facilitation and submitted notifications on those commitments, which each member could implement immediately and finalised the Protocol of Amendment to the WTO Agreement during 2014. Members reached an agreement on the Protocol text which was adopted in November 2014, after intensive consultations, and is currently open for acceptance by members of the WTO. Negotiations also began on other areas of the Bali Package, including agriculture-flexibilities for public stockholding for food security purposes, tariff rate quota administration and export competition, and issues of developing countries and least developed countries.

**The global and domestic challenges on international trade inevitably demand a clear and proactive trade policy for the country.** Concessional access to most of the markets will be limited when Sri Lanka graduates to an upper middle-income country with a higher per capita income. Institutional support should be continuously provided to enable exporters to withstand the intensifying global competition and to access new markets

and new technologies. Hence, the external trade policy is to be further directed to promote high value added products, minimising the production cost in order to be competitive in international markets, product and market diversification to reduce the risk of concentration and improving the internal systems and procedures to reduce lead time to deliver products to the market on time. Further, geopolitical issues in some of the main international markets posed challenges to Sri Lanka's export sector demanding timely strategies to penetrate into other markets.

## 5.3 Trade in Goods, Trade Balance, Terms of Trade and Direction of Trade

### 5.3.1 Export Performance

**Improved external demand along with stable domestic macroeconomic environment supported the local industries in achieving enhanced export performance in 2014.** Accordingly, earnings from exports increased by 7.1 per cent to a value of US dollars 11,130 million in 2014 compared to US dollars 10,394 million in 2013, with contributions from all major categories of exports.

**Industrial exports which represent about 75 per cent of total exports contributed largely to export growth in 2014.** Earnings from industrial exports increased by 6.6 per cent, year-on-year, to a value of US dollars 8,262 million in 2014, mainly due to a significant increase in textiles and garments exports, which increased by 9.4 per cent to a value of US dollars 4,930 million. The growth in textiles and garments exports contributed for more than 50 per cent of the total growth in exports. The garments exports to the EU and the USA increased by 10.6 per cent and 8.8 per cent, respectively. Meanwhile, exports to non-traditional markets increased by 10.5 per cent compared to 8.9 per cent increase in 2013. The measures adopted by



the authorities and industry participants to penetrate non-traditional markets helped achieve a higher growth of exports to those markets. Export earnings on leather products grew by 80.8 per cent to a value of US dollars 139 million in 2014, mainly due to a higher level of exports of footwear to Western markets. Sri Lankan footwear exporters gained a reputation as suppliers of fashion footwear among reputed international brands. Export earnings on food, beverages and tobacco, and machinery and mechanical appliances also increased substantially in 2014. However, export earnings on petroleum products, which mainly comprise of bunker and aviation fuel declined by 21.0 per cent to a value of US dollars 338 million, amidst intense competition from the major regional players, such as India and Singapore. Further, Sri Lanka is relatively less competitive in the bunker and aviation fuel industry, as the unit cost increases due to heavy reliance on imported fuel from regional markets and also due to limited storage capacity. Exports of diamonds also declined by 32.8 per cent due to non-operation of a major industry player, while gem and jewellery exports sustained its growth momentum during the year.

**Agricultural exports which contribute for around a quarter of total exports improved further during the year.** Earnings from agricultural exports increased by 8.2 per cent to a value of US dollars 2,794 million in 2014 led by exports of coconut products, tea and certain minor agricultural products. Exports of coconut products increased by 74.2 per cent to US dollars 356 million in 2014, mainly due to enhanced performance of kernel product exports, such as desiccated coconut and coconut oil, supported by the favourable weather conditions prevailed in the previous year. Export earnings from tea, which account for about 15 per cent of total exports, grew by 5.6 per cent in 2014 compared to 9.2 per cent growth recorded in 2013. The slower growth of tea exports reflects decelerated demand from the main export destinations such as Russia and the Middle East

which account for about 59 per cent of total tea exports. These countries experienced large revenue shortfalls, as oil prices declined, while Russia experienced large depreciation in the Ruble amidst economic sanctions due to geopolitical issues. However, as Sri Lanka supplied high quality orthodox tea which attracts higher demand in the international markets, the export price of Sri Lankan tea averaged at US dollars 4.97 per kg, recording an increase of 3.1 per cent from the previous year and above the average international tea price of US dollars 2.72 per kg in 2014. Minor agricultural exports increased by 63.1 per cent to a value of US dollars 165 million, as exports of arecanuts and fruits increased registering substantial growth of 300.5 per cent and 51.7 per cent, respectively. Sea food and vegetables, categorised under agricultural exports also performed well during the year. However, the export of spices which showed remarkable performance during the previous year slowed in 2014. Earnings on exports of spices declined by 25.6 per cent to a value of US dollars 265 million in 2014 compared to an increase of 38.8 per cent in 2013. This was mainly due to the lower harvest of main export crops i.e. cinnamon, pepper, cloves, mace and nutmeg in 2014 compared to the bumper harvest recorded in 2013. Further, export earnings on rubber also declined by 36.5 per cent to US dollars 45 million, reflecting a decline in both price and the quantity. Rubber prices in the international market declined throughout the last four years due to higher global supply and reduced demand for natural rubber from major rubber consuming economies such

**Chart 5.1 Exports by Commodities - 2014**

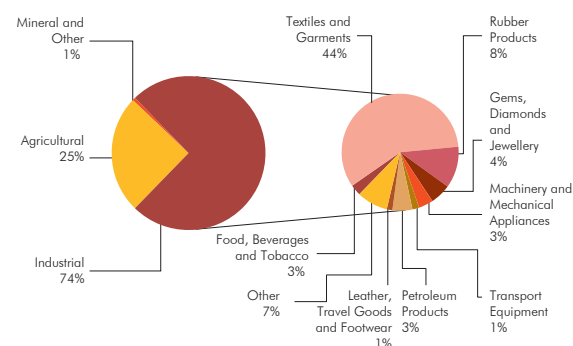


Table 5.2

## Composition of Exports

Category	2013		2014 (a)		Change in Value US\$ million	Y-o-Y Change %	Contribution to Change %
	Value US\$ million	Share %	Value US\$ million	Share %			
<b>Agricultural Exports</b>	<b>2,581.1</b>	<b>24.8</b>	<b>2,793.9</b>	<b>25.1</b>	<b>212.8</b>	<b>8.2</b>	<b>28.9</b>
Tea	1,542.2	14.8	1,628.3	14.6	86.1	5.6	11.7
Rubber	71.3	0.7	45.3	0.4	-26.0	-36.5	-3.5
Coconut	204.6	2.0	356.4	3.2	151.7	74.2	20.6
Spices	355.4	3.4	264.6	2.4	-90.9	-25.6	-12.3
Vegetables	24.9	0.2	40.1	0.4	15.2	60.9	2.1
Unmanufactured Tobacco	47.6	0.5	41.3	0.4	-6.3	-13.2	-0.9
Minor Agricultural Products	101.3	1.0	165.2	1.5	63.9	63.1	8.7
Seafood	233.7	2.2	252.7	2.3	19.0	8.1	2.6
<b>Industrial Exports</b>	<b>7,749.4</b>	<b>74.6</b>	<b>8,262.0</b>	<b>74.2</b>	<b>512.6</b>	<b>6.6</b>	<b>69.7</b>
Textiles and Garments	4,508.3	43.4	4,929.9	44.3	421.6	9.4	57.3
Rubber Products	887.8	8.5	889.8	8.0	2.0	0.2	0.3
Petroleum Products	427.7	4.1	338.0	3.0	-89.8	-21.0	-12.2
Gems, Diamonds and Jewellery	445.5	4.3	393.6	3.5	-51.9	-11.7	-7.1
Food, Beverages and Tobacco	235.2	2.3	289.3	2.6	54.0	23.0	7.3
Machinery and Mechanical Appliances	312.3	3.0	342.9	3.1	30.7	9.8	4.2
Printing Industry Products	36.3	0.3	52.4	0.5	16.1	44.5	2.2
Transport Equipment	146.3	1.4	151.8	1.4	5.4	3.7	0.7
Leather, Travel Goods and Footwear	76.8	0.7	138.9	1.2	62.1	80.8	8.4
Ceramic Products	40.4	0.4	41.3	0.4	0.9	2.2	0.1
Other Industrial Exports	632.7	6.1	694.1	6.2	61.5	9.7	8.4
<b>Mineral Exports</b>	<b>51.6</b>	<b>0.5</b>	<b>59.5</b>	<b>0.5</b>	<b>7.9</b>	<b>15.3</b>	<b>1.1</b>
<b>Unclassified Exports</b>	<b>12.2</b>	<b>0.1</b>	<b>14.7</b>	<b>0.1</b>	<b>2.5</b>	<b>20.7</b>	<b>0.3</b>
<b>Total Exports (b)(c)</b>	<b>10,394.3</b>	<b>100.0</b>	<b>11,130.1</b>	<b>100.0</b>	<b>735.8</b>	<b>7.1</b>	<b>100.0</b>
<b>Annual Average Exchange Rate (d)</b>	<b>129.11</b>		<b>130.56</b>				

(a) Provisional  
(b) Adjusted  
(c) Excludes re-exports  
(d) Rupee/US dollar exchange rate

Sources: Ceylon Petroleum Corporation and Other Exporters of Petroleum  
National Gem and Jewellery Authority  
Sri Lanka Customs  
Central Bank of Sri Lanka

as China and India. Mineral exports including earths and stones, ores, slag and ash, and precious metals increased by 15.3 per cent to US dollars 59 million in 2014.

**Sri Lanka's exports sector faced many challenges in the domestic and external front.** Restriction on sea food exports to the EU with effect from mid January 2015, which is the main sea food market accounting for about 40 per cent of total sea food exports, posed a great challenge to sea food exporters. However, with the corrective actions being taken by the government, the problem is expected to be solved during the year. In the meantime, if the Russian ruble continues to depreciate further in

2015, it will have negative impact on Sri Lanka's tea exports since Russia is the main single buyer of Sri Lankan tea while demand for tea in the Middle East market could also decrease due to the continued decline in the oil income of these economies. Further, it is expected to regain the GSP+ facility, which provides concessional access to the EU market, especially for textiles and garment products. However, in addition to these concessional market access opportunities, more concentration on moving up in the value chain ladder, backward integration, productivity enhancement and technological innovation are essential to counter the intense competition. Further, concentration of export products is a main concern as two thirds of Sri

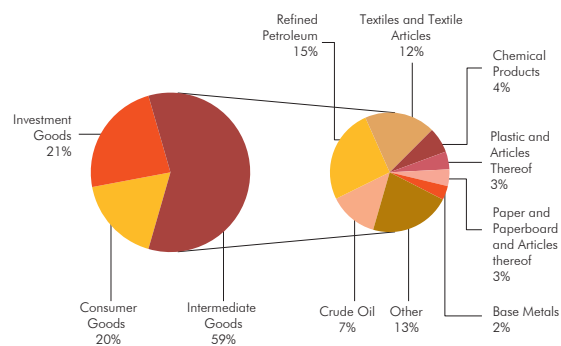
Lanka's export earnings depend on a few products such as textiles and garments, tea and rubber products even though product differentiation within those categories have improved significantly in the recent past.

### 5.3.2 Import Performance

**Expenditure on imports increased moderately in 2014 compared to the contraction in both 2012 and 2013.** The increase of import growth was higher in the second half of 2014, which was mainly attributed to higher imports of motor vehicles for personal use due to tariff reduction and larger depreciation of the Japanese yen. Accordingly, expenditure on imports in 2014 increased by 7.9 per cent to a value of US dollars 19,417 million compared to the value of US dollars 18,003 million of imports recorded in 2013. Meanwhile, expenditure on non-fuel imports in 2014 increased by 8.2 per cent to a value of US dollars 14,819 million. During 2014, the relative share of consumer goods in total imports increased following a similar trend observed in 2013 while the share of investment goods decreased. The increase in import share of consumer durables reflects the improvement in the life standards of people with higher income levels. However, decline in the share of investment goods is an alarming factor as it may decelerate future growth prospects.

**The major contribution to the increase in import expenditure occurred from intermediate goods mainly due to higher importation of petroleum products and textiles and textile articles.** Expenditure on imports of intermediate goods, which account for about 60 per cent of total imports, amounted to a value of US dollars 11,398 million in 2014, reflecting a 8.0 per cent increase over 2013. Despite the significant decline in fuel prices in the international market during the latter part of the year, higher import volumes mainly due to increased thermal power generation resulted in

**Chart 5.2 Imports by Commodities - 2014**



the increase in expenditure on imports of fuel by 6.7 per cent in 2014 over the previous year to a value of US dollars 4,597 million. The average import price of crude oil imported by Ceylon Petroleum Corporation declined to US dollars 104.53 per barrel in 2014 from US dollars 109.84 per barrel in 2013. However, the import price of crude oil during the latter part of the year was far below the average price level for the year. Meanwhile, the expenditure on imports of textiles and textile articles, such as fabric, yarn and fiber increased by 13.8 per cent to US dollars 2,328 million in 2014 in line with the increase in textiles and garments exports during the year. Import expenditure on paper and paper boards, plastic and articles thereof, wheat and maize, chemical products and fertiliser also increased during 2014. Meanwhile, imports of diamonds, precious stones and metals used as inputs for the jewellery industry declined by 63.7 per cent in 2014 following the decline of 17.8 per cent in 2013, mainly due to the non-operation of a main diamond and jewellery exporting firm in Sri Lanka. Further, an increase in gold sales by the banks to domestic industries reduced the demand for gold imports. Import expenditure on cement clinkers also declined by 6.3 per cent in 2014, reflecting lower demand for cement, particularly, in the fourth quarter of 2014 due to unfavorable weather conditions for construction activities.



