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Press Release

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External Sector Performance - August 2012

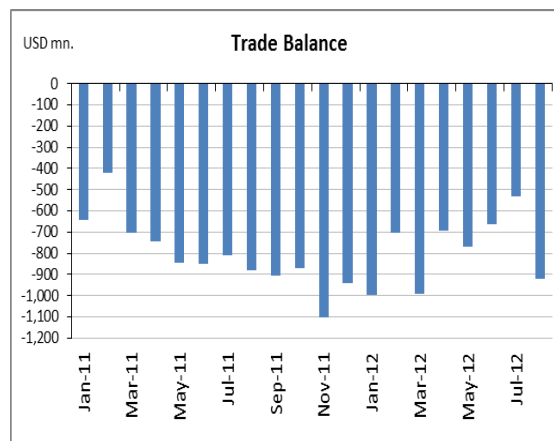
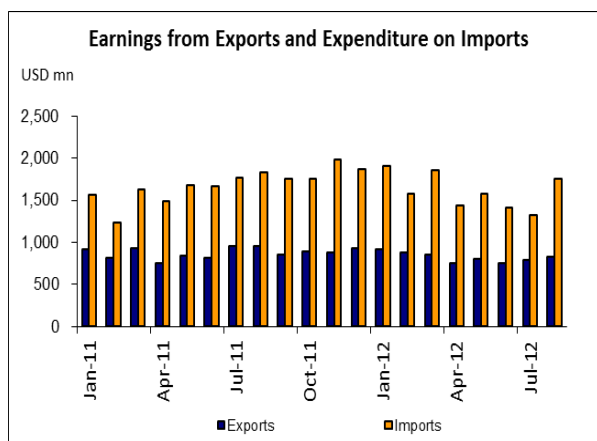
The decelerating trend in the trade balance continued into August 2012. The trade balance recorded a year-on-year increase of 6.3 per cent for the first eight months of 2012. The deceleration in the trade balance reflects the decline in imports since April this year, amidst the slowing down of exports. Policy measures adopted by the government and the Central Bank earlier this year have resulted in imports declining from the high levels recorded for last year. Waning global demand along with faltering global economic activity, as well as lower prices for several key items exported in view of the sharp decline in the prices of commodities such as cotton and rubber, which constitute key inputs into these exports, have resulted in exports slowing down.

In August 2012, expenditure on imports of both consumer goods and intermediate goods declined while expenditure on imports of investment goods recorded an increase, on a year-on-year basis. The decline in consumer goods imports led the overall decline in imports. While expenditure on imports of food and beverages as well as non-food consumer goods declined, vehicle imports, which declined by 54

per cent, year-on-year, made the largest contribution towards the decline in expenditure on consumer goods imports. With respect to imports of intermediate goods, expenditure on imports of textiles, which have accounted for about 10 per cent of total imports, decreased in August, partly reflecting the lower prices in the world market for cotton. Amongst other items classified under imports of intermediate goods, diamonds, gold and other precious and semi-precious metals; chemical products; and plastic articles; were items which made a significant contribution towards the decline in expenditure on imports. Fertiliser imports, which increased in value terms by nearly 72 per cent, year-on-year, and amounted to around US dollars 77 million; and imports of petroleum, which increased marginally by 0.8 per cent, year-on-year, meanwhile, negated to some extent the decline in expenditure on imports as a result of lower expenditure on the aforementioned items. Expenditure on imports of investment goods which declined in the previous two months reversed in August and grew by 9.9 per cent, with expenditure on machinery and equipment growing by 25.3 per cent.

On a month-on-month basis, expenditure on imports has recorded an increase from July to August. In US dollar terms, imports increased from US dollars 1,325 million in July 2012 to US dollars 1,750 million in August 2012. Increased expenditure on imports in August was largely due to the increased expenditure on petroleum products, particularly refined petroleum, in view of the closure of the refinery in July for periodic maintenance purposes. A significant increase in import expenditure on machinery also contributed to the increased expenditure on imports in August 2012.

The decline in export earnings in August 2012 was driven by exports of both industrial goods and agricultural goods. The decline in earnings from exports of garments, which account for about 40 per cent of total exports; food, beverages and tobacco; and printing industry products mainly accounted for the decline in earnings from industrial exports. The decline in export earnings from tea, rubber and coconuts and coconut based products largely accounted for the decline in earnings from agricultural goods exports.



