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Press Release

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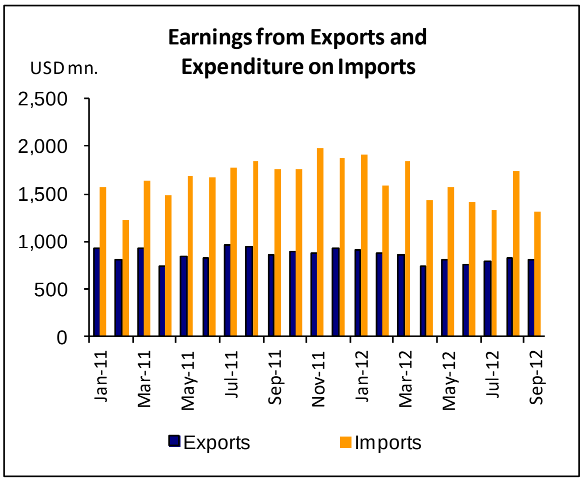
External Sector Performance – September 2012

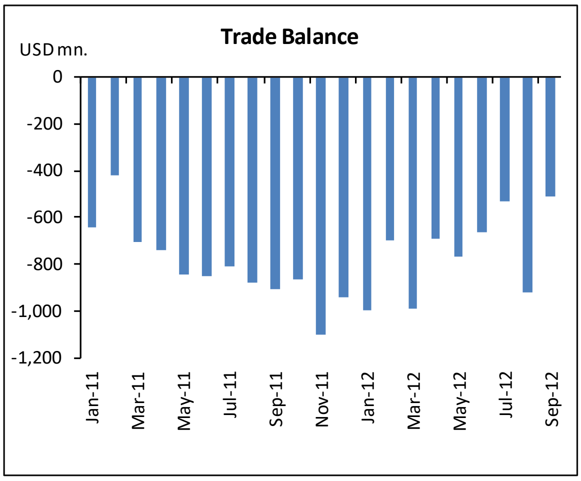
The trade deficit for the first nine months of 2012 declined by 0.3 per cent, year-on-year. This was the first time since December 2009 that the cumulative trade deficit for the year declined. The multi-pronged policy strategy implemented during the first half of 2012 to curb the widening trade deficit has therefore helped reduce the deficit in the current account. The declining trend in earnings from exports decelerated sharply in September 2012 as tea exports fared well after declining for three consecutive months. Expenditure on imports meanwhile, continued to respond to the tighter policy environment and recorded a sharp decline of 25.4 per cent, year-on-year, in September 2012.

The lower import expenditure during September 2012 reflected developments in respect of both external and domestic economic conditions. While expenditure on imports of most consumer goods declined, import expenditure on non-food consumer items declined responding to the depreciation of the rupee since February this year as well as the tightening of credit conditions over the past several months. Motor vehicle imports being subject to the imposition of higher taxes since March

2012, contributed the most to the decline in expenditure on consumer goods imports. Expenditure on intermediate goods imports declined in September 2012, driven by non-oil imports. The decline reflected both a weakening of demand for certain industrial exports as well as lower prices. Expenditure on textile imports declined as both global cotton prices and import volumes were lower than in 2011. Lower global demand for jewellery meanwhile, resulted in lower import expenditure on diamonds and gold during September 2012. Expenditure on wheat imports however, increased as world wheat prices have increased due to drought conditions impacting on major wheat producing countries. With respect to imports of petroleum products, despite expenditure on refined petroleum increasing in September, total expenditure on petroleum products declined in September, on a year-on-year basis, as crude oil was not imported during the month of September. Import expenditure on investment goods meanwhile, declined in September 2012 with expenditure on machinery and equipment, building material as well as transport equipment declining.

Despite earnings from agricultural and mineral exports increasing, total earnings from exports declined in September 2012 as earnings from industrial exports, which have the largest share in exports, declined. Within the category of agricultural exports, tea, which account for about 14 per cent of total earnings from merchandise exports, spices including cinnamon and pepper, and several minor agricultural products such as cereals, fetched higher export earnings in September 2012. With respect to earnings from industrial exports, exports of garments, with a share of more than 35 per cent in total export earnings, continued to record lower earnings by September, given the slowing down of global demand and the decline in cotton prices since around March last year. The decline in earnings from exports of gems, diamonds and jewellery also made a significant contribution to the decline in export earnings in September.