Table 5.3

## Composition of Imports

Category	2013		2014 (a)		Change in Value US\$ million	Y-o-Y Change %	Contribution to Change %
	Value US\$ million	Share %	Value US\$ million	Share %			
<b>Consumer Goods</b>	<b>3,182.5</b>	<b>17.7</b>	<b>3,852.5</b>	<b>19.8</b>	<b>670.0</b>	<b>21.1</b>	<b>47.4</b>
Food and Beverages	1,368.1	7.6	1,633.7	8.4	265.7	19.4	18.8
Rice	17.9	0.1	281.7	1.5	263.8	1,473.9	18.7
Sugar and Sugar Confectionery	290.6	1.6	257.1	1.3	-33.5	-11.5	-2.4
Dairy Products	291.0	1.6	339.4	1.7	48.4	16.6	3.4
Lentils	104.1	0.6	121.2	0.6	17.1	16.4	1.2
Other	664.4	3.7	634.4	3.3	-30.0	-4.5	-2.1
Non-Food Consumer Goods	1,814.4	10.1	2,218.8	11.4	404.4	22.3	28.6
Vehicles	582.2	3.2	896.7	4.6	314.5	54.0	22.2
Medical and Pharmaceuticals	378.3	2.1	380.5	2.0	2.3	0.6	0.2
Home Appliances	192.2	1.1	156.4	0.8	-35.8	-18.6	-2.5
Clothing and Accessories	201.7	1.1	282.7	1.5	81.0	40.2	5.7
Other	460.0	2.6	502.5	2.6	42.5	9.2	3.0
<b>Intermediate Goods</b>	<b>10,553.7</b>	<b>58.6</b>	<b>11,397.7</b>	<b>58.7</b>	<b>843.9</b>	<b>8.0</b>	<b>59.7</b>
Fuel	4,308.2	23.9	4,597.3	23.7	289.2	6.7	20.4
Textiles and Textile Articles	2,045.8	11.4	2,327.6	12.0	281.7	13.8	19.9
Diamonds and Precious stones and Metals	482.9	2.7	175.4	0.9	-307.4	-63.7	-21.7
Chemical Products	734.3	4.1	808.2	4.2	73.9	10.1	5.2
Wheat and Maize	323.2	1.8	404.7	2.1	81.5	25.2	5.8
Fertiliser	238.7	1.3	272.4	1.4	33.8	14.1	2.4
Other Intermediate Goods	2,420.8	13.4	2,812.0	14.5	391.2	16.2	27.7
<b>Investment Goods</b>	<b>4,252.7</b>	<b>23.6</b>	<b>4,152.2</b>	<b>21.4</b>	<b>-100.5</b>	<b>-2.4</b>	<b>-7.1</b>
Building Materials	1,357.2	7.5	1,308.9	6.7	-48.3	-3.6	-3.4
Transport Equipment	667.8	3.7	707.3	3.6	39.5	5.9	2.8
Machinery and Equipment	2,221.9	12.3	2,131.0	11.0	-90.9	-4.1	-6.4
Other Investment Goods	5.8	...	4.9	...	-0.9	-15.0	-0.1
<b>Unclassified Imports</b>	<b>13.9</b>	<b>0.1</b>	<b>14.4</b>	<b>0.1</b>	<b>0.6</b>	<b>4.1</b>	<b>...</b>
<b>Total Imports (b) (c)</b>	<b>18,002.8</b>	<b>100.0</b>	<b>19,416.8</b>	<b>100.0</b>	<b>1,414.0</b>	<b>7.9</b>	<b>100.0</b>
<b>Annual Average Exchange Rate (d)</b>	<b>129.11</b>		<b>130.56</b>				

(a) Provisional  
 (b) Adjusted  
 (c) Excludes re-imports  
 (d) Rupee/US dollar exchange rate

Sources: Ceylon Petroleum Corporation  
 Lanka IOC PLC  
 Prima Ceylon Limited  
 Serendib Flour Mills (Pvt) Ltd  
 Sri Lanka Customs  
 Central Bank of Sri Lanka

**Expenditure on imports of food and non-food consumer goods increased largely on account of higher volumes imported in 2014.**

Overall expenditure on imports of consumer goods increased by 21.1 per cent, year-on-year, to a value of US dollars 3,853 million accounting for around 20 per cent of total imports. Import expenditure on food and beverages increased by 19.4 per cent to US dollars 1,634 million, while non-food consumer goods increased by 22.3 per cent to US dollars 2,219 million. Higher importation of motor vehicles for personal use mainly contributed for the increase in non-food consumer goods imports. Expenditure on motor vehicles for personal use such as motor cars and motor cycles

increased by 54.0 per cent in 2014 mainly due to the reduction in import duties on motor vehicles and substantial depreciation of the Japanese yen. Import expenditure on clothing and accessories and telecommunication devices such as mobile phones also increased. The increase in expenditure on food imports was mainly due to a noteworthy increase in rice imports to 600,000 metric tons in 2014 (US dollars 282 million) compared to 23,000 metric tons in 2013 (US dollars 18 million) as the domestic rice production was affected by adverse weather conditions in 2014. Further, the reduction in import tariff applicable to rice imports in view of protecting local consumers from high domestic rice prices also contributed to the increase in rice imports.

**Table 5.4** Volume of Major Imports

Item	MT '000				
	2010	2011	2012	2013	2014 (a)
<b>Rice</b>	126	28	36	23	600
1st Quarter	121	8	15	9	6
2nd Quarter	2	2	7	6	102
3rd Quarter	2	9	10	4	145
4th Quarter	1	9	4	4	348
<b>Wheat (b)</b>	1,051	1,242	1,084	895	1,179
1st Quarter	352	322	353	197	271
2nd Quarter	171	455	235	326	324
3rd Quarter	292	254	291	170	291
4th Quarter	236	211	205	201	292
<b>Sugar</b>	548	606	569	548	520
1st Quarter	145	163	158	126	131
2nd Quarter	145	170	135	175	162
3rd Quarter	154	124	114	118	152
4th Quarter	104	149	162	129	75
<b>Crude Oil (b)</b>	1,819	2,070	1,486	1,743	1,824
1st Quarter	332	557	558	482	548
2nd Quarter	541	555	413	545	365
3rd Quarter	541	410	137	315	462
4th Quarter	405	547	379	401	449
<b>Refined Petroleum (b)</b>	2,882	3,501	3,961	2,907	3,385
1st Quarter	789	702	1,036	673	970
2nd Quarter	881	807	903	756	762
3rd Quarter	507	1,022	997	791	1,006
4th Quarter	705	970	1,025	687	647
<b>Fertiliser</b>	649	801	640	600	765
1st Quarter	88	131	129	61	202
2nd Quarter	238	207	176	139	190
3rd Quarter	165	266	226	187	95
4th Quarter	158	197	108	214	277

(a) Provisional  
(b) Adjusted

Sources: Ceylon Petroleum Corporation  
Lanka IOC PLC  
Prima Ceylon Limited  
Serendib Flour Mills (Pvt) Ltd  
Sri Lanka Customs  
Central Bank of Sri Lanka

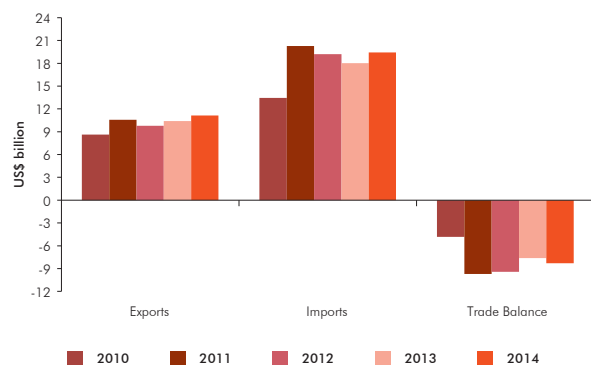
Expenditure on milk powder imports increased due to higher import prices, while imports of masoor dhal and edible nuts increased due to reduction in import duties and higher demand for imported food items in the backdrop of lower domestic production. However, expenditure on importation of sugar and confectionery products, oil and fats and sea food products declined during the period under review.

**Expenditure on imports of investment goods declined marginally in 2014 largely due to lower imports of machinery and equipment, and building material.** Accordingly, the expenditure on investment goods imports declined by 2.4 per cent to a value of US dollars 4,152 million in 2014. Import expenditure on machinery and equipment which

comprises engineering equipment, electronic equipment, telecommunication devices, office machinery, machinery for the textile industry and machinery and equipment parts, declined by 4.1 per cent to US dollars 2,131 million in 2014. Meanwhile, expenditure on imports of building material which comprises cement, iron and steel and mineral products declined by 3.6 per cent to a value of US dollars 1,309 million, reflecting the impact of adverse weather conditions on the construction sector. However, import expenditure on transport equipment increased by 5.9 per cent to a value of US dollars 707 million mainly due to higher imports of buses and auto trishaws.

### 5.3.3 Trade Balance

The trade deficit which contracted during the first half of 2014 was reversed in the second half, resulting in a, year-on-year, expansion in the trade deficit. During the first half of 2014, earnings from exports grew by 17.0 per cent while expenditure on imports declined by 1.2 per cent, resulting in a contraction of the trade deficit by 20.3 per cent over the same period in 2013. However, as imports grew faster and export growth decelerated in the second half of 2014, overall trade deficit expanded by 8.9 per cent, year-on-year, to a value of US dollars 8,287 million in 2014 following the declines recorded in two consecutive years.

**Chart 5.3** Exports, Imports and Trade Balance

However, as a percentage of GDP, the trade deficit declined to 11.1 per cent in 2014 from 11.3 per cent in 2013. The favorable developments observed in the trade balance during 2012 and 2013 were largely supported by the prudent policy measures taken by the Central Bank and the government in early 2012. However, with the trend in declining global commodity prices, both oil and non-oil, and the recovery of many advanced and emerging market economies, albeit at a lower phase than initially expected, necessitate appropriate policy measures in the near term to address adverse implications on the external sector.

### 5.3.4 Terms of Trade

**The increase in export prices and reduction in import prices resulted in a significant improvement in the terms of trade in 2014.** The export price index increased by 2.7 per cent, year-on-year, to 105.5 index points, while the import price index declined by 1.5 per cent to 108.1 index points. Accordingly, the terms of trade improved by 4.3 per cent to 97.6 index points in 2014 from 93.6 index points in 2013.

**The export price index increased reflecting relatively higher prices in both agricultural and industrial exports in 2014.** In the agricultural exports category, the average export price index of coconut products increased by 15.0 per cent mainly due to higher export prices received for kernel products in the international market. Although the average export price index of tea increased during the first half of 2014, it declined during the second half, mainly due to lower demand from Russia and the Middle East, the major tea export destinations of Sri Lanka. However, the export price index for tea for the year 2014 increased marginally by 1.9 per cent, year-on-year, despite the decline in tea prices in the Kolkata and Mombasa auctions for other originated teas. Export price index for minor agricultural products also increased reflecting favourable prices of products such as fruits, nuts and essential oils. However, export price index for rubber declined by

10.5 per cent in 2014, reflecting global market conditions. The industrial export price index increased by 3.0 per cent in 2014, mainly due to a 3.3 per cent increase in prices of textiles and garments and a 9.7 per cent increase in leather, travel goods and footwear. Improvements in the quality standards of final products in the garment industry with the adoption of modern technology and innovation provided access to high end markets for Sri Lankan products, resulting in an increase in the unit price of textiles and garments. Meanwhile, export price indices for petroleum products, base metals and articles, and transport equipment declined in 2014.

**The average import price of intermediate and investment goods in 2014 remained lower compared to the previous year, while prices of consumer goods increased marginally.** The import price index pertaining to the intermediate goods fell by 2.4 per cent, mainly due to the decline in fuel prices. Although the import price index of fuel increased during the first half of 2014, it continued to decline during the second half of the year amidst lower demand due to weak global economic activity and ample supply especially from non OPEC countries. These developments led to a decline in import price index of fuel by 6.3 per cent in 2014. Import price index of fertiliser, which declined by 10.3 per cent, year-on-year, also

**Chart 5.4** Terms of Trade and Trade Indices

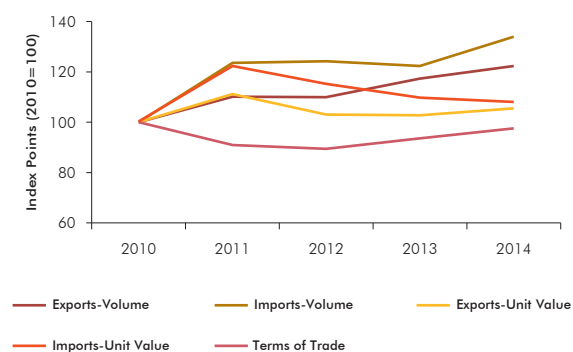


Table 5.5

## Trade Indices (a)

2010 = 100

Category	Value Index			Volume Index			Unit Value Index		
	2013	2014 (b)	Y-o-Y Change %	2013	2014 (b)	Y-o-Y Change %	2013	2014 (b)	Y-o-Y Change %
<b>EXPORTS</b>									
<b>Agricultural Exports</b>	<b>112.0</b>	<b>121.2</b>	<b>8.2</b>	<b>97.4</b>	<b>103.2</b>	<b>5.9</b>	<b>115.0</b>	<b>117.5</b>	<b>2.2</b>
Tea	107.1	113.1	5.6	95.0	98.5	3.7	112.8	114.9	1.9
Rubber	41.2	26.2	-36.5	45.5	32.3	-29.0	90.5	81.0	-10.5
Coconut	123.5	215.1	74.2	112.7	170.7	51.5	109.6	126.0	15.0
Spices	171.5	127.7	-25.6	115.2	85.8	-25.5	148.9	148.8	-0.1
Minor Agricultural Products	141.8	231.4	63.1	162.6	232.2	42.8	87.2	99.7	14.3
<b>Industrial Exports</b>	<b>127.2</b>	<b>135.6</b>	<b>6.6</b>	<b>128.7 (c)</b>	<b>133.2</b>	<b>3.6</b>	<b>98.9 (c)</b>	<b>101.8</b>	<b>3.0</b>
Textiles and Garments	134.4	147.0	9.4	121.1	128.2	5.8	111.0	114.7	3.3
Petroleum Products	162.5	128.4	-21.0	116.9	92.6	-20.8	139.0	138.7	-0.2
Rubber Products	159.5	159.8	0.2	109.0	108.1	-0.8	146.3	147.9	1.0
<b>Mineral Exports</b>	<b>212.8</b>	<b>245.4</b>	<b>15.3</b>	<b>81.0</b>	<b>158.6</b>	<b>95.7</b>	<b>262.6</b>	<b>154.7</b>	<b>-41.1</b>
<b>Total Exports</b>	<b>120.6</b>	<b>129.1</b>	<b>7.1</b>	<b>117.3 (c)</b>	<b>122.3</b>	<b>4.3</b>	<b>102.8 (c)</b>	<b>105.5</b>	<b>2.7</b>
<b>IMPORTS</b>									
<b>Consumer Goods</b>	<b>128.6</b>	<b>155.7</b>	<b>21.1</b>	<b>119.2</b>	<b>143.3</b>	<b>20.2</b>	<b>107.9</b>	<b>108.6</b>	<b>0.7</b>
Food and Beverages	103.4	123.5	19.4	105.4	125.8	19.4	98.1	98.2	0.1
Non-Food Consumer Goods	157.6	192.7	22.3	135.1	163.5	21.0	116.7	117.9	1.0
<b>Intermediate Goods</b>	<b>131.1 (c)</b>	<b>141.6</b>	<b>8.0</b>	<b>111.1 (c)</b>	<b>122.9</b>	<b>10.6</b>	<b>118.0 (c)</b>	<b>115.2</b>	<b>-2.4</b>
Fuel	141.7 (c)	151.2	6.7	103.4 (c)	117.7	13.9	137.1 (c)	128.4	-6.3
Fertiliser	99.4	113.4	14.1	88.4	112.6	27.3	112.3	100.8	-10.3
Chemical Products	141.2	155.4	10.1	128.1	138.3	8.0	110.3	112.4	1.9
Wheat and Maize	121.8	152.5	25.2	84.8	123.5	45.6	143.6	123.5	-14.0
Textiles and Textile Articles	113.1	128.7	13.8	104.7	115.8	10.5	108.0	111.1	2.9
Plastics and Articles Thereof	121.8	143.7	18.0	116.9	131.1	12.1	104.2	109.6	5.3
Diamonds and Precious Metals	127.9	46.5	-63.7	131.7	57.7	-56.2	97.1	80.5	-17.1
<b>Investment Goods</b>	<b>154.4</b>	<b>150.7</b>	<b>-2.4</b>	<b>157.6</b>	<b>158.2</b>	<b>0.3</b>	<b>97.9</b>	<b>95.3</b>	<b>-2.7</b>
Building Materials	165.2	159.3	-3.6	153.9	153.0	-0.6	107.3	104.1	-3.0
Transport Equipment	112.7	119.4	5.9	103.5	114.4	10.6	108.9	104.3	-4.2
Machinery and Equipment	166.1	159.3	-4.1	183.9	180.7	-1.7	90.3	88.2	-2.4
Other Investment Goods	174.0	147.9	-15.0	161.8	162.2	0.3	107.5	91.2	-15.2
<b>Total Imports</b>	<b>134.3</b>	<b>144.8</b>	<b>7.9</b>	<b>122.3 (c)</b>	<b>134.0</b>	<b>9.5</b>	<b>109.8 (c)</b>	<b>108.1</b>	<b>-1.5</b>
<b>Terms of Trade</b>							<b>93.6 (c)</b>	<b>97.6</b>	<b>4.3</b>

