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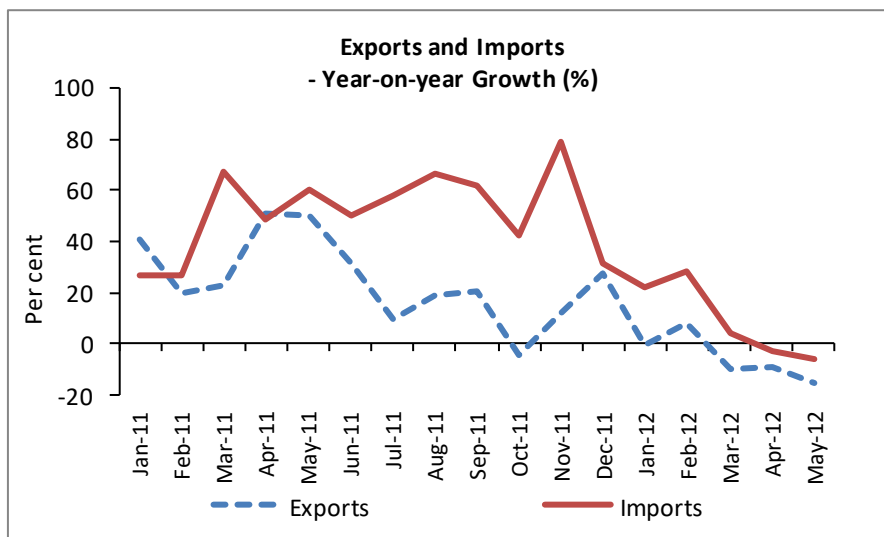
# Press Release

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## External Sector Performance - May 2012

The trade deficit decelerated further in May 2012, having narrowed in the previous three months. It recorded the lowest increase in 18 months, in May 2012, increasing moderately by 2.1 per cent, year-on-year. Responding to the policy measures taken in the first quarter of 2012, expenditure on imports continued to decline in May 2012 and amounted to US dollars 1,575 million, thus recording a year-on-year decline of 6.4 per cent. Earnings from exports, driven largely by lower international market prices for several major export items, recorded a year-on-year decline of 15.1 per cent and amounted to US dollars 710 million in May 2012.



Expenditure on imports declined in May 2012 due to reduced expenditure on both intermediate and consumer goods imports. Expenditure on consumer goods imports declined by 11 per cent in May 2012, with expenditure on non-food consumer goods imports driving the decline. Expenditure on imports of non-food consumer goods declined by 15 per cent as expenditure on personal motor vehicle imports declined by 31.1 per cent in May 2012 to US dollars 57 million. Import expenditure on medical and pharmaceutical items and household and furniture items grew by 11.1 per cent and 15.7 per cent, respectively. In the food category, import expenditure on vegetables, sea food and spices declined significantly. The decline in expenditure on intermediate goods imports was mainly due to the decline in crude oil imports by 51 per cent reflecting lower volumes of imports and the marginal decline in crude oil prices. The average crude oil import price declined to US dollars 110.73 per barrel from US dollars 111.50 per barrel in May 2011. Meanwhile, imports of textiles declined by 3 per cent while imports of diamonds and precious stones, base metals and fertiliser increased. Expenditure on imports of investment goods increased by 11.4 per cent, year-on-year, in May 2012, underpinned by the on-going development activity. Within investment goods imports, imports of building material as well as machinery and equipment recorded an increase. However, the growth in expenditure on transport equipment decelerated to 2 per cent in May 2012.

With respect to earnings from exports, declining global prices of some major commodities mainly contributed to the lower earnings from industrial exports which recorded a decline of 16.2 per cent in May 2012. Export earnings from textiles and garments declined by 13.5 per cent mainly due to lower export prices, reflecting lower cotton prices in the international market. Export earnings from gems, diamonds and jewellery however, grew by 45.4 per cent while export earnings from chemical products grew by 15.8 per cent in May 2012. Agricultural exports declined by 11.5 per cent to US dollars 174 million, reflecting lower prices in the international market for tea, rubber and coconut. Earnings from the export of cinnamon, pepper, cereals and fruit however, increased in May 2012.

In cumulative terms, expenditure on imports in the first five months of 2012 grew moderately by 7.8 per cent to US dollars 8,208 million. This reflected a 20.3 per cent increase in expenditure on petroleum imports and a 34.6 per cent increase in expenditure on investment goods imports. Earnings from exports during this period declined by 5.4 per cent reflecting a 4.9 per cent decline in earnings from textiles and garments exports and a decline of 10.8 per cent in earnings from tea exports.

With respect to inflows to the services account of the balance of payments, earnings from tourism in May 2012 grew at a healthy rate of 20.6 per cent, year-on-year, to US dollars 57 million, while during the first five months of 2012, earnings from tourism grew by 24.9 per cent, year-on-year, to US dollars 397 million. Tourist arrivals in May 2012 increased by 17.5 per cent to 57,506, raising tourist arrivals during the first five months of 2012 to 387,622. Workers' remittances continued to grow at a robust rate of over 20 per cent, year-on-year, to US dollars 507 million in May 2012, while cumulative inflows on account of workers' remittances during the first five months of 2012 increased by 17.7 per cent to US dollars 2,475 million. Hence, net current transfers continued to help cushion the current account of the balance of payments.

