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CENTRAL BANK OF SRI LANKA

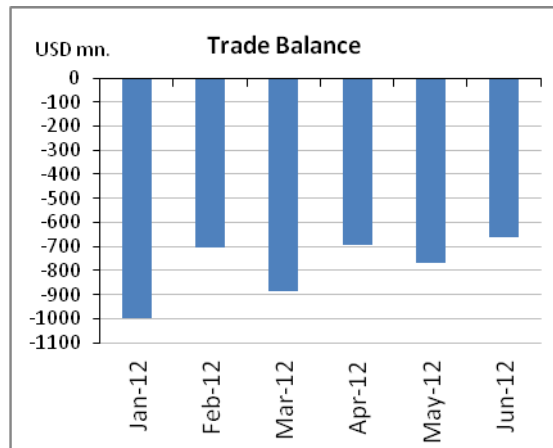
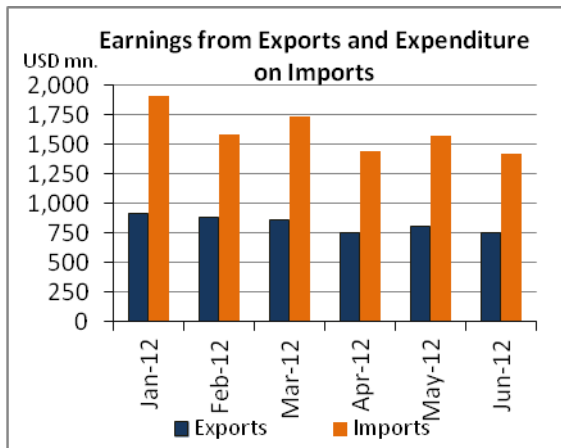
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# Press Release

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## External Sector Performance – June 2012

Policies adopted by the Central Bank and the government earlier in the year have helped contain the deficit in the trade balance of the balance of payments substantially in June and across the second quarter of 2012. The deficit in the trade balance, which was US dollars 848 million in June 2011 and US dollars 942 million in December 2011, was substantially lower in June 2012, amounting to US dollars 663 million. This is the lowest level recorded by the trade balance since February 2011.



Expenditure on imports, which had decreased on a year-on-year basis since April 2012, recorded a further decline of 15 per cent, year-on-year, in June 2012, as expenditure on several categories of imports, which had contributed significantly to the expansion of the trade deficit last year, declined. As in the previous month, expenditure on imports of motor vehicles and gold contracted in June too. Expenditure on imports of motor vehicles and gold declined, by 58.9 per cent and 71.1 per cent, respectively. A reduction was also noted in respect of import expenditure on wheat and rubber based products, within intermediate goods. Amongst other intermediate goods imports which helped bring down expenditure on imports in June was crude oil, reflecting the impact of lower world market prices for crude oil. Meanwhile, investment goods imports, which had continued to record strong growth in preceding months, also recorded a decline in June 2012.

With respect to exports, as in the case of many other Asian countries including India and Thailand, Sri Lanka's export earnings have also slowed down in recent months. The marked decline in the prices of commodities such as cotton and rubber in international markets has been a significant factor contributing to the decrease in Sri Lanka's export earnings in recent months. Meanwhile, in the face of dampening global demand along with faltering economic activity, particularly in the European region, lower demand for certain products such as rubber based products, has adversely impacted on some exports, by June. Nevertheless, exports of apparel, which have the largest share in exports, have sustained demand in major markets and are therefore expected to remain firm in volume terms.

In the meantime, Sri Lanka Customs has revised data on external trade during the preceding two months. Table 1 sets out the revised data in respect of key categories of exports and imports as well as the trade balance of the balance of payments. Following this revision, exports in April and May totalled US dollars 1,553.7 million, which is US dollars 163.5 million higher than the amounts published earlier this year. Accordingly, the deficit in the trade balance has also declined by a similar amount, as at May 2012.