(a) In terms of US dollars

(b) Provisional

(c) Revised

Sources: Sri Lanka Customs  
Central Bank of Sri Lanka

contributed significantly for the overall decline in import prices. Meanwhile, average import prices of wheat and maize, diamond, precious stones and metals, and rubber and articles thereof also declined significantly. The import price index of investment goods declined by 2.7 per cent in 2014, reflecting a price decline in all sub categories. In line with the decline in prices of raw material and base metal in the international market, the import price index of building material declined by 3.0 per cent. Further, the significant depreciation of Japanese yen against US dollar contributed for the decline in the price index of transport equipment. Import prices of food and

non-food category increased by 0.1 per cent and 1.0 per cent respectively, leading to an increase in the consumer goods price index by 0.7 per cent. Import price index for dairy products increased substantially in 2014 despite the slight reduction of prices in the international market. However, import prices of sugar and confectionery declined due to higher supplies in major sugar producing countries. Meanwhile, import prices of clothing and accessories, medical and pharmaceuticals, and vehicles for personal use, which are categorised under non-food consumer goods also increased.

### 5.3.5 Direction of Trade

**India remained Sri Lanka's major trading partner in 2014 followed by China and the USA.**

Industrialised countries specially the USA and the UK remained the largest export destinations, while Asia particularly India and China remained the major import origins. The value of trade between Sri Lanka and India amounted to over US dollars 4.6 billion in 2014, which was about 15 per cent of Sri Lanka's total external trade for the year, while the trade between Sri Lanka and China was about 12 per cent of total trade of Sri Lanka.

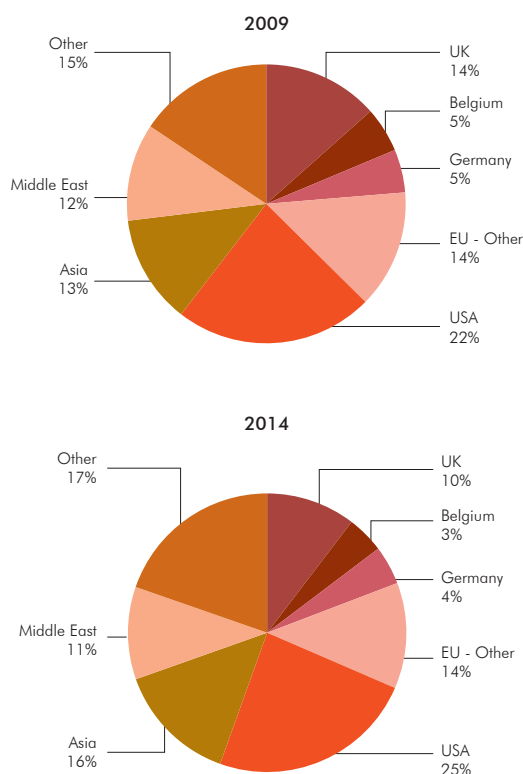
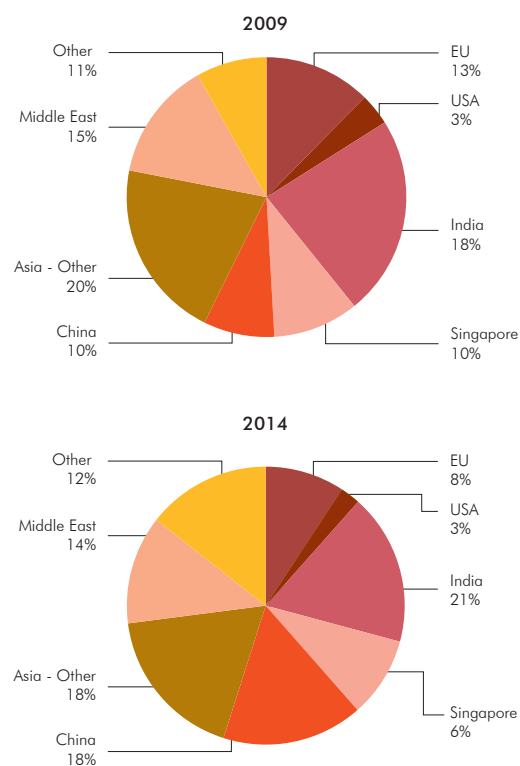
**The USA continued to be the single largest buyer of Sri Lanka's exports for a long period since 1979.** The share of Sri Lanka's total exports to the USA increased to 24.5 per cent in 2014 from 24.0 per cent recorded in 2013, registering a 9.5 per cent growth in export earnings over the previous year. Exports of garments and rubber products respectively accounted for 72.9 per cent and 10.4 per cent of total exports to USA. The UK, the second largest export destination, recorded a share of 10.0 per cent of total exports in 2014. Garments and rubber products respectively accounted for 80.9 per cent and 3.6 per cent of total exports to UK. Out of Sri Lanka's total garment exports of US dollars 4,682 million, exports to USA and UK accounted for 42.5 per cent and 19.3 per cent, respectively. India, the third largest buyer of Sri Lanka's exports recorded a share of 5.6 per cent followed by Italy and Germany. The major exports to India were minor agricultural products, spices, transport equipment, machinery and mechanical appliances, and petroleum products. Exports to Italy increased by 20.3 per cent in 2014, representing 5.5 per cent of total exports mainly due to the increase in garment exports. Exports to Germany,

which represent 4.5 per cent of total exports increased by 6.3 per cent in 2014. Russia and Turkey which accounted for 14.0 per cent and 12.8 per cent of total tea exports, respectively, continued to be the major buyers for Sri Lankan tea in 2014. However, tea exports to Russia declined by 5.0 per cent, year-on-year, as a result of the unfavourable economic conditions, such as the larger depreciation of Russian currency and sharp decline in petroleum prices towards the latter part of the year. Meanwhile, tea exports to Turkey increased by 48.1 per cent during 2014.

**Concentration of export markets is a main concern as it can lead to instability in export earnings.** Sri Lanka largely depends on a few markets namely, the EU and USA which account for around two thirds of total exports. Further, around 66 percent of the Sri Lanka's tea export to the Middle East and Commonwealth of Independent States (CIS) countries, which are highly dependent on oil exports. In order to mitigate this risk, a public and private sector combined multi-faceted approach is essential to diversify the markets. Moreover, exporters should utilise existing trade facilities and trade agreements to enhance market access.

**India continued to be the single largest source of imports, followed by China and the UAE.** During 2014, imports from India increased to US dollars 4,023 million registering 26.9 per cent growth. This accounted for 20.7 per cent of Sri Lanka's total imports, with petroleum products, fabric and vehicles being the main imports. China, the second largest import origin of Sri Lanka accounted for 18.0 per cent of total imports, in 2014, increasing by 18.3 per cent, year-on-year, to US dollars 3,494 million. The main imports from China were fabrics, petroleum products, engineering equipment and, iron and steel. The UAE was the third largest import origin, surpassing Singapore by recording a



**Chart 5.5 Exports by Destination****Chart 5.6 Imports by Origin**

55.8 per cent growth. Petroleum products accounted for 87.1 per cent of total imports from the UAE. Singapore and Japan were the fourth and fifth largest import sourcing countries, accounting for 6.5 per cent and 4.8 per cent of total imports, respectively. However, imports from Singapore declined by 25.1 per cent in 2014 due to lower imports of petroleum products in the backdrop of a 71.7 per cent increase in petroleum imports from the UAE. Major imports from Singapore and Japan comprised petroleum products and motor cars, respectively.

## 5.4 Current and Capital Account

### 5.4.1 Trade in Services

#### Exports of services expanded in 2014.

Earnings from exports of services reached US dollars 5,605 million in 2014, registering an annual growth of 19.6 per cent year-on-

year, compared to US dollars 4,685 million in 2013. Most sub-sectors including transport, travel and telecommunications, computer and information services contributed to the growth in the services sector. Meanwhile, outflows on account of services also increased by 6.3 per cent to US dollars 3,725 million, mainly with increased international trade activities, resulting in a net inflow of US dollars 1,880 million in the services account in 2014.

### Transport Services

#### Transport sector continued to support the expansion in the services account in 2014.

Increased earnings on account of passenger fares, freight charges and port and airport related activities helped the sector to register a 7.8 per cent growth during the year. Gross inflows from transport services increased to US dollars 1,923 million compared to

## BOX 6

## Improvements in External Sector Statistics in Sri Lanka

External sector statistics (ESS) of a country present international transactions that all the residents of the country conduct with the rest of the world. These transactions are systematically recorded in a number of different dimensions under respective accounts, namely; balance of payments, international investment position, external debt and international reserves. All the definitions, classifications and accounting rules of these accounts need to be harmonized, so that external sector aggregates can be compared with aggregates associated with other sectors such as national accounts, monetary and financial statistics and government finance statistics.

The Central Bank of Sri Lanka (CBSL), which is responsible for the compilation and dissemination of the ESS of Sri Lanka, has taken several initiatives during 2013 and 2014 to improve the ESS. Sri Lanka adopted the compilation methodologies stipulated in the 6th edition of the Balance of Payments and International Investment Position Manual (BPM6) for compiling data for the Annual Report of the CBSL in 2013. Accordingly, a number of new statistical presentations such as International Investment Position (IIP) and Reserve Data Template (RDT) were introduced with significant improvements in the coverage, timeliness and periodicity in a number of existing ESS presentations such as Balance of Payments (BOP) and External Debt Statistics (EDS). In addition, Sri Lanka started participating in the Co-ordinated Direct Investment Survey (CDIS) conducted by the International Monetary Fund (IMF) and widened the coverage of data reported to the Quarterly External Debt Statistics (QEDS) database of the World Bank. These developments in the ESS were achieved through further improvements in the timeliness and the coverage of data collected from the government, the banking sector and the Monetary Authority (CBSL) and through new surveys to collect data from the private sector. With these improvements, Sri Lanka's external sector data now fulfil the requirements of timeliness, coverage and periodicity under the Special Data Dissemination Standard (SDDS) of the IMF to which Sri Lanka intends to subscribe during 2015. The improvements in the ESS compilation were supported by continuous technical assistance by the IMF.

#### Balance of Payments (BOP)

The BOP is a statistical statement that summarizes transactions between residents and non-residents during a specific period. The main accounts comprise the goods and services account, the primary income account, the secondary income account, the capital account and

the financial account. The CBSL compiles BOP data on a quarterly basis in accordance with international standards recommended in the BPM6. Sri Lanka's transition from BPM5 to BPM6 was implemented in 2014 with the publication of the BOP statistics for 2012 and 2013. Details on this transition are described in Box article 6 of the Annual Report 2013. The BOP statistics for Sri Lanka are presented in the following tables in the Annual Report 2014; Table 5.1: Summary of BOP, Table 5.6: Current and Capital Account, Table 5.8.A and Table 5.8.B: Financial Account.

#### International Investment Position (IIP)

The IIP statement, which is conceptually similar to a balance sheet, records the value and composition of financial assets of residents which are claims on non-residents, and liabilities of residents to non-residents at a particular point in time. In accordance with BPM6 standards, the IIP for Sri Lanka is published mainly on a functional category basis. The main functional categories include direct investment, portfolio investment, financial derivatives, other investments and reserve assets. Each functional category is further divided based on the type of financial instruments, the resident institutional sectors and the maturity of the financial instruments. The 'International Investment Position of Sri Lanka' is described in detail in Box article 7 of the Annual Report 2013. Sri Lanka's initial publication of the IIP was on an annual basis. Subsequently, the CBSL started publishing the IIP on a quarterly basis from the 1st quarter of 2014. The publication of the IIP on a quarterly basis is also a requirement for upgrading Sri Lanka to a SDDS data dissemination country. Sri Lanka's IIP is presented in Table 5.10: International Investment Position of the Annual Report 2014.

