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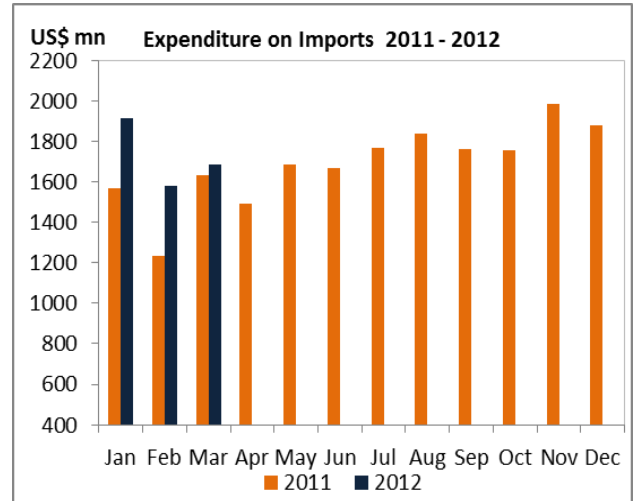
Press Release

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External Sector Performance - March 2012

Responding to the policy measures taken in January and February of 2012, the expenditure on imports grew by just 3.9 per cent to US dollars 1,697 million in March 2012, compared to that of the previous year. At the same time, the earnings from exports declined by 10.2 per cent, year-on-year, to US dollars 836 million in March 2012. The trade deficit for the month of March 2012 stood at US dollars 861 million.



The growth in expenditure on imports in March 2012 was primarily driven by the imports of investment goods; particularly transport equipment and building materials.

Imports of intermediate goods declined by 0.5 per cent mainly due to lower expenditure on imports of textiles owing to the substantially lower cotton prices compared to 2011. The expenditure on petroleum imports increased in March 2012, reflecting an increase in the average crude oil import price to US dollars 125.39 per barrel from US dollars 111.31 per barrel in March 2011. Expenditure on imports of refined petroleum products also increased by around 18 per cent as a result of higher prices. However, expenditure on consumer goods imports declined by 4.7 per cent in March 2012, reflecting a decline in expenditure on food imports. Nevertheless, expenditure on imports of dairy products, fruits and beverages increased in March 2012. With respect to imports of non-food consumer goods, personal motor vehicles declined by 1.2 per cent in March 2012 to US dollars 81 million, while the expenditure on medical and pharmaceuticals and clothing and accessories grew by 22.3 per cent and 44.5 per cent, respectively.

Earnings from industrial exports declined in March 2012 led by lower earnings from exports of textiles and garments and petroleum products. Although textiles and garments continued to be the largest export earner, generating US dollars 319 million in March 2012, earnings declined by 11.7 per cent. Earnings from petroleum exports also declined due to the lower bunkering oil exports amidst the higher prices that prevailed in March 2012. However, the higher earnings from exports of rubber products, gems and jewellery and base metals helped cushion the overall decline in export earnings in March 2012. Agricultural exports declined by 10.1 per cent to US dollars 203 million, reflecting declines in all sub categories while earnings from seafood exports increased in March 2012. Despite higher export volumes, earnings from exports of tea and rubber declined due to dampened prices compared to March 2011. Earnings from minor agricultural exports and spices also declined in March 2012 mainly due to the lower export quantities. Seafood exports grew by 13 per cent in March 2012, reflecting higher earnings from fresh fish, processed fish and crustaceans.

In cumulative terms, there has been a marginal decline in export earnings in the first quarter of 2012, reflecting a 3 per cent decline in earnings from textiles and garments exports to US dollars 1,028 million, while earnings from tea exports declined by 12.3

per cent to US dollars 332 million. At the same time, the expenditure on imports for the first quarter of 2012 increased by 17 per cent, compared to the faster growth of 39.2 per cent recorded during the first quarter of 2011.

In the meantime, tourist arrivals in March 2012 increased by 21.3 per cent to 91,102, with arrivals during the first quarter of 2012 amounting to 260,525, reflecting a growth of 21.1 per cent. Earnings from tourism in March 2012 grew at a healthy rate of 28.8 per cent to US dollars 94 million compared to the corresponding month of 2011 and by 28.6 per cent during the first quarter of 2012 to US dollars 268 million. Workers' remittances amounted to US dollars 550 million in March 2012, recording a year-on-year growth of 9.2 per cent compared to US dollars 503 million in March 2011. Cumulative inflows on account of workers' remittances amounted to US dollars 1,493 million during the first quarter of 2012, recording an increase of 17.2 per cent.