**Table 1. External Trade – 2012<sup>a</sup>**

	USD million						
	Jan. 2012	Feb. 2012	Mar. 2012	Apr. 2012	May 2012	Jun. 2012	Jan-Jun 2012
<b>Exports</b>	<b>919.2</b>	<b>878.8</b>	<b>857.4</b>	<b>747.8</b>	<b>805.9</b>	<b>755.8</b>	<b>4,965.0</b>
<i>of which,</i>							
<b>Agricultural products</b>	<b>181.5</b>	<b>185.3</b>	<b>208.7</b>	<b>177.2</b>	<b>212.4</b>	<b>178.2</b>	<b>1,143.3</b>
<i>of which,</i>							
Tea	103.9	105.1	126.7	105.2	139.7	101.4	682.0
<b>Industrial products</b>	<b>703.0</b>	<b>630.5</b>	<b>640.2</b>	<b>559.9</b>	<b>590.6</b>	<b>574.5</b>	<b>3,698.7</b>
<i>of which,</i>							
Textiles and garments	366.6	341.5	328.1	323.2	312.3	310.6	1,982.3
Rubber products	78.2	75.2	80.6	61.5	74.0	64.0	433.5
Food, beverages and tobacco	20.8	22.8	27.2	23.3	25.3	19.8	139.2
<b>Mineral products</b>	<b>2.6</b>	<b>4.1</b>	<b>7.7</b>	<b>9.9</b>	<b>2.3</b>	<b>2.4</b>	<b>29.0</b>
<b>Imports</b>	<b>1,915.0</b>	<b>1,580.7</b>	<b>1,736.4</b>	<b>1,440.4</b>	<b>1,575.0</b>	<b>1,419.0</b>	<b>9,666.5</b>
<i>of which,</i>							
<b>Consumer Goods</b>	<b>287.7</b>	<b>251.0</b>	<b>343.4</b>	<b>242.0</b>	<b>268.5</b>	<b>230.9</b>	<b>1,623.5</b>
<i>of which,</i>							
Food and beverages	124.5	111.4	134.7	96.0	119.0	108.0	693.6
Other consumer goods	163.2	139.6	208.7	145.9	149.5	122.9	929.9
<b>Intermediate Goods</b>	<b>1,096.5</b>	<b>947.4</b>	<b>985.8</b>	<b>838.5</b>	<b>972.5</b>	<b>914.2</b>	<b>5,754.8</b>
<i>of which,</i>							
Petroleum	515.1	505.6	414.8	362.2	376.6	400.1	2,574.5
Textiles and textile articles	203.0	137.8	191.3	182.3	194.5	192.8	1,101.6
<b>Investment Goods</b>	<b>523.3</b>	<b>379.7</b>	<b>406.0</b>	<b>359.0</b>	<b>331.9</b>	<b>272.4</b>	<b>2,272.3</b>
<i>of which,</i>							
Machinery and equipment	250.3	161.6	163.4	184.5	164.5	127.8	1,052.0
Transport equipment	144.7	117.2	141.5	82.5	73.4	53.2	612.5
Building material	127.7	100.6	100.8	91.8	93.7	91.1	605.7
<b>Balance of Trade</b>	<b>-995.8</b>	<b>-701.8</b>	<b>-878.9</b>	<b>-692.6</b>	<b>-769.1</b>	<b>-663.2</b>	<b>-4,701.5</b>

<sup>a</sup> Provisional

With regard to inflows to the services account of the balance of payments, earnings from tourism in June 2012 grew by 20.6 per cent, year-on-year, to US dollars 63 million, while during the first six months of 2012, earnings from tourism have grown at a robust rate of 24.3 per cent, year-on-year, to US dollars 460 million. The number of tourists visiting Sri Lanka totalled 65,245 in June 2012, an increase of 21.6 per cent, raising tourist arrivals during the first six months of 2012 to 452,867.

Workers' remittances grew by 12.1 per cent, year-on-year, to US dollars 452 million in June 2012, while cumulative inflows on account of workers' remittances during the first six months of 2012 increased by 17.4 per cent to US dollars 2,942 million. Accordingly, net current transfers have continued to help buttress the current account of the balance of payments.

There have also 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 during the first six months of 2012 are estimated at US dollars 452 million. The BOI is confident that FDI inflows during the year 2012 as a whole would reach the targeted level of US dollars 2 billion. Foreign 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 seven months of 2012 amounting to US dollars 842 million. Further, long-term inflows to the Government amounted to US dollars 1,084 million during the first six months of 2012.

Gross official reserves amounted to US dollars 6,045 million by end June 2012, while total international reserves, which include gross official reserves and foreign assets of commercial banks amounted to US dollars 7,415 million. In terms of months of imports, gross official reserves were equivalent to 3.5 months of imports by end June 2012 while total reserves were equivalent to 4.3 months of imports. In the meantime, with the receipt of the ninth and final tranche of US dollars 414 million under the IMF-Stand-by Arrangement (SBA) facility, proceeds from the fifth international sovereign bond of US dollars 1 billion and other foreign inflows, gross official reserves are estimated to have risen to around US dollars 7.1 billion by end July 2012.