#### External Debt Statistics (EDS)

The gross external debt is defined as the amount of disbursed and outstanding contractual liabilities of residents to non-residents, at any given time. Prior to 2013, Sri Lanka disseminated external debt statistics on an annual basis. The coverage, timeliness and periodicity of Sri Lanka's external debt statistics widened with the adoption of BPM6 compilation methodology since 2013. Under the new external debt presentation, the coverage of the total external debt was widened with the addition of inter-company borrowings of direct investment enterprises, while the coverage of private sector external debt statistics was widened with improved quarterly surveys. The new EDS is presented in

a sector-wise format, with the sectors being the general government, central bank, deposit taking corporations, other sectors (private sector and state owned business enterprises) and intercompany lending of direct investment enterprises. External debt of each sector is divided further based on the maturity and the type of financial instrument. These financial instruments include debt securities, loans, currency and deposits, trade credits and advances, and other account payables. The short term and long term categorization is based on the concept of original maturity. Sri Lanka's EDS is presented in the Annual Report 2014 in Table 5.12: Outstanding External Debt Position.

#### Quarterly External Debt Statistics (QEDS)

As a result of adopting the new presentation of external debt, the coverage of external debt reported to the QEDS database was also widened. The QEDS database, which is jointly developed by the World Bank and the International Monetary Fund (IMF), brings together detailed external debt data of countries that subscribe to the IMF's Special Data Dissemination Standard (SDDS) and a selected number of countries that participate in the IMF's General Data Dissemination System (GDDS). Sri Lanka currently reports to the QEDS as a GDDS country. With the new external debt statistics, Sri Lanka now submits a detailed description of external debt in 'Table 6: Gross External Debt by Sector' of the QEDS reporting format, in addition to other mandatory tables. With the inclusion of these new tables on a quarterly basis with a lag of one quarter, Sri Lanka is now in a position to report QEDS in accordance to the SDDS requirements.

#### Reserve Data Template (RDT)

The RDT is a comprehensive framework which integrates the concepts of international reserves and foreign currency liquidity position of a country, and is compiled and presented according to the 'International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template' published by the IMF in 2013. In addition to covering information on international reserves, the RDT also identifies predetermined future inflows and outflows of foreign exchange in the country. The official reserve assets are presented with a breakdown of securities, currency and deposits, IMF Reserve position, Special Drawing Rights (SDRs), gold balances and other reserve assets. Predetermined short term net drains on foreign currency assets includes mainly a maturity breakdown up to one year for future repayments of government loans, Sri Lanka Development Bonds, Sovereign Bonds, IMF Stand-By Arrangement, Asian Clearing Union liabilities

and short and long positions on SWAP transactions. By compiling and disseminating the RDT from November 2013 onwards, on a monthly basis with a lag of one month, Sri Lanka has fulfilled another requirement under the SDDS guidelines.

#### Co-ordinated Direct Investment Survey (CDIS)

The Co-ordinated Direct Investment Survey (CDIS) is a worldwide statistical data collection effort led by the IMF which presents detailed data on 'inward' direct investment positions (i.e., direct investment into the reporting economy) cross-classified by economy of immediate investor, and data on 'outward' direct investment positions (i.e., direct investment abroad by the reporting economy) cross-classified by economy of immediate investor. Direct investment data are presented in terms of stock positions, with the total stock position of all countries being equal to the total direct investment stock position at the end of the period as reported in the International Investment Position. Sri Lanka started participating in the CDIS database from 2013 onwards and reports data on an annual basis.

#### Improvements in Services Account statistics in Balance of Payments

The CBSL initiated a number of new surveys in 2014 to improve the coverage of the services sector data of the BOP. These surveys have enhanced the coverage to include resident airlines, Airport and Aviation Services Ltd (Bandaranaike and Maththala International Airports), general sales agents (GSAs) of non-resident airlines, Sri Lanka Ports Authority, privately owned container terminals, shipping agents, freight forwarders, other ports related service suppliers, insurance companies, insurance brokers with reinsurance capacity overseas, telecommunication companies and companies in the information technology and information technology enabled services (IT and ITES). The CBSL is expected to widen the coverage and improve the quality of the above surveys during the year with the support of the IMF's Technical Assistance Mission scheduled in April 2015. A set of new data for the services sector for year 2014 and 2015 is expected to be published in the Annual Report 2015.

All the above external sector statistics are published in a timely manner in the form of press releases, monthly bulletins, weekly and monthly economic indicators, Annual Report and Recent Economic Developments Report. The CBSL now disseminates all latest data in the CBSL website under 'Statistics > External Sector' enabling the general public to access all external sector data from a single source.

US dollars 1,784 million in 2013, supported mainly by the increase in passenger fares, collection in freight charges and enhanced port and airport related services. Outflows on account of transportation services also increased by 5.8 per cent in 2014 over the previous year reflecting higher payments on freight and port charges due to increased international trade activities and increased spending by Sri Lankans on foreign travel. Consequently, the total net inflows to the transport sector during 2014 amounted to US dollars 462 million in comparison to US dollars 402 million in 2013.

**Inflows relating to passenger fares increased by 7.1 per cent in 2014 over the previous year to US dollars 847 million.** Gross inflows improved as a result of the increase in number of passengers travelling to Sri Lanka, and the increase in airfare by SriLankan Airlines. In 2014, SriLankan Airlines became a part of the 'OneWorld' global airline group, being the first carrier from the Indian subcontinent to join such an alliance improving Sri Lanka's connectivity with the rest of the world. SriLankan Airlines purchased two new aircraft in 2014 and plans to induct five new aircraft to increase its current fleet from 23 to 28 by 2015. Receipts on account of passenger fares would improve over the medium term as a result of the planned acquisition of new aircraft, increase in airfare, expansion of flight destinations and the increase in frequency of flights operated by SriLankan Airlines. Meanwhile, the interim budget for 2015 proposed to merge the national carrier SriLankan Airlines and the budget carrier Mihin Lanka to improve financial viability and operational efficiency.

**Inflows on account of freight, port and airport related services increased by 8.4 per cent to US dollars 1,077 million in 2014.** The increase in the volume of cargo and containers handled at the Port of Colombo mainly contributed to this growth. A substantial increase in handling of transshipment

containers were observed during the year, due to the increase in trade volumes in the region. Further, SriLankan Airlines signed several electronic air waybill (e-AWB) agreements with prime customers in 2014 with a view to improve Sri Lanka's air freight industry. Meanwhile, the increased capacity of the Colombo South Port and the envisaged growth in international trade activities would further improve the performance of this sector.

**Table 5.6** Current and Capital Account  
(BPM6 Presentation Format)

Item	2013 (a)			2014 (b)		
	Credit	Debit	Net	Credit	Debit	Net
	US\$ million					
<b>Goods and Services</b>	15,079	21,508	-6,429	16,735	23,142	-6,407
<b>Goods</b>	10,394	18,003	-7,609	11,130	19,417	-8,287
General merchandise	10,392	17,802	-7,410	11,130	19,405	-8,275
Non-monetary gold	2	201	-199	-	12	-12
<b>Services</b>	4,685	3,505	1,180	5,605	3,725	1,880
Transport	1,784	1,382	402	1,923	1,462	462
Sea transport	893	686	208	969	722	246
Freight	893	686	208	969	722	246
Air transport	890	696	194	954	739	215
Passenger	791	620	171	847	659	188
Freight	99	76	23	108	80	27
Travel (c)	1,715	1,188	527	2,431	1,263	1,169
Construction	55	26	29	58	29	29
Insurance and pension services	109	85	24	115	90	26
Financial services	235	328	-93	256	350	-94
Telecommunications and computer services	719	368	351	748	398	350
Telecommunications	114	87	27	120	98	22
Computer services	604	281	324	628	300	328
Other business services	39	55	-15	43	58	-16
Government goods and services n.i.e.	28	73	-45	31	77	-45
<b>Primary Income</b>	132	1,883	-1,751	153	1,992	-1,839
Compensation of employees	15	66	-51	19	68	-50
Investment income	117	1,817	-1,701	135	1,924	-1,789
Direct investment	6	737	-730	15	698	-683
Dividends	6	386	-380	15	317	-302
Reinvested earnings	-	350	-350	-	381	-381
Portfolio investment	-	645	-645	-	828	-828
Equity	-	21	-21	-	69	-69
Interest	-	624	-624	-	758	-758
Short term	-	48	-48	-	61	-61
Long term	-	575	-575	-	697	-697
Other investment	20	436	-416	18	398	-380
Reserve assets	91	-	91	102	-	102
<b>Secondary Income</b>	6,428	788	5,639	7,046	819	6,227
General government	21	-	21	28	-	28
Workers' remittances	6,407	788	5,619	7,018	819	6,199
<b>Current Account</b>	21,639	24,180	-2,541	23,934	25,952	-2,018
<b>Capital Account</b>	90	19	71	73	15	58
Capital transfers	90	19	71	73	15	58
General government	39	-	39	52	-	52
Corporations and households	51	19	32	21	15	6
<b>Current and Capital Account</b>	21,729	24,198	-2,470	24,007	25,967	-1,960

(a) Revised

(b) Provisional

(c) Passenger services provided to non-residents are included in transport services.

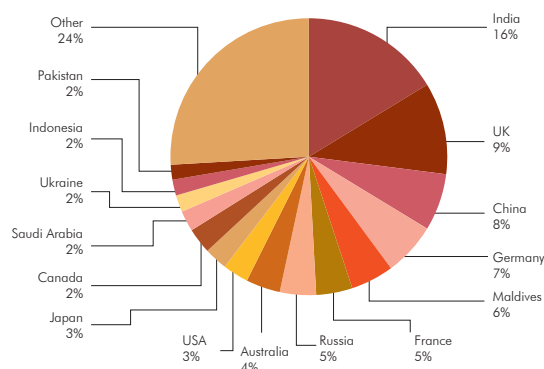
Source: Central Bank of Sri Lanka

## Travel and Tourism

Continuing the post-war growth momentum, the tourism industry performed well in 2014 exceeding the tourist arrival target of 1.5 million set for the year. Significant increase in investment in the tourism industry, infrastructure developments, introduction of new tourist attractions and promotional campaigns conducted by the private sector and the government supported to attract more tourists in to the country. Accordingly, tourist arrivals in 2014 increased by 19.8 per cent to 1,527,153 compared to 1,274,593 arrivals in 2013.

**Tourist arrivals from all major regions increased in 2014.** Western Europe continued to be the largest tourist origin for Sri Lanka with the number of tourist arrivals increasing by 13.8 per cent to 479,007. However, tourist arrivals from Western Europe as a share of total arrivals fell further to 31.4 per cent in 2014 from 33.0 per cent in 2013 and 37.1 per cent in 2012. Meanwhile, the share of the South Asian region, which is the second major market also declined to 24.2 per cent of arrivals in 2014 from 25.6 per cent in 2013. This was due to the significant increase in tourist arrivals from other regions. Accordingly, the share of tourist

Chart 5.7 Tourist Arrivals by Country - 2014



arrivals from East Asia and Eastern Europe increased, supported by effective promotional campaigns conducted in those regions. Tourist arrivals from China, Indonesia and Japan contributed significantly to the growth of arrivals from East Asia, while Russia mainly contributed to the growth from Eastern Europe. In terms of individual country basis, India remained the leading country of tourist origin followed by UK, China, Germany and Maldives. These five countries together accounted for 46.1 per cent of tourist arrivals to Sri Lanka in 2014. The highest growth of 136.1 per cent to 128,166 of tourist arrivals was recorded from China, followed by Indonesia (68.5 per cent) and Oman (67.1 per cent), reaching 29,558 and 12,756

Table 5.7

Performance in the Tourism Sector

Item	2010	2011	2012	2013	2014 (a)	Y-o-Y Change % 2014 (a)
Tourist Arrivals (No.)	654,476	855,975	1,005,605	1,274,593	1,527,153	19.8
Arrivals by Purpose of Visit						
Pleasure	516,538	687,830 (b)	748,436	915,208 (b)	1,037,644 (c)	13.4
Business	83,270	68,436 (b)	90,040	67,946 (b)	29,381 (c)	-56.8
Other	54,668	99,709 (b)	167,129	291,439 (b)	460,128 (c)	57.9
Tourist Guest Nights ('000)	6,548	8,559	10,056	10,961	15,119	37.9
Room Occupancy Rate (%)	70.2	77.1	71.2	71.7	74.3	3.6
Gross Tourist Receipts (Rs. million)	65,018	91,926	132,427	221,720	317,479	43.2
Per Capita Tourist Receipts (Rs.)	99,344	107,393	131,688	173,954	207,889	19.5
Total Employment (No.)	132,055	138,685	162,869	270,150	299,890	11.0
Direct Employment	55,023	57,786	67,862	112,550	129,790	15.3
Indirect Employment (c)	77,032	80,899	95,007	157,600	170,100	7.9

(a) Provisional  
(b) Revised  
(c) Estimates

Sources: Sri Lanka Tourism Development Authority  
Central Bank of Sri Lanka



arrivals, respectively. In terms of the purpose of visit, the majority of tourists (68.0 per cent) visited the country for holiday purposes. The share of tourist arrivals for business purposes declined to 1.9 per cent in 2014 from 5.3 per cent in 2013, while the share of tourist arrivals for other purposes such as visiting friends and relatives, religious and cultural purposes, health, education and sports increased to 30.1 per cent in 2014 compared to 22.9 per cent in 2013.

**Earnings from tourism continued to record a healthy growth in 2014.** Inflows from tourism grew by 41.7 per cent to US dollars 2,431 million in 2014 from US dollars 1,715 million in 2013. The expansion in tourist arrivals together with higher spending and increased duration of stay by tourists supported this growth. The average spending per tourist rose to US dollars 160.8 per day in 2014 from US dollars 156.5 per day in 2013, according to the latest annual survey on tourist spending and duration of stay conducted by the Sri Lanka Tourism Development Authority (SLTDA). Meanwhile, the average duration of stay per tourist increased to 9.9 days in 2014 compared to 8.6 days in 2013. The relatively high growth in arrivals of high-end tourists also contributed favourably towards increasing the earnings of the sector. Meanwhile, outflows related to travel also grew by 6.3 per cent to US dollars 1,263 million in 2014 resulting in a net inflow of US dollars 1,169 million from the travel and tourism sub-sector.

Chart 5.8

Tourist Arrivals and Earnings from Tourism



**Investment in the tourism sector expanded further in 2014.** International hotel chains including Shangri-La, Hyatt, Movenpick, Sheraton, RUI, NEXT, Best Western and CENTARA continued their construction work during the year. During 2014, investment proposals for 68 new hotel projects were received and final approval was granted for 40 hotel projects with a value of US dollars 423.4 million. Further, 20 new hotel projects commenced operations during the year adding 1,112 rooms, thereby expanding the capacity further. The tourism industry is blooming in the Eastern and Northern provinces with the end of the civil war in the country and local and foreign investors have commenced to move towards these provinces gradually. In addition, there were many private SME sector investments in those provinces. The SLTDA initiated the development of three new Tourism Resort Projects namely Kalpitiya, Kuchchaveli and Yala under the themes of 'Island Resort', 'Beach Resort' and 'Wildlife Resort', respectively. In 2014, a 11 acres land has been leased for a tourist hotel in Kuchchaveli to promote up market tourism. Meanwhile, the Passikudah Resort Development Project was continued and 8 hotels were in operation under the project as at end 2014.