In relation to the Capital and Financial Account of the Balance of Payments (BOP), there has been a substantial inflow of foreign exchange, reflecting enhanced global investor confidence in Sri Lanka as an emerging market. Foreign direct investments (FDI) recorded an inflow of US dollars 220 million during the first quarter of 2012, compared to US dollars 197 million over the same period last year. Further, FDI inflows amounted to US dollars 308 million by the first week of May 2012. Portfolio investments, including investments in the Colombo Stock Exchange (CSE), also increased significantly to US dollars 159 million, on a net basis. In addition, foreign borrowings by commercial banks increased, led by the recent international bond issue of US dollars 500 million by the Bank of Ceylon (BOC), which recorded an over-subscription of 7.7 times and a total order value of US dollars 3.86 billion in May 2012. With respect to inflows to other commercial banks, long-term borrowings amounted to US dollars 353 million, and short-term borrowings amounted to US dollars 414 million, by the second week of May 2012. A significant increase has also been shown in foreign investments in Government securities, with net inflows to treasury bills and bonds increasing to US dollars 406 million in the first quarter of 2012, from US dollars 79 million during the first quarter of 2011. This can be mainly attributed to the increase in threshold for foreign investments in December 2011.

Overall, there has been an improvement in the BOP in the first quarter of 2012 compared to the last quarter of 2011. The lower trade deficit, the improved surplus in the services and current transfers and the lower deficit in income account, helped narrow the current account deficit to US dollars 978 million in the first quarter of 2012 compared to a deficit of US dollars 1,695 million in the last quarter of 2011. Strengthened inflows into the Capital and Financial Account also helped increase the net surplus of US dollars 1,170 million in the last quarter of 2011 to US dollars 1,395 million in the first quarter of 2012. With these improvements, the overall BOP deficit of US dollars 1,102 million during the fourth quarter of 2011 is estimated to have narrowed down significantly to US dollars 251 million in the first quarter of 2012.

By end March 2012, gross official reserves, excluding Asian Clearing Union (ACU) balances, amounted to US dollars 5,730 million whereas total external reserves, which include gross official reserves and foreign assets of commercial banks amounted to US dollars 6,957 million. In terms of months of imports, gross official reserves and total external reserves by end March 2012 were equivalent to 3.3 months and 4.0 months, respectively.

The performance of the external sector for the period under consideration is further illustrated in the table below.

External Sector Performance

Category	Mar. 2011 US\$ mn (a)	Mar. 2012 US\$ mn (b)	Growth Mar. (per cent)	Jan. - Mar. 2011 US\$ mn (a)	Jan. - Mar. 2012 US\$ mn (b)	Growth - Jan. - Mar. (per cent)
Exports	930.8	835.7	-10.2	2,670.7	2,633.7	-1.4
Agricultural	226.0	203.2	-10.1	639.5	570.0	-10.9
of which, Tea	131.7	123.4	-6.3	379.1	332.4	-12.3
Industrial	700.3	624.2	-10.9	2,019.5	1,957.7	-3.1
of which, Textiles and garments	361.9	319.4	-11.7	1,059.4	1,027.5	-3.0
Rubber products	74.5	78.5	5.4	203.2	231.9	14.1
Food, beverages and tobacco	24.8	26.4	6.8	84.0	70.0	-16.7
Mineral	4.0	7.5	86.1	9.7	14.2	46.9
Imports	1,634.1	1,697.0	3.9	4,437.9	5,192.6	17.0
Consumer Goods	351.0	334.4	-4.7	901.7	873.1	-3.2
of which, Food and beverages	163.5	131.2	-19.8	431.0	367.0	-14.9
Other consumer goods	187.5	203.2	8.4	470.6	506.1	7.5
Intermediate Goods	971.0	966.1	-0.5	2,644.0	3,010.0	13.9
of which, Petroleum	351.0	408.6	16.4	996.7	1,429.3	43.4
Textile and clothing	202.3	186.2	-7.9	560.1	527.0	-5.9
Investment Goods	307.2	395.3	28.7	879.4	1,298.4	47.6
of which, Machinery and equipment	157.7	159.1	0.9	442.6	571.0	29.0
Transport equipment	71.6	137.8	92.4	211.0	399.7	89.4
Building materials	77.6	98.2	26.4	224.9	326.4	45.2
Balance of Trade	-703.4	-861.3	22.5	-1,767.2	-2,558.9	44.8
Workers' Remittances	503.4	549.8	9.2	1,273.7	1,492.9	17.2
Earnings from Tourism	72.9	93.8	28.8	208.7	268.3	28.6
Inflows to the Government	368.5	343.4	-6.8	727.3	1,162.5	59.8

Sources: Central Bank of Sri Lanka and Sri Lanka Customs

- (a) Revised
(b) Provisional