There have been substantial foreign currency inflows to the capital and financial account of the balance of payments during the first half of 2012. Foreign direct investment (FDI) inflows to major projects during the first five months of 2012 are estimated at US dollars 437 million. Investments at the Colombo Stock Exchange increased by US dollars 187 million, on a net basis, by end June 2012. In addition, long-term borrowings by commercial banks during January-June 2012 amounted to US dollars 927.5 million. A significant increase has also been seen in foreign investments in Government securities, with net inflows to Treasury bills and Treasury bonds during the first six months of 2012 amounting to US dollars 441 million. Further, long-term inflows to the Government amounted to US dollars 633 million during the first five months of 2012.

Gross official reserves amounted to US dollars 5,815 million by end May 2012, while total international reserves, which include gross official reserves and foreign assets of commercial banks amounted to US dollars 7,695 million. In terms of months of imports, gross official reserves were equivalent to 3.4 months of imports by end May 2012 while total reserves were equivalent to 4.5 months of imports. In the meantime, with the receipt of the ninth and final tranche of US dollars 415 million under the Stand-by Arrangement (SBA) facility and the proceeds of the fifth international sovereign bond of US dollars 1,000 million, gross official reserves are expected to increase substantially by end July 2012.

The performance of the external sector during the period under consideration is further illustrated by the table below.

## A Summary of External Sector Performance – May 2012

Category	May 2011 US\$ mn (a)	May 2012 US\$ mn (b)	Growth May (per cent)	Jan. – May 2011 US\$ mn (a)	Jan. – May 2012 US\$ mn (b)	Growth - Jan. – May (per cent)
<b>Exports</b>	<b>836.1</b>	<b>710.1</b>	<b>-15.1</b>	<b>4,255.5</b>	<b>4,023.9</b>	<b>-5.4</b>
Agricultural	196.8	174.1	-11.5	1,012.7	893.7	-11.8
of which, tea	117.5	109.0	-7.3	594.3	530.1	-10.8
Industrial	636.3	533.5	-16.2	3,225.0	3,011.2	-6.6
of which, Textiles and garments	321.7	278.2	-13.5	1,683.3	1,601.2	-4.9
Rubber products	78.1	64.1	-17.9	336.2	353.9	5.3
Food, beverages and tobacco	32.5	20.3	-37.5	137.6	109.9	-20.2
Mineral	2.2	1.8	-19.6	14.1	25.9	83.9
<b>Imports</b>	<b>1,683.2</b>	<b>1,575.0</b>	<b>-6.4</b>	<b>7,611.5</b>	<b>8,208.1</b>	<b>7.8</b>
Consumer Goods	301.6	268.5	-11.0	1,481.3	1,383.5	-6.6
of which, Food and beverages	125.6	119.0	-5.3	674.3	582.0	-13.7
Other consumer goods	176.0	149.5	-15.0	806.9	801.6	-0.7
Intermediate Goods	1,080.8	972.5	-10.0	4,632.9	4,821.0	4.1
of which, Petroleum	469.2	376.6	-19.7	1,802.8	2,168.1	20.3
Textile and textile articles	200.5	194.5	-3.0	954.6	903.8	-5.3
Investment Goods	297.9	331.9	11.4	1,477.6	1,989.2	34.6
of which, Machinery and equipment	150.1	164.5	9.6	751.4	920.0	22.4
Transport equipment	71.6	73.4	2.5	347.4	555.6	59.9
Building material	76.0	93.7	23.3	377.3	511.9	35.7
<b>Balance of Trade</b>	<b>-847.1</b>	<b>-865.0</b>	<b>2.1</b>	<b>-3,356.0</b>	<b>-4,184.2</b>	<b>24.7</b>
<b>Workers' Remittances</b>	<b>414.5</b>	<b>507.1</b>	<b>22.4</b>	<b>2,103.0</b>	<b>2,475.2</b>	<b>17.7</b>
<b>FDI (c)</b>					<b>437.0</b>	
<b>Portfolio Investments (Net) (d)</b>	<b>-7.1</b>	<b>4.7</b>	<b>166.2</b>	<b>-66.8</b>	<b>186.5</b>	<b>379.2</b>
<b>Commercial Banks' Long-term Foreign Currency Borrowings (e)</b>					<b>927.5</b>	
<b>Earnings from Tourism</b>	<b>47.5</b>	<b>57.3</b>	<b>20.6</b>	<b>318.1</b>	<b>397.1</b>	<b>24.9</b>
<b>In flows to the Government</b>	<b>119.01</b>	<b>271.52</b>	<b>128.2</b>	<b>952.9</b>	<b>1,746.1</b>	<b>83.2</b>

Sources: Central Bank of Sri Lanka and Sri Lanka Customs

(a) Revised.

(b) Provisional.

(c) Estimated FDI inflows to major projects (including loans) are for the period January-May 2012. This estimate may be revised based on the survey conducted by the BOI.

(d) Net Portfolio investments are recorded for June and cumulative figures are for January- June of respective years.

(e) Commercial Banks' Long-term Foreign Currency Borrowings during the period January- June 2012.