**Importance of tourism promotion is highlighted by the activities taken during the year.** In 2014 the Sri Lanka Tourism Promotion Bureau (SLTPB) participated at 30 travel fairs creating an opportunity for the local travel industry to develop the business contacts and strengthen their existing trade links. The SLTPB participated at the travel and tourism fair held in Japan under eight main tourism products themes and at the International French Travel Market which showed the ancient glory of Sri Lanka. A joint mega tourist promotional campaign namely 'Sri Lanka Shines in Shanghai' was held in Shanghai, China and a tourism and trade promotional business forum was initiated to attract more Chinese tourists and trading

partners. Meanwhile, recognising the importance of tourism promotion between Sri Lanka and China, a Memorandum of Understanding was signed on tourism promotional initiatives between the two countries. SLTPB initiated the 'Global Mega Promotional Campaign' in 2014. As a part of this campaign, 1,200 taxis were branded featuring key tourism attractions of Sri Lanka in major destinations around the world including the UK, France and Germany. A bus advertising campaign was organised by employing 200 buses in major four cities in china for 9 months. Meanwhile, SLTPB has hosted 124 media personnel from nine countries during 2014. Further, an open deck city sightseeing service was initiated to enable Sri Lankans and visitors from around the world to explore important sights in Colombo. Reflecting the impact of positive developments in Sri Lanka's tourism industry, Sri Lanka was recognised as the 'Best Travel Destination' by the Travel and Leisure Magazine of China at the Annual Travel Award Ceremony held in January 2014. Sri Lanka was also listed among the 'top 10 coolest countries' in the world to visit in 2015, by the Forbes magazine.

**To achieve the tourist arrivals target of 2.5 million by 2016, an annual growth of around 28 per cent in tourist arrivals is needed in 2015 and 2016.** In order to accommodate expected number of tourist arrivals, tourist hotel projects which are in the pipeline are to be completed adhering to the stipulated time period. Further, this requires additional skilled human resources as current output of trained workers will not be adequate to meet future demand. Therefore, the human resource constraint which remains a major challenge in the industry, in the coming years, need to be addressed immediately by the relevant authorities. Since new competitive markets have emerged in the global tourism industry, further measures are needed to attract more tourists particularly from non-traditional markets. Branding and strategic repositioning are also necessary to ensure sustainable growth in the tourism industry over the medium to long-term.

## Telecommunications, Computer and Information Services

**Earnings from telecommunications, computer and information services amounted to US dollars 748 million in 2014, recording a 4.1 per cent growth over 2013.** The telecommunication services sub-sector showed a moderate growth in 2014 with gross inflows amounting to US dollars 120 million. The growth was driven by the increase in earnings on International Direct Dialing (IDD) for voice calls and increase in rental receipts for data transmission through leased circuits. Due to the rapid expansion of telecommunication services with continuous technological innovations, the usage of broadband internet connections, satellite and cable TV improved during 2014. It was also observed that Sri Lanka's telecommunications industry is adopting ultra-modern technology compared to its regional peers, with two Sri Lankan operators already launching Fourth Generation Long Term Evolution (4G LTE) services. Meanwhile, lower IDD call rates offered by both mobile and fixed line operators encouraged the use of more IDD calls, resulting in higher outflows on account of telecommunication services.

**The computer and information services sub-sector showed a satisfactory improvement in 2014.** Earnings from computer and information services increased by 3.9 per cent to US dollars 628 million during 2014 in comparison to US dollars 604 million in 2013. This was mainly driven by an increase of earnings from Information Technology Enabled Services (ITES) such as Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO), which are identified as sectors with a high growth potential in the period ahead. In 2014, the recognition of the Sri Lankan IT/BPO industry improved significantly. This was reflected in the AT Kearney Global Services Location Index (GSLI), which identifies the leading outsourcing destinations globally, ranking Sri Lanka at

16th place in 2014 moving up by 5 notches compared to 2013. Meanwhile, Sri Lanka was also featured among the top 30 countries for offshore services in the Gartner Ranking. Further, Sri Lanka was ranked number one in South Asia by the United Nations in 2014 for the country's continuous developments in e-government initiatives. The United Nations e-government survey – 2014 revealed that Sri Lanka climbed 41 notches in 2014 to reach 74th place out of 192 countries. Meanwhile, the Sri Lanka Association of Software and Services Companies (SLASSCOM) launched an online network called 'Campus Direct Link' to produce greater expertise in research and development and further improvement in infrastructure facilities in the computer and information sector.

#### 5.4.2 Primary Income

**The deficit in the primary income account increased marginally in 2014 with higher interest payments on international sovereign bonds and bonds issued by the banking sector.** The deficit in the primary income account during 2014 widened to US dollars 1,839 million in comparison to US dollars 1,751 million in 2013. In 2014, inflows to the primary income account grew mainly due to the increased income earned on investment of reserve assets and dividends received on direct investment while inflows on account of compensation of employees increased marginally. Consequently, inflows to the primary income account increased to US dollars 153 million in 2014 from US dollars 132 million in 2013.

**Outflows from the primary income account increased in 2014 mainly due to higher interest payments on debt securities.** The primary income account, which recorded an outflow of US dollars 1,883 million in 2013, registered an outflow of US dollars 1,992 million in 2014. Of the total outflows, interest payments on international sovereign bonds and bonds issued by the banking sector amounted to US dollars 264 million and

US dollars 137 million, respectively, in 2014. Interest payments for loans obtained by the government increased marginally in 2014. Increased dividend payments on portfolio equity amounting to US dollars 69 million also contributed to the higher outflow from the primary income account during the period. However, dividend payments and re-investment of retained earnings on direct investments reduced to US dollars 698 million in 2014 from US dollars 737 million in 2013 while interest payments on loans obtained by the private sector and public corporations declined by 23.3 per cent to US dollars 78 million during the year. Coupon payments on outstanding government securities remained largely unchanged, while the interest payments in respect of the IMF Stand-by Arrangement (SBA) declined to US dollars 20 million in 2014 with the reduction in the outstanding loan balance.

#### 5.4.3 Secondary Income

**The secondary income account, which includes workers' remittances and general government transfers, recorded a favourable growth in 2014.** Inflows to the secondary income account amounted to US dollars 7,046 million in 2014 with a growth of 9.6 per cent. This was primarily due to the growth in workers' remittances, which account for more than 99 per cent of inflows to the secondary income account. Workers' remittances grew by 9.5 per cent to US dollars 7,018 million in 2014 from US dollars 6,407 million in 2013. The growth in workers' remittances reflected the continued increase in migration of labour under professional and skilled categories which grew by 5.6 per cent during 2014 albeit at a lower rate than in 2013. Meanwhile, migration of labour under the unskilled category broadly remained unchanged recording a marginal growth of 0.1 per cent in 2014. Accordingly, the total number of workers that migrated for foreign employment grew by 2.5 per cent to 300,413 in 2014 from 293,218 in 2013.

## 5.5 Current Account Balance

The current account balance improved in 2014 amidst the deterioration in the trade deficit during the second half of the year. The trade balance which improved in the first half of the year, deteriorated during the second half amidst rising imports and deceleration in exports, resulting in an expansion in the trade deficit in 2014. However, the surplus in the services account and workers' remittances partially offset the deficits in the trade and income accounts, thereby resulting in a lower deficit of US dollars 2,018 million in the current account in 2014 compared to the deficit of US dollars 2,541 million in 2013. Further, as a percentage of GDP, the current account deficit narrowed to 2.7 per cent in 2014 compared to 3.8 per cent in 2013.

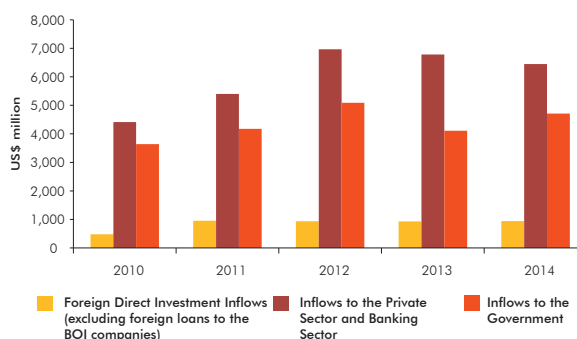
## 5.6 Capital Account Balance

The capital account balance in 2014 declined due to lower inflows of capital transfers. Net inflows to the capital account dropped from US dollars 71 million in 2013 to US dollars 58 million during the year. This was mainly due to capital transfers from corporations and households reducing to US dollars 21 million in 2014 from US dollars 51 million in 2013. Meanwhile, capital grants received by the government increased to US dollars 52 million in 2014 in comparison to US dollars 39 million in 2013.

## 5.7 Financial Account

The financial account continued to register a net inflow during 2014. This was reflected by the net incurrence of liabilities aggregating to US dollars 4,239 million during the year exceeding the net acquisition of financial assets amounting to US dollars 2,303 million. The major inflow to the financial account in 2014 was the receipt of the proceeds from the sixth and the seventh international sovereign bond issuances totaling to US dollars 1.5 billion. The financial

Chart 5.9 Inflows to the Financial Account



account was also supported by loan inflows to deposit taking corporations and direct investment related inflows and borrowings of the private sector, while the government received moderate levels of foreign loan inflows. Inflows to the private sector were mainly through the issuance of an international bond by SriLankan Airlines and direct investments to the banking sector and Board of Investment (BOI) companies. In the backdrop of foreign investment outflows from emerging markets in the latter part of 2014, subdued performance was observed in foreign investments in the Colombo Stock Exchange (CSE) and the government securities market. Meanwhile, net acquisition of financial assets increased primarily due to the increase in reserve asset transactions and a moderate increase in the acquisition of financial assets by the banking sector. These developments resulted in moderating net inflows to the financial account during 2014 to US dollars 1,936 million compared to US dollars 3,064 million in 2013.

### 5.7.1 Direct Investment

Total foreign direct investment related inflows, which includes foreign borrowings of BOI companies for investment purposes, showed a moderate improvement in 2014. Total foreign direct investment related inflows amounted to US dollars 1,685 million in 2014 in comparison



to US dollars 1,437 million in 2013. Meanwhile, direct investment excluding borrowings of direct investment enterprises (DIEs) amounted to US dollars 944 million in 2014 compared to US dollars 933 million recorded in 2013. This comprised of direct investment of US dollars 782 million received by BOI companies, US dollars 62 million received by CSE listed companies which

are not registered with the BOI and US dollars 100 million received by other private companies. Direct investment inflows to BOI companies comprised of equity capital of US dollars 10 million, shareholder advances of US dollars 208 million, inter-company borrowings of US dollars 224 million and re-investment of retained earnings of US dollars 346 million with debt repayments of US dollars 6 million. An increasing trend was observed in long term foreign financing by companies due to the availability of external borrowing at a relatively lower cost. This was reflected in DIEs which obtained foreign borrowings of US dollars 741 million, including the international bond issuance of US dollars 175 million by SriLankan Airlines, during the year.

**A large share of direct investment related inflows was attracted by infrastructure and services sectors.** Direct investment related inflows to infrastructure and services sectors accounted for 42.2 per cent and 36.8 per cent, respectively, of the total inflow while the manufacturing sector attracted 20.7 per cent. Direct investment related inflows to the infrastructure sector were mainly for housing and property development, ports and container terminals and telecommunication sub-sectors. Inflows to the services sector were mainly directed to aviation, hotels and restaurants and IT/BPO services sub-sectors. Meanwhile, FDI outflows in 2014 amounted to US dollars 67 million in comparison to US dollars 65 million in 2013.

## 5.7.2 Portfolio Investment

### Equity and Investment Fund Shares

**Inflows on equity and investment fund shares, which comprise of foreign investments other than direct investments in CSE listed companies, moderated in 2014.** Portfolio investments in the CSE decelerated reflecting the subdued investor sentiment which prevailed in emerging markets amidst scaling back of

**Table 5.8.A** Financial Account  
(BPM6 Presentation Format)

Item	US\$ million			
	2013 (a)		2014 (b)	
	Net acquisition of financial assets	Net incurrence of financial liabilities	Net acquisition of financial assets	Net incurrence of financial liabilities
<b>Financial Account</b>	<b>986</b>	<b>4,049</b>	<b>2,303</b>	<b>4,239</b>
<b>Direct Investment</b>	<b>65</b>	<b>933</b>	<b>67</b>	<b>944</b>
Equity and investment fund shares	65	410	67	518
Equity other than reinvestment of earnings	65	60	67	137
Direct investor in direct investment enterprise	65	60	67	137
BOI companies	-	16	-	10
Companies not registered with the BOI	-	44	-	62
Other companies	-	-0.5	-	65
Reinvestment of earnings	-	350	-	381
Debt instruments	-	522	-	427
Direct investor in direct investment enterprise	-	522	-	427
BOI companies	-	517	-	426
Shareholder advances	-	370	-	208
Inter-company borrowings	-	150	-	224
Debt repayments	-	-3	-	-6
Companies not registered with the BOI	-	5	-	1
<b>Portfolio Investment</b>	<b>-</b>	<b>2,068</b>	<b>-</b>	<b>1,996</b>
Equity and investment fund shares	-	226	-	184
CSE companies	-	226	-	184
Debt securities	-	1,843	-	1,812
Deposit-taking corporations	-	1,350	-	250
Long term	-	1,350	-	250
General government	-	493	-	1,387
Short term (Treasury bills)	-	-80	-	-173
Long term	-	572	-	1,560
Treasury bonds	-	572	-	60
Sovereign bonds	-	-	-	1,500
Other sectors	-	-	-	175
Long term	-	-	-	175
<b>Financial Derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other Investment</b>	<b>-191</b>	<b>1,048</b>	<b>688</b>	<b>1,298</b>
Currency and deposits	-459	108	276	-292
Central Bank	-	-199	-	1
Short term	-	1	-	1
Long term	-	-200	-	-
Deposit-taking corporations	-459	307	276	-293
Short term	-221	307	142	-293
Long term	-238	-	134	-

Continued on page - 127

Source: Central Bank of Sri Lanka

(a) Revised  
(b) Provisional



quantitative easing programme by the Federal Reserve of the United States. Accordingly, net foreign inflows to the CSE declined by 18.4 per cent to US dollars 184 million in 2014 from US dollars 226 million in 2013. These inflows in 2014 included US dollars 180 million in the secondary market transactions and US dollars 4 million in the primary market transactions.