With regard to the services account and current transfers in the Balance of Payments (BOP), increased earnings from tourism and workers' remittances continued to cushion the current account of the BOP. Earnings from tourism in August 2012 grew by 16.4 per cent, year-on-year, to US dollars 82 million, while during the first eight months of 2012, earnings from tourism have grown at a rate of 23.0 per cent, year-on-year, to US dollars 642 million. The number of tourists visiting Sri Lanka totalled 79,456 in August 2012, an increase of 9.7 per cent, raising tourist arrivals during the first eight months of 2012 to 622,661. Workers' remittances grew by 6.9 per cent, year-on-year, to US dollars 490 million in August 2012, while cumulative inflows on account of workers' remittances during the first eight months of 2012 increased by 15.6 per cent to US dollars 3,907 million.

Foreign currency inflows to the financial market continued to strengthen the capital and financial account of the BOP during the first eight months of 2012. Foreign investments at the Colombo Stock Exchange increased by US dollars 250 million, on a net basis, by end September 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 nine months of 2012 amounting to US dollars 821 million. Further, long-term loans to the government during the first eight months of 2012 amounted to US dollars 2,292 million. In addition, long-term borrowings by commercial banks during January-September 2012 amounted to US dollars 927.5 million. Meanwhile, inflows on account of Foreign Direct Investment (FDI), including foreign loans obtained by BOI companies, of which data become available

only quarterly, amounted to US dollars 452 million for the first six months of 2012 and more inflows are expected to materialise during the year.

Gross official reserves amounted to US dollars 7,053 million by end August 2012, while total international reserves, which include gross official reserves and foreign assets of commercial banks amounted to US dollars 8,694 million. In terms of months of imports, gross official reserves were equivalent to 4.3 months of imports by end August 2012 while total reserves were equivalent to 5.3 months of imports.

Table 1. A Summary of External Sector Performance – August 2012 (a)

Category	August 2011 US\$ mn	August 2012 US\$ mn	Growth August (%)	Jan. – Aug. 2011 US\$ mn	Jan. – Aug. 2012 US\$ mn	Growth Jan. – Aug. (%)
Exports	954.2	828.9	-13.1	6,992.2	6,591.9	-5.7
<i>Of which</i>						
Agricultural Products	245.2	175.3	-28.5	1,677.6	1,510.9	-9.9
<i>of which,</i>						
Tea	142.1	95.7	-32.7	982.9	890.5	-9.4
Industrial Products	704.4	651.0	-7.6	5,286.7	4,951.7	-6.3
<i>of which,</i>						
Textiles and garments	373.4	358.8	-3.9	2,771.3	2,669.3	-3.7
Rubber products	82.5	84.5	2.4	574.7	587.1	2.1
Food, beverages and tobacco	31.5	17.3	-45.2	232.0	178.1	-23.2
Mineral Products	4.4	2.3	-47.4	23.3	34.1	46.5
Imports	1,837.0	1,750.0	-4.7	12,887.0	12,858.7	-0.2
<i>Of which</i>						
Consumer Goods	291.5	224.7	-22.9	2,383.0	2,085.6	-12.5
<i>of which,</i>						
Food and beverages	117.6	97.5	-17.1	1,051.3	902.7	-14.1
Other consumer goods	173.9	127.3	-26.8	1,331.7	1,182.9	-11.2
Intermediate Goods	1,137.9	1,078.8	-5.2	7,857.4	7,727.6	-1.7
<i>of which,</i>						
Petroleum	492.6	496.6	0.8	3,088.5	3,395.4	9.9
Textile and textile articles	197.7	167.9	-15.1	1,537.8	1,465.1	-4.7
Investment Goods	404.8	444.7	9.9	2,615.5	3,025.4	15.7
<i>of which,</i>						
Machinery and equipment	205.6	257.6	25.3	1,316.9	1,457.0	10.6
Transport equipment	98.8	84.9	-14.0	621.5	766.3	23.3
Building materials	100.2	101.4	1.2	674.7	798.9	18.4
Balance of Trade	-882.9	-921.1	4.3	-5,894.8	-6,266.8	6.3
Workers' Remittances	458.5	490.1	6.9	3,380.5	3,907.4	15.6
FDI (b)				394.1	451.7	14.6
Portfolio Investments (Net)	-20.4	21.4		-94.5	226.5	
Treasury Bills and Bonds (Net)	44.8	31.8		171.5	810.5	
Commercial Banks' Long-term Foreign Currency Borrowings					927.5	
Earnings from Tourism	70.3	81.8	16.4	521.7	642.2	23.1
Inflows to the Government (c)	328.3	289.9	-11.7	3,141.0	4,263.2	35.7
<i>of which,</i>						
Treasury Bills and Bonds	178.5	142.4	-20.3	773.9	1867.4	141.3
Long term loans	146.6	111.5	-24.0	2,276.8	2,292.0	0.7

(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