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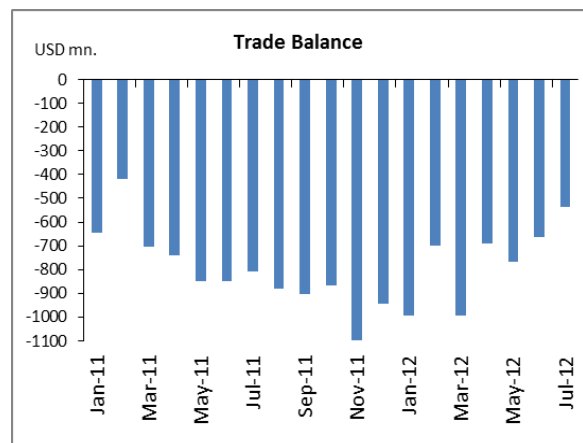
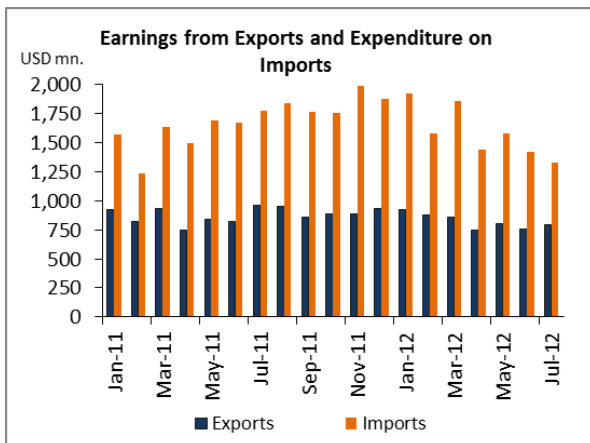
# Press Release

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## External Sector Performance - July 2012

Policies adopted by the Central Bank and the government earlier in the year have led to a significant deceleration in expenditure on imports by July 2012, thereby helping contain the deficit in the trade balance of the balance of payments. The deficit in the trade balance declined by 33.8 per cent, year-on-year, to US dollars 535 million in July 2012, the lowest level recorded in 17 months.



Expenditure on imports, which had decreased on a year-on-year basis since April 2012, recorded a decline of 24.9 per cent, year-on-year, in July 2012, as expenditure on several categories of imports, which had contributed significantly to the expansion of the trade deficit last year, continued to decline. Measures taken by the government and the Central Bank earlier in the year to rein in the high growth of both credit and imports are likely to have led to the decline in expenditure on imports of these items. In value terms, expenditure on imports in July 2012 is the lowest recorded since March 2011. Amongst the import categories classified under consumer goods that made a relatively high contribution to this decline were motor vehicles. Expenditure on imports of motor vehicles has declined by 62.4 per cent, year-on-year, in July. With regard to intermediate goods, significant declines were noted in respect of import expenditure in relation to fertiliser, gold, wheat and rubber based products. As in June, expenditure on investment goods imports recorded a decline in July 2012 too, although for the first seven months of 2012, investment goods have recorded an increase on a year-on-year basis. Expenditure on investment goods imports in July declined by 20.6 per cent, year-on-year.

As in the case of Asian as well as other countries around the world facing weaker global demand, Sri Lanka's export earnings have also slowed down in recent months, although on a month-on-month basis, export earnings have recorded an increase from June to July 2012. In addition to weaker global demand, the marked decline in the prices of commodities such as cotton and rubber in international markets has contributed significantly to the decrease in Sri Lanka's export earnings in recent months. Further, the base effect, that is, the fact that export earnings were at a historically high level of US dollars 962 million in July 2011 has also led to the relatively large drop in export earnings in July 2012. Earnings from exports in July 2012 have declined by 17.4 per cent, year-on-year, to US dollars 794 million. With respect to industrial exports, textiles and garments; transport equipment; and rubber based products were amongst items that contributed significantly to the drop in export earnings in July. A drop in earnings from tea exports also contributed to the decline in export earnings on a year-on-year basis in July 2012.

With regard to the services account and current transfers in the Balance of Payments (BOP), earnings from tourism and workers' remittances continued to hold up, cushioning the current account of the BOP. Particularly, earnings from tourism in July 2012 grew by 23.6 per cent, year-on-year, to US dollars 100 million, while during the first seven months of 2012, earnings from tourism have grown at a rate of 24.2 per cent, year-on-year, to US dollars 560 million. The number of tourists visiting Sri Lanka totalled 90,338 in July 2012, an increase of 7.8 per cent, raising tourist arrivals during the first seven months of 2012 to 543,205. Workers' remittances grew by 14.4 per cent, year-on-year, to US dollars 475 million in July 2012, while cumulative inflows on account of workers' remittances during the first seven months of 2012 increased by 17.0 per cent to US dollars 3,417 million.