## Debt Securities

**In the financial account, a major inflow to debt securities in 2014 was marked by the government's issuance of international sovereign bonds.** Sri Lanka launched two international bonds in January and April 2014 amounting to US dollars 1 billion and US dollars 500 million, respectively. These five year bonds were issued at competitive yields of 6.00 per cent and 5.125 per cent per annum, respectively, despite increased volatility in global capital markets and rising benchmark US Treasury yields during the period of the bond issuances. The subdued investor sentiment in emerging capital markets was also observed in the government securities market as reflected in a net outflow of US dollars 113 million from the government Treasury bills and bonds market in 2014 as against a net inflow of US dollars 493 million in 2013. Under debt securities issued by the corporate sector, the issuance of the five year international bond of US dollars 175 million by SriLankan Airlines in June 2014 was at a yield of 5.3 per cent per annum. National Savings Bank (NSB) also issued a five year bond amounting to US dollars 250 million in September 2014 at a yield of 5.15 per cent per annum.

### 5.7.3 Other Investment

#### Currency and Deposits

**Transactions of currency and deposits related assets increased while the liabilities decreased in 2014.** Accordingly, transactions relating to net acquisition of assets of currency and deposits held by deposit taking corporations

recorded a net increase of US dollars 276 million in 2014 compared to a net decrease of US dollars 459 million in 2013. Further, transactions relating to net incurrence of liabilities of currency and deposits recorded a decrease of US dollars 292 million mainly due to the decrease of US dollars 293 million deposit liabilities of deposit taking corporations in 2014.

## Loans

**The financial account continued to receive foreign loan inflows in 2014.** On a net basis, foreign loan inflows to deposit taking corporations increased during the year, while loans to the government and the private sector/State Owned Business Enterprises (SOBEs) decreased compared to the previous year. Consequently, total net inflows in the form of foreign loans amounted to US dollars 1,847 million during 2014 in comparison to US dollars 1,118 million in 2013.

**Foreign loan inflows to the government declined in 2014.** Foreign loan inflows to the government decreased to US dollars 1,439 million in 2014 from US dollars 1,677 million in 2013. Meanwhile, outflows on account of repayments of foreign loans by the government amounted to US dollars 793 million in 2014 in comparison to US dollars 836 million in 2013. Consequently, net foreign loan inflows to the government amounted to US dollars 646 million in 2014 in comparison to US dollars 841 million in 2013. A major foreign loan inflow to the government in 2014 was the sum of US dollars 292 million received for the funding of priority roads project. Meanwhile, loan proceeds were also received for the reconstruction of the railway line connecting Omanthai-Pallai, Madhu-Tallaimannar and Medawachchiya, the Matara-Beliatta section of Matara-Kataragama Railway Extension Project, the Greater Colombo Urban Transport Development Project, the Russian Line of Credit, the Restoration of Northern Railway

Table 5.8.B

**Financial Account**  
 (BPM6 Presentation Format)

Item	US\$ million			
	2013 (a)		2014 (b)	
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
<b>Other Investment (Continued from page-125)</b>				
Loans	-	1,118	-	1,847
Central Bank	-	-453	-	-719
Credit and loans with the IMF	-	-453	-	-719
Deposit-taking corporations	-	124	-	1,358
Short term	-	-124	-	1,156
Long term	-	248	-	202
General government	-	841	-	646
Long term	-	841	-	646
Other sectors (c)	-	605	-	563
Long term	-	605	-	563
Trade credit and advances	225	-235	98	-407
Deposit-taking corporations	15	-	8	-
Short term	15	-	8	-
Other sectors (d)	211	-235	90	-407
Short term	211	-235	90	-407
Other accounts receivable/payable	42	58	314	151
Central Bank	-	58	-	151
Short term (e)	-	58	-	151
Deposit-taking corporations	42	-	314	-
Short term	42	-	314	-
Special Drawing Rights (SDRs)	-	-	-	-
<b>Reserve Assets</b>	<b>1,112</b>		<b>1,548</b>	
Monetary gold	351		9	
Special Drawing Rights	12		-6	
Reserve position in the IMF	-		-	
Other reserve assets	749		1,545	
Currency and deposits	1,297		496	
Claims on monetary authorities	1,462		-1,041	
Claims on other entities	-165		1,538	
Securities	-548		1,049	
Debt securities	-548		1,049	
Long term	-548		1,049	
<b>Financial Account (net)</b>	<b>3,064</b>		<b>1,936</b>	
<b>Memorandum Items</b>				
<b>Long term Loans to the Government (net)</b>		<b>841</b>		<b>646</b>
Inflows (Disbursements)		1,677		1,439
Repayments		836		793
(a) Revised	Source: Central Bank of Sri Lanka			
(b) Provisional				
(c) Include State Owned Business Enterprises (SOBEs) and private sector companies.				
(d) Include trade credits received by the Ceylon Petroleum Corporation (CPC) and other private companies.				
(e) Net transactions of ACU liabilities				

Services, the Education Sector Development Programme and the Greater Kurunegala Water Supply and Sewerage Project. Of the total outstanding government loans, international sovereign bonds and outstanding loans of SOBEs, 53.1 per cent was obtained under concessional terms and conditions as at end 2014.

**Net foreign borrowings by deposit taking corporations increased significantly while the Central Bank continued to repay the IMF-SBA facility in 2014.** Net foreign loan inflows to deposit taking corporations, which consist of Licensed Commercial Banks (LCBs), Licensed Specialised Banks (LSBs) and Licensed Finance Companies (LFCs), amounted to US dollars 1,358 million in 2014 compared to US dollars 124 million in 2013. The net short term loan inflows to the deposit taking corporations in 2014 amounted to US dollars 1,156 million while net long term loan inflows to the deposit taking corporations in 2014 included a net inflow of US dollars 239 million to LCBs and a net outflow of US dollars 37 million from LSBs and LFCs. Repayments on account of the IMF-SBA facility by the Central Bank amounted to US dollars 719 million in 2014. The IMF-SBA facility of US dollars 2.6 billion disbursed during 2009 to 2012 is scheduled to be settled by July 2017.

**Foreign loan inflows to the private sector and SOBEs declined during 2014.** Loan inflows to the private sector and SOBEs amounting to US dollars 777 million in 2014 were lower than the US dollars 1,079 million obtained in 2013. Of this, the private sector received US dollars 403 million and the SOBEs received US dollars 375 million. On a net basis, foreign loan inflows to the private sector and SOBEs reduced marginally to US dollars 563 million in 2014 in comparison to US dollars 605 million in 2013. Loans to the private sector were channeled mainly to telecommunications, microfinance, container terminals and mixed development sectors. Of the total loan inflows of US dollars 566 million to the private sector companies, 72.8 per cent was obtained by BOI companies. This reflects the increasing trend in BOI companies relying on foreign loans from non-related parties, primarily due to the prevailing competitive interest rates in international capital markets. Meanwhile, loan disbursements to SOBEs in 2014 included US dollars 167 million to the Hambantota Port Development project,

**Table 5.9 Major Projects Financed with Foreign Borrowings during 2014**

Lender and Project	Amount Disbursed US\$ million
<b>Government Projects - Total</b>	<b>1,439</b>
of which;	
<b>China Development Bank Corporation</b>	<b>292</b>
Rehabilitation and improvement of priority roads project	292
<b>Asian Development Bank</b>	<b>247</b>
of which;	
Conflict-affected region emergency project	45
Sustainable power sector support project (OCR)	29
National highways sector project additional finance	25
Northern road connectivity project	24
<b>Government of Japan</b>	<b>240</b>
of which;	
Greater colombo urban transport development project - phase II	111
Greater colombo transport development project	32
Provincial/Rural road development project (Central Province and Sabaragamuwa Province)	29
Upper Kotmale hydro power project - phase II	22
<b>International Development Association</b>	<b>161</b>
of which;	
Second additional financing for road sector assistance project	33
Second health sector development project	27
Provincial roads project	22
<b>The Export-Import Bank of China</b>	<b>141</b>
of which;	
Greater Kurunegala water supply and sewerage project	21
Rehabilitation and improvement of Puttalam- Marichchikade-Mannar road	20
<b>Government of India</b>	<b>115</b>
of which;	
Restoration of Northern railway services	67
Railway line Omanthai-pallai, Madhu-Tallaimannar and Medawachchiya	32
<b>Rabobank of Netherlands</b>	<b>40</b>
of which;	
Development of Hambantota district general hospital	14
Upgrading of the National blood transfusion services of Sri Lanka	11
<b>Government of the Republic of Korea</b>	<b>20</b>
of which;	
Ruhunupura water supply development project	19
<b>European Investment Bank</b>	<b>21</b>
Sri Lanka SME and green energy global loan	21
<b>State Owned Business Enterprises - Total</b>	<b>375</b>
Hambantota Port development project - phase II	167
SriLankan Airlines Ltd	150
Puttalam coal power project - phase II	51
Mattala International airport project	7

Source: External Resources Department of Ministry of Finance and Planning

US dollars 150 million to SriLankan Airlines and US dollars 51 million to the Puttalam Coal Power project.

### Trade Credit and Advances and Other Accounts Receivable/Payable

Transactions relating to trade credit and advances receivable and payable moderated during 2014. Net incurrence of trade credit liabilities decreased by US dollars 407 million in 2014 in comparison to a decrease of

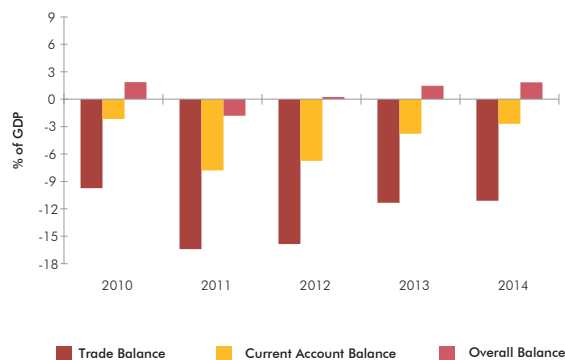
US dollars 235 million in 2013. The settlement of trade credits by the Ceylon Petroleum Corporation (CPC) was the main reason for this decline. The CPC accounted for more than 90 per cent of the outstanding balance of trade credits. Meanwhile, net acquisition of trade credits mainly by Sri Lankan export companies granting short term credit facilities for non-residents increased by US dollars 98 million compared to US dollars 225 million in 2013. Further, other accounts payable, mainly consisting of Asian Clearing Union (ACU) liabilities managed by the Central Bank recorded a net increase of US dollars 151 million in comparison to a net increase of US dollars 58 million in 2013. Meanwhile, other accounts receivable to LCB's offshore banking units (OBUs) recorded an increase of US dollars 314 million in 2014 as compared to an increase of US dollars 42 million in 2013.

### 5.7.4 Reserve Assets

**Reserve assets related transactions increased in 2014.** The increase in official reserves resulted in the CBSL investing more in fixed income securities (FIS) and raising foreign currency deposits held with non-residents. Consequently, transactions in FIS increased by US dollars 1,049 million while currency and deposits held by the Central Bank increased by US dollars 496 million in 2014. Transactions of monetary gold were subdued during 2014 as only US dollars 9 million in net gold transactions were observed during 2014 compared to US dollars 351 million in 2013 as the CBSL retained its gold position due to subdued gold prices in the international market.

### 5.8 Balance of Payments

**The balance of payments recorded a surplus in 2014.** The improvement in the current account and substantial inflows to the financial account resulted in a surplus of US dollars 1,369 million in the balance of payments in

**Chart 5.10** Balance of Payments

2014 in comparison to the surplus of US dollars 985 million in 2013, recording an increase of 38.9 per cent.

## 5.9 International Investment Position

External financial assets and liabilities as recorded in the International Investment Position (IIP) showed an increase as at end 2014. Supported by a notable increase in reserve assets, total foreign assets rose to US dollars 10.9 billion, recording an increase of 15.5 per cent from US dollars 9.5 billion as at end 2013. Meanwhile, foreign liabilities increased to US dollars 53.2 billion as at end 2014, from US dollars 47.8 billion as at end 2013, mainly due to the increase of outstanding debt securities following the two issuances of sovereign bonds in 2014. Of the total external liabilities, general government and the Central Bank held 49.5 per cent while the private sector and deposit taking corporations accounted for 50.5 per cent. Further, 82.2 per cent of the total external liabilities were in the form of long term liabilities as at end 2014, reflecting the continued emphasis for long term financing by the government, banking sector and the private sector. Of the total outstanding external liabilities as at end 2014, 47.9 per cent were outstanding foreign loans