**Table 2. A Summary of External Sector Performance - June 2012 <sup>a</sup>**

Category	June 2011 US\$ mn	June 2012 US\$ mn	Growth June (%)	Jan. - Jun. 2011 US\$ mn	Jan. - Jun. 2012 US\$ mn	Growth Jan. - Jun. (%)
<b>Exports</b>	<b>820.4</b>	<b>755.8</b>	<b>-7.9</b>	<b>5,075.9</b>	<b>4,965.0</b>	<b>-2.2</b>
<i>Of which</i>						
<b>Agricultural Products</b>	<b>201.8</b>	<b>178.2</b>	<b>-11.7</b>	<b>1,214.4</b>	<b>1,143.3</b>	<b>-5.9</b>
<i>of which,</i>						
Tea	117.3	101.4	-13.6	711.6	682.0	-4.2
<b>Industrial Products</b>	<b>615.9</b>	<b>574.5</b>	<b>-6.7</b>	<b>3,840.9</b>	<b>3,698.7</b>	<b>-3.7</b>
<i>of which,</i>						
Textiles and garments	331.4	310.6	-6.3	2,014.6	1,982.3	-1.6
Rubber products	75.3	64.0	-15.0	411.5	433.5	5.3
Food, beverages and tobacco	31.1	19.8	-36.2	168.7	139.2	-17.5
<b>Mineral Products</b>	<b>2.2</b>	<b>2.4</b>	<b>10.9</b>	<b>16.2</b>	<b>29.0</b>	<b>78.6</b>
<b>Imports</b>	<b>1,668.6</b>	<b>1,419.0</b>	<b>-15.0</b>	<b>9,280.1</b>	<b>9,666.5</b>	<b>4.2</b>
<i>Of which</i>						
<b>Consumer Goods</b>	<b>310.2</b>	<b>230.9</b>	<b>-25.6</b>	<b>1,791.5</b>	<b>1,623.5</b>	<b>-9.4</b>
<i>of which,</i>						
Food and beverages	142.8	108.0	-24.3	817.1	693.6	-15.1
Other consumer goods	167.5	122.9	-26.6	974.4	929.9	-4.6
<b>Intermediate Goods</b>	<b>1,010.7</b>	<b>914.2</b>	<b>-9.6</b>	<b>5,643.6</b>	<b>5,754.8</b>	<b>2.0</b>
<i>of which,</i>						
Petroleum	343.9	400.1	16.3	2,146.8	2,574.5	19.9
Textile and textile articles	202.8	192.8	-4.9	1,157.4	1,101.6	-4.8
<b>Investment Goods</b>	<b>344.9</b>	<b>272.4</b>	<b>-21.0</b>	<b>1,822.4</b>	<b>2,272.3</b>	<b>24.7</b>
<i>of which,</i>						
Machinery and equipment	170.6	127.8	-25.1	922.0	1,052.0	14.1
Transport equipment	77.5	53.2	-31.4	424.9	612.5	44.2
Building material	96.4	91.1	-5.4	473.6	605.7	27.9
<b>Balance of Trade</b>	<b>-848.2</b>	<b>-663.2</b>	<b>-21.8</b>	<b>-4,204.2</b>	<b>-4,701.5</b>	<b>11.8</b>
<b>Workers' Remittances</b>	<b>403.5</b>	<b>452.3</b>	<b>12.1</b>	<b>2,506.6</b>	<b>2,942.4</b>	<b>17.4</b>
<b>FDI</b>				<b>394.1</b>	<b>451.7</b>	<b>14.6</b>
<b>Portfolio Investments (Net)</b>	<b>-7.1</b>	<b>4.7</b>	<b>166.2</b>	<b>-66.7</b>	<b>186.5</b>	<b>379.6</b>
<b>Commercial Banks' Long-term Foreign Currency Borrowings</b>					<b>927.5</b>	
<b>Earnings from Tourism</b>	<b>52.0</b>	<b>62.8</b>	<b>20.8</b>	<b>370.1</b>	<b>459.9</b>	<b>24.3</b>
<b>Inflows to the Government (b)</b>	<b>557.7</b>	<b>454.2</b>	<b>-18.6</b>	<b>1,510.6</b>	<b>2,277.5</b>	<b>50.8</b>

(a) Provisional

(b) Inflows to the Government include capital and current transfers to the government, inflows from sale of Treasury Bills and Treasury Bonds and long term loans of the Government.