Foreign currency inflows to the financial market continued to strengthen the capital and financial account of the BOP during the first seven months of 2012. Foreign investments at the Colombo Stock Exchange increased by US dollars 227 million, on a net basis, by end August 2012, while there has been a significant increase in foreign investments in Government securities, with net inflows to Treasury bills and Treasury bonds during the first eight months of 2012 amounting to US dollars 810 million. Further, long-term inflows to the Government amounted to US dollars 2,169 million during the first seven months of 2012. In addition, long-term borrowings by commercial banks during January-August 2012 amounted to US dollars 927.5 million. Meanwhile, Foreign Direct Investment (FDI) inflows, including foreign loans to BOI companies, of which data becomes available only quarterly, recorded an inflow of US dollars 452 million during the first six months of 2012 and more inflows are expected to materialise during the year.

Gross official reserves amounted to US dollars 7,099 million by end July 2012, while total international reserves, which include gross official reserves and foreign assets of commercial banks amounted to US dollars 8,744 million.

**Table 1. A Summary of External Sector Performance - July 2012<sup>a</sup>**

Category	July 2011 US\$ mn	July 2012 US\$ mn	Growth July (%)	Jan. - July 2011 US\$ mn	Jan. - July 2012 US\$ mn	Growth Jan. - July (%)
<b>Exports</b>	<b>962.1</b>	<b>794.4</b>	<b>-17.4</b>	<b>6,038.0</b>	<b>5,763.0</b>	<b>-4.6</b>
<i>Of which</i>						
<b>Agricultural Products</b>	218.0	192.3	-11.8	1,432.5	1,335.6	-6.8
<i>of which,</i>						
Tea	129.1	112.8	-12.6	840.8	794.8	-5.5
<b>Industrial Products</b>	741.4	598.5	-19.3	4,582.3	4,300.8	-6.1
<i>of which,</i>						
Textiles and garments	383.3	328.2	-14.4	2,397.9	2,310.4	-3.6
Rubber products	80.7	69.1	-14.4	492.2	502.6	2.1
Food, beverages and tobacco	31.8	21.6	-31.9	200.5	160.8	-19.8
<b>Mineral Products</b>	2.6	2.8	5.9	18.8	31.7	68.5
<b>Imports</b>	<b>1,769.8</b>	<b>1,329.1</b>	<b>-24.9</b>	<b>11,049.9</b>	<b>11,112.8</b>	<b>0.6</b>
<i>Of which</i>						
<b>Consumer Goods</b>	300.0	237.4	-20.9	2,091.5	1,860.9	-11.0
<i>of which,</i>						
Food and beverages	116.6	111.6	-4.2	933.7	805.2	-13.8
Other consumer goods	183.4	125.8	-31.4	1,157.8	1,055.7	-8.8
<b>Intermediate Goods</b>	1,075.9	780.8	-27.4	6,719.5	6,652.8	-1.0
<i>of which,</i>						
Petroleum	449.1	211.1	-53.0	2,595.9	2,902.8	11.8
Textile and textile articles	182.6	195.6	7.1	1,340.0	1,297.2	-3.2
<b>Investment Goods</b>	388.2	308.4	-20.6	2,210.7	2,580.7	16.7
<i>of which,</i>						
Machinery and equipment	189.4	147.4	-22.2	1,111.3	1,199.4	7.9
Transport equipment	97.8	68.9	-29.6	522.7	681.4	30.3
Building material	100.9	91.8	-9.0	574.5	697.5	21.4
<b>Balance of Trade</b>	<b>-807.7</b>	<b>-534.6</b>	<b>-33.8</b>	<b>-5,011.9</b>	<b>-5,349.8</b>	<b>6.7</b>
<b>Workers' Remittances</b>	<b>415.4</b>	<b>475.0</b>	<b>14.4</b>	<b>2,922.0</b>	<b>3,417.4</b>	<b>17.0</b>
<b>FDI (b)</b>				<b>394.1</b>	<b>451.7</b>	<b>14.6</b>
<b>Portfolio Investments (Net)</b>	<b>-7.3</b>	<b>18.6</b>	<b>354.4</b>	<b>-74.0</b>	<b>205.1</b>	<b>377.1</b>
<b>Commercial Banks' Long-term Foreign Currency Borrowings</b>					<b>927.5</b>	
<b>Earnings from Tourism</b>	<b>81.3</b>	<b>100.5</b>	<b>23.6</b>	<b>451.4</b>	<b>560.4</b>	<b>24.2</b>
<b>Inflows to the Government (c)</b>	<b>1,302.2</b>	<b>1,659.2</b>	<b>27.4</b>	<b>2,812.7</b>	<b>3,958.4</b>	<b>40.7</b>
<i>of which, Treasury Bills and Treasury Bonds</i>	<b>184.4</b>	<b>573.6</b>	<b>211.1</b>	<b>595.4</b>	<b>1,725.0</b>	<b>189.7</b>

(a) Provisional

(b) FDI inflows, including foreign loans to BOI companies, recorded for the first half of each year

(c) 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