**Table 5.10** International Investment Position (BPM6 Presentation Format)

Item	US\$ million (End period position)			
	2013 (a)		2014 (b)	
	Assets	Liabilities	Assets	Liabilities
<b>Direct Investment (c)</b>	<b>540</b>	<b>8,959</b>	<b>607</b>	<b>10,511</b>
Equity and investment fund shares	537	6,859	604	7,984
Debt instruments	3	2,100	3	2,527
<b>Portfolio Investment</b>	<b>-</b>	<b>9,473</b>	<b>-</b>	<b>12,918</b>
Equity and investment fund shares	-	1,044	-	2,192
Other sectors	-	1,044	-	2,192
Debt securities (d)	-	8,429	-	10,726
Deposit-taking corporations	-	1,954	-	2,263
Long term	-	1,954	-	2,263
General government	-	6,476	-	8,289
Short term	-	507	-	399
Long term	-	5,968	-	7,890
Other sectors	-	-	-	174
Long term	-	-	-	174
<b>Financial Derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other Investment</b>	<b>1,420</b>	<b>29,376</b>	<b>2,108</b>	<b>29,736</b>
<b>Currency and Deposits</b>	<b>283</b>	<b>1,886</b>	<b>558</b>	<b>1,594</b>
Central Bank	-	6	-	6
Short term	-	6	-	6
Long term	-	-	-	-
Deposit-taking corporations	283	1,880	558	1,587
Short term	246	1,880	388	1,587
Long term	37	-	171	-
<b>Loans</b>	<b>-</b>	<b>24,507</b>	<b>-</b>	<b>25,451</b>
Central Bank	-	2,056	-	1,248
Credit and loans with the IMF	-	2,056	-	1,248
Deposit-taking corporations	-	2,924	-	4,282
Short term	-	2,003	-	3,159
Long term	-	921	-	1,123
General government	-	15,814	-	15,762
Long term	-	15,814	-	15,762
Other sectors (e)	-	3,713	-	4,159
Long term	-	3,713	-	4,159
<b>Trade Credit and Advances</b>	<b>460</b>	<b>2,089</b>	<b>558</b>	<b>1,681</b>
Deposit-taking corporations	118	-	126	-
Short term	118	-	126	-
Other sectors (f)	342	2,089	432	1,681
Short term	342	2,089	432	1,681
<b>Other Accounts Receivable/Payable</b>	<b>678</b>	<b>285</b>	<b>992</b>	<b>437</b>
Central Bank (g)	-	285	-	437
Short term	-	285	-	437
Deposit-taking corporations	678	-	992	-
Short term	678	-	992	-
<b>Special Drawing Rights (SDRs)</b>	<b>-</b>	<b>609</b>	<b>-</b>	<b>573</b>
<b>Reserve Assets</b>	<b>7,495</b>	<b>-</b>	<b>8,208</b>	<b>-</b>
Monetary gold	884	-	893	-
Special Drawing Rights	16	-	9	-
Reserve position in the IMF	74	-	69	-
Other reserve assets	6,522	-	7,237	-
Currency and deposits	3,309	-	3,795	-
Claims on monetary authorities	2,843	-	1,798	-
Claims on other entities	465	-	1,997	-
Securities	3,213	-	3,442	-
Debt securities	3,213	-	3,442	-
<b>Total Assets / Liabilities</b>	<b>9,456</b>	<b>47,808</b>	<b>10,924</b>	<b>53,164</b>
<b>Net International Investment Position</b>	<b>-</b>	<b>-38,353</b>	<b>-</b>	<b>-42,241</b>
<b>Memorandum Items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
IIP- Maturity-wise breakdown	-	-	-	-
Short term	1,384	7,814	1,937	9,462
Long term	8,072	39,994	8,986	43,703

- (a) Revised  
(b) Provisional  
(c) Include direct investment position of BOI, CSE and other private companies  
(d) Foreign currency debt issuances are based on market value while domestic currency issuances are based on book value.  
(e) Include loans outstanding position of project loans obtained by State Owned Business Enterprises (SOBEs).  
(f) Include outstanding trade credit position of Ceylon Petroleum Corporation and the private sector companies.  
(g) Outstanding position of ACU liabilities managed by the Central Bank

while, 20.2 per cent were debt securities. With the increase in the outstanding foreign liability and the asset position, the net IIP as at end 2014 increased marginally to US dollars 42.2 billion from US dollars 38.4 billion as at end 2013.

### 5.9.1 Direct Investment Position

**Direct investment position consisting of equity and debt instruments increased at end 2014.** With direct investment inflows of US dollars 944 million in 2014, total direct investment position increased to US dollars 10.5 billion at end 2014, compared to US dollars 9.0 billion recorded at end 2013. Of the total direct investment position, 76.0 per cent was in the form of equity while 24.0 per cent was inter-company borrowings and shareholder advances. The total equity position increased by 16.4 per cent to US dollars 7,984 million due to a significant market price gain of foreign direct investments in CSE listed companies during the year. Debt outstanding, which mainly comprises of inter-company borrowings of DIES, increased by 20.3 per cent to US dollars 2,527 million at end 2014. Further, the stock of direct investments abroad by Sri Lankan enterprises marginally increased to US dollars 607 million at end 2014, compared to US dollars 540 million at end 2013. This outward investment mainly comprised of investment in listed companies in Southeast Asia.

### 5.9.2 Portfolio Investment Position

**Portfolio investment, which comprises of equity and investment fund shares and debt securities, increased during 2014.** Accordingly, total outstanding portfolio investment increased to US dollars 12.9 billion at end 2014, a 36.4 per cent increase from end 2013. Of the total outstanding portfolio investment position, US dollars 2.2 billion were in the form of equity and investment fund shares while US dollars 10.7

billion were in the form of debt securities. Foreign investment in debt securities, which comprises of debt securities issued by the government, the banking sector and SOBEs, increased by US dollars 2.3 billion at the end of the year. The issuance of international sovereign bonds of US dollars 1.5 billion by the government, US dollars 250 million by NSB, US dollars 175 million by SriLankan Airlines and the market price increase in the outstanding Treasury bills and bonds amounting to US dollars 3.0 billion were the main reasons for the observed increase in debt securities position. Of the total outstanding debt securities, only 3.7 per cent consisted of Treasury bills with maturity less than one year as at end 2014.

### 5.9.3 Other Investment Position

#### Currency and Deposits

**Currency and deposits related asset position increased while the liability position decreased as at end 2014.** Currency and deposits related assets, which consist of deposits held by LCBs in non-resident banks, amounted to US dollars 558 million at end 2014 compared to US dollars 283 million at end 2013. Meanwhile, currency and deposits related liabilities, which primarily consist of the balances of non-resident foreign currency accounts held in resident LCBs, declined to US dollars 1.6 billion as at end 2014 from US dollars 1.9 billion in 2013.

#### Loans

**The outstanding stock of foreign loans of deposit taking corporations, the private sector and SOBEs increased while the outstanding loans of the government and the Central Bank's loan liabilities to the IMF decreased as at end 2014.** Foreign loan liabilities, which account for about 47.9 per cent of total liabilities, increased marginally to US dollars 25.5 billion



as at end 2014 from US dollars 24.5 billion as at end 2013. Meanwhile, total loan liabilities of the government reduced from US dollars 15,814 million as at end 2013 to US dollars 15,762 million as at end 2014 despite a net foreign inflow of US dollars 646 million due to the impact of variations in the exchange rate. Net liabilities of deposit taking corporations increased to US dollars 4.3 billion as at end 2014, with increases in both short and long term liabilities. Outstanding loan liabilities of the private sector and SOBEs also increased from US dollars 3.7 billion as at end 2013 to US dollars 4.2 billion as at end 2014. With continuous repayments, the outstanding position of the IMF-SBA loan facility, reduced to US dollars 1.2 billion as at end 2014.

### Trade Credit and Advances

The outstanding positions of trade credit and advances granted increased while the trade credits received declined as at end 2014. Trade credit and advances given to non-residents by Sri Lankan companies increased marginally to US dollars 558 million as at end December 2014 with exporters continuing to offer their credit facilities to non-residents. Meanwhile, the settlement of CPC trade credits resulted in a decline in the total outstanding position of trade credits to US dollars 1,681 million as at end 2014 from US dollars 2,089 million as at end 2013.

### Other Accounts Receivable/Payable and Special Drawing Rights

The outstanding position of other accounts receivable and payable as at end 2014 registered an increase. Other accounts receivable, primarily consisting of short term balance positions of deposit taking corporations, increased as at end of 2014. Other accounts payable, which mainly comprises of the outstanding short term liability of ACU balances held by the Central Bank, increased to US dollars 437 million as at end 2014 from US dollars 285 million as at end 2013. Meanwhile,

Sri Lanka's outstanding liability position on Special Drawing Rights (SDRs) position of US dollars 573 million as at end 2014 changed marginally due to exchange rate variations.

### 5.9.4 Reserve Asset Position

Reserve assets held by the Central Bank and the government, which comprise of foreign currency reserves, gold balances, reserve position in the IMF, SDR holdings and other reserve assets amounted to US dollars 8.2 billion as at end 2014. The proceeds of international sovereign bond issuances in January and April 2014, disbursements under foreign funded projects and net absorption of excess liquidity in the foreign exchange market helped improve the reserve asset position, despite outflows on account of foreign debt service payments and IMF-SBA payments during 2014. Meanwhile, total foreign assets, which consist of reserve assets as well as foreign financial assets of deposit taking corporations, increased to US dollars 9.9 billion by end 2014.

The reserve assets position of the Central Bank and the government as at end 2014 was equivalent to 5.1 months of import of goods and 4.3 months of import of goods and services, compared to the internationally accepted norm of 3 months of imports. Total foreign assets were equivalent to 6.1 months of imports of goods and 5.1 months of imports of goods and services.

Chart 5.11 Quarterly Gross Official Reserves and Total Foreign Assets

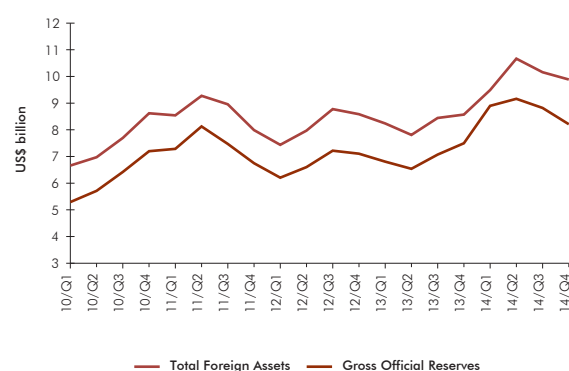


Table 5.11

## Gross Official Reserves, Total Foreign Assets and Overall Balance

	(End period position)									
	US\$ million					Rs. million				
	2010	2011	2012	2013	2014 (a)	2010	2011	2012	2013	2014 (a)
1. Government foreign assets	88	615	631	465	635	9,747	70,088	80,209	60,857	83,262
2. Central Bank foreign assets	7,109	6,134	6,475	7,030	7,573	788,722	698,666	823,375	919,171	992,438
3. Gross official reserves (1+2)	7,196	6,749	7,106	7,495	8,208	798,469	768,754	903,584	980,028	1,075,700
4. Foreign assets of deposit-taking corporations	1,424	1,241	1,480	1,078	1,676	158,031	141,394	188,195	141,008	219,641
5. Total foreign assets (3+4) (b)	8,621	7,991	8,586	8,574	9,884	956,500	910,148	1,091,779	1,121,036	1,295,342
6. Reserve related liabilities (c)	2,125	2,737	2,943	2,347	1,691	235,770	311,769	374,185	306,825	221,593
7. Net International Reserves (NIR) (3-6)	5,071	4,012	4,163	5,149	6,517	562,701	456,985	529,399	673,203	854,107
8. Overall balance (d)	921	-1,059	151	985	1,369	87,974	-105,716	72,414	143,804	180,904
9. Gross official reserves in months of										
9.1 Import of goods	6.4	4.0	4.4	5.0	5.1					
9.2 Import of goods and services	5.7	3.6	3.9	4.2	4.3					
10. Total foreign assets in months of										
10.1 Import of goods	7.7	4.7	5.4	5.7	6.1					
10.2 Import of goods and services	6.8	4.3	4.7	4.8	5.1					

(a) Provisional

(b) Excludes foreign assets in the form of 'Direct investment abroad' and 'Trade credit and advances granted'

(c) The total outstanding debt of the Central Bank, excluding outstanding Special Drawing Rights (SDRs)

(d) Change in NIR position during the period.

Source: Central Bank of Sri Lanka

**Note: Calculation of Overall Balance after the adoption of BPM6**

With the adoption of the BPM6 in 2013, the overall balance can only be calculated from the change in NIR position, in the following manner:

Overall Balance = Change in NIR

= Net reserve asset position at the end of period - Net reserve asset position at the beginning of period,

The net reserve asset position is defined as the difference between the reserve asset position and the reserve related liability position.

In this context, the overall balance is no longer calculated from the BOP and will be detailed under 'Table 5.11: Gross Official Reserves, Total Foreign Assets and Overall Balance' of the Annual Report 2014 and subsequent publications hereafter.

Meanwhile, the reserve asset position covered 64 per cent of the country's short term debt and liabilities as at end 2014, similar to the level as at end 2013. Despite the improvement in reserve assets, the increase in short term debt resulted in the moderation of the reserve adequacy ratio. Meanwhile, reserve assets to short term debt excluding Treasury bonds maturing after one year decreased marginally to 84 per cent by end 2014 from 85 per cent at end 2013.

## 5.10 External Debt and Debt Servicing

### 5.10.1 External Debt

**External debt stock of the country increased by end 2014.** Sri Lanka's total external debt increased to US dollars 43.0 billion as at end 2014, from US dollars 39.9

billion as at end 2013. This was mainly due to the issuance of the sixth and the seventh international sovereign bonds amounting to US dollars 1.5 billion, the international bond issuances of the NSB (US dollars 250 million) and SriLankan Airlines (US dollars 175 million) and net inflows in the form of foreign loans to the government, SOBEs, private sector and deposit taking corporations. However, total external debt as a percentage of GDP decreased to 57.4 per cent as at end 2014 from 59.4 per cent as at end 2013 due to the higher growth in GDP compared to the growth of the total external debt.

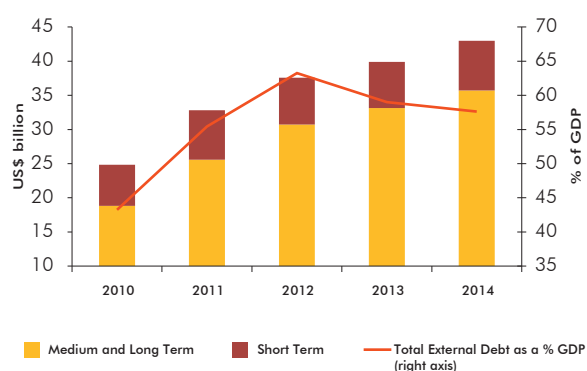
**Sri Lanka's external debt portfolio primarily consisted of long term foreign loans amounting to 83.1 per cent of the total debt stock as at end 2014.** The short term

**Table 5.12** Outstanding External Debt Position  
(BPM6 Presentation Format)

Item	US\$ million (End period position)	
	2013(a)	2014(b)
<b>General Government</b>	<b>22,290</b>	<b>24,051</b>
<b>Short term</b>	<b>507</b>	<b>399</b>
Debt securities	507	399
Treasury bills (c)	507	399
<b>Long term</b>	<b>21,783</b>	<b>23,651</b>
Debt Securities	5,968	7,890
Treasury bonds (c)	2,483	2,603
International sovereign bonds (d)	3,485	5,287
Loans	15,814	15,762
<b>Central Bank</b>	<b>2,956</b>	<b>2,264</b>
<b>Short term</b>	<b>291</b>	<b>443</b>
Currency and deposits	6	6
Other accounts payable	285	437
Asian Clearing Union liabilities	285	437
<b>Long term</b>	<b>2,665</b>	<b>1,821</b>
Special Drawing Rights (SDRs) allocation	609	573
Loans	2,056	1,248
Credit and loans with the IMF	2,056	1,248
Stand-By Arrangement (IMF-SBA Facility)	2,056	1,248
<b>Deposit-taking Corporations</b>	<b>6,758</b>	<b>8,133</b>
<b>Short term</b>	<b>3,884</b>	<b>4,747</b>
Currency and deposits (e)	1,880	1,587
Commercial banks	1,880	1,587
Loans	2,003	3,159
Commercial banks	2,003	3,159
<b>Long term</b>	<b>2,875</b>	<b>3,386</b>
Debt securities (d)	1,954	2,263
Commercial banks	990	1,037
Other deposit-taking corporations	964	1,226
Loans	921	1,123
Commercial banks	825	1,064
Other deposit-taking corporations	96	59
<b>Other Sectors (f)</b>	<b>5,801</b>	<b>6,014</b>
<b>Short term</b>	<b>2,089</b>	<b>1,681</b>
Trade credit and advances (g)	2,089	1,681
<b>Long term</b>	<b>3,713</b>	<b>4,333</b>
Debt securities (d)	-	174
Loans	3,713	4,159
Private sector corporations	1,410	1,542
State owned enterprises and public corporations	2,303	2,618
<b>Direct Investment: Intercompany Lending (h)</b>	<b>2,100</b>	<b>2,527</b>
<b>Gross External Debt Position</b>	<b>39,905</b>	<b>42,988</b>
<b>As a Percentage of GDP</b>		
Gross external debt	59.4	57.4
Short term debt	10.1	9.7
Long term debt	49.3	47.7
<b>As a Percentage of Gross External Debt</b>		
Short term debt	17.0	16.9
Long term debt	83.0	83.1
<b>Memorandum Items</b>		
<b>Debt Securities-Sectorwise Breakdown at Face Value</b>	<b>9,001</b>	<b>10,764</b>
General government	7,151	8,489
Treasury bills	565	424
Treasury bonds	3,086	3,065
International sovereign bonds	3,500	5,000
Deposit-taking corporations, except the Central Bank	1,850	2,100
Commercial banks	1,000	1,000
Licensed specialised banks	850	1,100
Other sectors	-	175

- (a) Revised  
(b) Provisional  
(c) Based on book value  
(d) Based on market prices  
(e) Include deposits of non-resident foreign currency holders  
(f) Include private sector and state owned business enterprises  
(g) Include trade credits outstanding of the Ceylon Petroleum Corporation and private sector companies  
(h) Include inter-company borrowings and shareholder advances on BOI registered companies

Source: Central Bank of Sri Lanka

**Chart 5.12** External Debt

external debt, which amounts to US dollars 7.3 billion and 16.9 per cent of the total external debt as at end 2014, primarily consisted of deposit liabilities in the form of Non Resident Foreign Currency (NRFC) accounts held in commercial banks and trade credits of private sector companies. Of the total external debt position, 59.2 per cent consisted of foreign loans, 25.0 per cent debt securities, 5.9 per cent inter-company borrowings by direct investment enterprises, 4.9 per cent of trade credits and advances, 3.7 per cent of currency and deposits and the remainder as other accounts payable. Both the government and deposit taking corporations significantly relied on the issuance of debt securities for their foreign financing needs with the government and deposit taking corporations currently having international bond outstanding with a face value of US dollars 5 billion and US dollars 2.1 billion, respectively, as at end 2014.

### 5.10.2 Foreign Debt Service Payments

**Total foreign debt service payments consisting of amortisation and interest payments decreased in 2014.** In nominal terms, debt service payments decreased to

Table 5.13

## External Debt Service Payments

Item	US\$ million					Rs. million				
	2010	2011	2012	2013 (a)	2014 (b)	2010	2011	2012	2013 (a)	2014 (b)
<b>1. Debt Service Payments</b>	1,853	1,798	2,672	3,540	3,386	208,984	199,233	334,592	456,095	441,972
<b>1.1 Amortisation</b>	1,234	1,092	1,791	2,481	2,230	138,941	121,246	222,916	319,749	291,003
(i) To IMF	46	11	57	453	719	5,238	1,238	7,413	57,683	93,904
(ii) To Others	1,188	1,081	1,734	2,028	1,510	133,703	120,008	222,828	262,065	197,100
Government, medium and long term	665	789	862	836	793	74,932	87,754	110,412	107,861	103,510
Government securities	92	95	628	719	503	10,406	10,406	80,991	92,610	65,516
Public corporations and private sector	431	197	244	474	215	48,365	21,848	31,425	61,594	28,073
<b>1.2 Interest Payments</b>	619	706	881	1,059	1,157	70,043	77,987	111,676	136,346	150,969
(i) To IMF	7	10	36	33	20	803	1,081	4,639	4,298	2,546
(ii) To Others	612	697	845	1,026	1,137	69,240	76,905	107,036	132,047	148,423
Equity			437	402	379			55,743	51,920	49,454
Debt securities			408	624	758			51,293	80,128	98,969
<b>2. Earnings from Export of Goods and Services</b>	11,100	13,643	13,573	15,079	16,735					
<b>3. Receipts from Export of Goods, Services, Income and Current Transfers</b>	15,592	19,314	19,754	21,639	23,934					
<b>4. Debt Service Ratio</b>										
4.1 As a percentage of 2 above										
(i) Overall Ratio	16.7	13.2	19.7	23.5	20.2					
(ii) Excluding IMF transactions	16.2	13.0	19.0	20.3	15.8					
4.2 As a percentage of 3 above										
(i) Overall ratio	11.9	9.3	13.5	16.4	14.1					
(ii) Excluding IMF transactions	11.5	9.2	13.1	14.1	11.1					
<b>5. Government Debt Service Payments</b>										
5.1 Government debt service payments (c)	1,219	1,474	2,191	2,386	2,172					
5.2 As a percentage of 1 above	65.8	82.0	82.0	67.4	64.1					

(a) Revised  
(b) Provisional  
(c) Excludes transactions with the IMF.

Source : Central Bank of Sri Lanka

US dollars 3,386 million in 2014, from US dollars 3,540 million in 2013 primarily due to the decrease in repayments of Treasury bills and Treasury bonds and decreased principal payments in relation to long term loans of the government. Total principal payments comprised repayments of government long term borrowings of US dollars of 793 million and repayments to the IMF of US dollars 719 million, maturity of government securities of US dollars 503 million and repayments of private sector loan liabilities of US dollars 215 million. However, interest payments on medium and long term outstanding debt of the government which included interest payments in respect of Treasury bills and Treasury bonds recorded an increase as a result of increased interest payments on international bonds issued by the government and deposit

taking corporations. Meanwhile, debt service payments as a percentage of export of goods and services declined to 20.2 per cent in 2014 from 23.4 per cent in 2013, mainly due to the decreased principal payments and increased earnings of exports of goods and services.

## 5.11 Exchange Rate Movements

The exchange rate policy in 2014 focused on smoothing short term volatility in the exchange rate, thereby ensuring stability in the foreign exchange market. The Sri Lankan rupee appreciated against the US dollar during the first three quarters of the year, warranting some intervention by the Central Bank in order to avoid overly appreciation. The appreciation pressure was mainly due to the increase in foreign exchange inflows in the form of export earnings, workers'

Table 5.14

## Exchange Rate Movements

Currency	In Rupees per unit of Foreign Currency						Percentage Change over Previous Year(a)			
	End Year Rate			Annual Average Rate			End Year		Annual Average	
	2012	2013	2014	2012	2013	2014	2013	2014	2013	2014
Euro	168.13	180.45	159.42	164.01	171.51	173.47	-6.83	13.19	-4.37	-1.13
Indian rupee	2.33	2.11	2.07	2.39	2.21	2.14	10.16	2.13	8.22	3.28
Japanese yen	1.48	1.25	1.10	1.60	1.32	1.24	18.78	13.48	20.74	7.17
Pound sterling	205.47	215.58	204.04	202.28	202.08	215.16	-4.69	5.65	0.10	-6.08
US dollar	127.16	130.75	131.05	127.60	129.11	130.56	-2.75	-0.23	-1.17	-1.11
SDR	195.31	201.36	189.86	195.38	196.19	198.35	-3.00	6.05	-0.42	-1.09

Effective Exchange Rate Indices(b) (c)	End Year Index						Annual Average Index				Percentage Change over Previous Year			
	End Year Index			Annual Average Index			End Year Index		Annual Average Index		End Year Index		Annual Average Index	
	2012	2013	2014	2012	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
NEER 24-currencies	90.33	90.97	96.44	90.44	91.39	91.99	0.71	6.02	1.05	0.66				
REER 24-currencies	97.85	100.31	106.30	95.80	100.61	101.94	2.51	5.97	5.02	1.32				

(a) Changes computed on the basis of foreign currency equivalent of Sri Lanka rupees. The sign (-) indicates depreciation of Sri Lanka rupee against each currency, respectively.

Source: Central Bank of Sri Lanka

(b) The Nominal Effective Exchange Rate (NEER) is a weighted average of nominal exchange rates of 24 trading partner and competitor countries. Weights are based on the trade shares reflecting the relative importance of each currency in each of the currency baskets. The Real Effective Exchange Rate (REER) is computed by adjusting the NEER for inflation differentials with respect to each currency in the basket. A minus sign indicates depreciation. CCPI was used for REER computation.

(c) The exchange rates have been defined in terms of indices so that the appreciation/depreciation of the rupee relative to other currencies is directly reflected by a rise/fall in the values of the effective exchange rate indices, respectively.

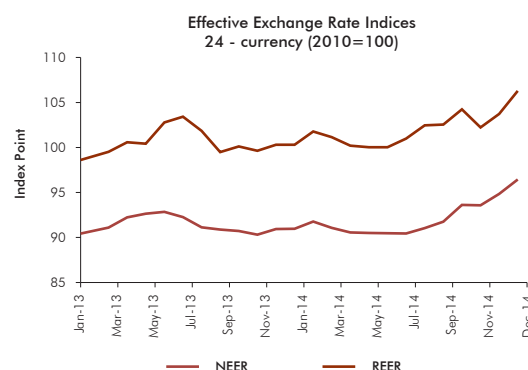
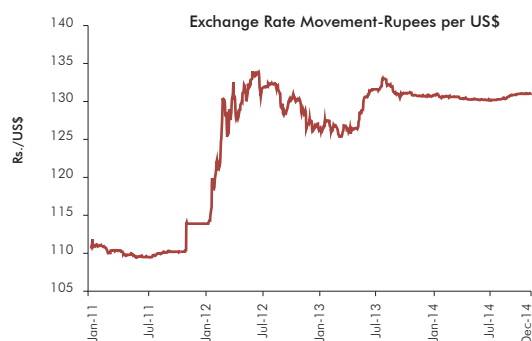
remittances and other financial inflows on account of international sovereign bonds, government securities, foreign loans to the government and private sector and foreign investment in the CSE. Accordingly, the rupee appreciated by 0.29 per cent against the US dollar by the end of the third quarter of 2014. However, with increased import demand and net outflows associated with the government securities market exerted pressure on the Sri Lankan rupee in the last quarter of 2014 to depreciate by 0.47 per cent against the US dollar resulting in an overall annual depreciation of 0.23

per cent. Accordingly, the year end and annual average exchange rates against the US dollar stood at Rs. 131.05 and Rs. 130.56, respectively.

**The Sri Lankan rupee appreciated against all other major currencies in 2014.** The rupee appreciated against the Japanese yen (13.48 per cent), the euro (13.19 per cent), the pound sterling (5.65 per cent) and the Indian rupee (2.13 per cent) reflecting the movements in the cross currency exchange rates against the US dollar in international markets. Accordingly, the rupee also appreciated against the SDR by 6.05 per cent by end 2014.

Chart 5.13

## Exchange Rate Movements





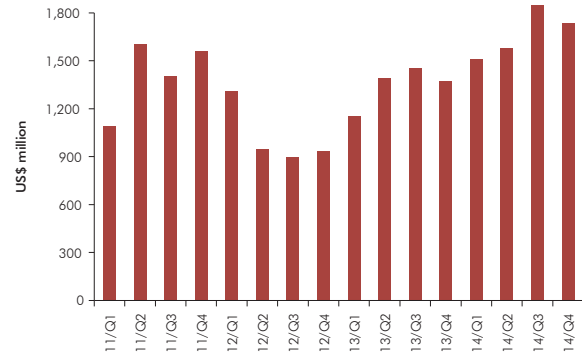
### 5.11.1 Nominal and Real Effective Exchange Rates

The **Nominal Effective Exchange Rate (NEER) and the Real Effective Exchange Rate (REER) indices appreciated further in 2014**. The NEER based on the 5-currency and 24-currency baskets appreciated equally by 6.02 per cent reflecting the nominal appreciation of the Sri Lanka rupee against the major currencies in the currency baskets. The REER, which takes the changes in the inflation differentials between Sri Lanka and its trading partners into account, showed an appreciation in the 5-currency and 24-currency baskets by 6.47 per cent and 5.97 per cent, respectively. This appreciation of the REER can be attributed to the appreciation of the NEER as well as the relatively high domestic inflation in comparison to Sri Lanka's trading partners and competitors.

### 5.11.2 Developments in the Domestic Foreign Exchange Market

The volume of transactions in the domestic foreign exchange market increased in 2014. The expansion in international trade, workers' remittances and tourist earnings as well as transactions in the financial account of the BOP contributed to the increase in inward volumes in the domestic foreign exchange market. Accordingly, total volume of spot transactions increased to US dollars 8,804 million (56.9 per cent of total transactions) in 2014, compared to US dollars 8,332 million in 2013. Further, total volume of forward transactions also increased to US dollars 6,672 million in 2014 from US dollars 5,373 million in 2013. Overall, the volume of inter-bank foreign exchange transactions increased to US dollars 15,475 million during

Chart 5.14 Quarterly Inter-Bank Forward Transaction Volumes



2014 compared to US dollars 13,706 million in 2013. Meanwhile, during 2014, the Central Bank intervention in the domestic foreign exchange market was instrumental in order to maintain stability in the market. Accordingly, the Central Bank absorbed US dollars 1,407 million from the domestic foreign exchange market and supplied US dollars 862 million resulting in a net absorption of US dollars 545 million.

**Forward premia for one month, three months and six months on average remained lower than interest rate differentials during 2014, indicating the market expectation of further inflows into the foreign exchange market in the short term.** However, forward premia for one month on average was higher than the interest rate differential in the last month of the year indicating expected depreciation of the rupee against the US dollar. Meanwhile, commercial banks maintained the net open positions (NOP) at minimum but negative levels in the most part of 2014. However, during the last quarter of 2014, the NOP turned positive, on average, indicating the market expectation of depreciation of the rupee against the US dollar.