With regard to the services account and current transfers in the Balance of Payments (BOP), higher earnings from tourism and workers' remittances continued to buttress the current account of the BOP. With the number of tourists visiting Sri Lanka recording 71,111 in September 2012, thus raising tourist arrivals during the first nine months of 2012 by around 16 per cent, year-on-year, to 693,772, earnings from tourism have continued to increase on a year-on-year basis. Inflows on account of workers' remittances meanwhile, amounted to US dollars 511 million in September, an increase of 27.3 per cent, year-on-year, while during the first nine months of 2012, workers' remittances recorded a growth of 16.8 per cent and amounted to US dollars 4,419 million. A higher growth is expected in both earnings from tourism and workers' remittances during the last quarter of 2012, as higher inflows are usually recorded towards the end of the year due to seasonality related patterns in such flows.

Foreign currency inflows to the financial market during the first nine months of 2012 have continued to strengthen the capital and financial account of the BOP. At the Colombo Stock Exchange (CSE), net foreign investment inflows have been recorded for each month so far in 2012. There has also been a significant increase in foreign investments in government securities during the first nine months of 2012 and net investments in Treasury bills and Treasury bonds during the first nine months of 2012 amounted to US dollars 820.7 million. Meanwhile, long-term loans obtained by the government during the first nine months of 2012 amounted to US dollars 2,404 million. In addition, long-term borrowings by commercial banks during January-

September 2012 amounted to US dollars 927.5 million. 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 half of 2012, and more inflows are expected to materialise during the remainder of the year.

Gross official reserves amounted to US dollars 7,053 million by end September 2012, while total international reserves, which include gross official reserves and foreign assets of commercial banks amounted to US dollars 8,610 million. In terms of months of imports, gross official reserves were equivalent to 4.3 months of imports by end September 2012, while total reserves were equivalent to 5.2 months of imports.

Table 1. A Summary of External Sector Performance – September 2012 [a]

Category	September 2011 US$ mn	September 2012 US$ mn	Growth September (%)	Jan. – Sep. 2011 US$ mn	Jan. – Sep. 2012 US$ mn	Growth Jan. – Sep. (%)
Exports	**858.4**	**801.5**	**-6.6**	**7,850.5**	**7,393.4**	**-5.8**
Of which						
Agricultural Products	213.1	225.5	5.8	1,890.7	1,736.3	-8.2
of which,						
Tea	121.5	141.1	16.2	1,104.4	1,031.6	-6.6
Industrial Products	641.7	567.1	-11.6	5,928.4	5,518.8	-6.9
of which,						
Textiles and garments	333.6	303.0	-9.2	3,105.0	2,972.3	-4.3
Rubber products	71.0	57.2	-19.4	645.7	644.3	-0.2
Food, beverages and tobacco	30.9	35.1	13.6	262.9	213.1	-18.9
Mineral Products	3.1	8.1	158.0	26.4	42.2	59.8
Imports	**1,762.6**	**1,314.7**	**-25.4**	**14,649.6**	**14,173.4**	**-3.3**
Of which						
Consumer Goods	303.5	206.1	-32.1	2,686.5	2,291.7	-14.7
of which,						
Food and beverages	118.6	91.3	-23.0	1,169.8	993.9	-15.0
Other consumer goods	185.0	114.8	-37.9	1,516.7	1,297.7	-14.4
Intermediate Goods	1,015.3	824.8	-18.8	8,872.7	8,552.4	-3.6
of which,						
Petroleum	333.1	320.2	-3.9	3,421.6	3,715.5	8.6
Textile and textile articles	189.0	179.5	-5.0	1,726.7	1,644.6	-4.8
Investment Goods	437.4	280.0	-36.0	3,052.9	3,305.3	8.3
of which,						
Machinery and equipment	203.5	143.3	-29.6	1,520.5	1,600.3	5.3
Transport equipment	115.6	52.0	-55.0	737.0	818.3	11.0
Building materials	117.9	84.4	-28.4	792.6	883.3	11.4
Balance of Trade	**-904.3**	**-513.1**	**-43.3**	**-6,799.1**	**-6,779.9**	**-0.3**
Workers' Remittances	**401.6**	**511.2**	**27.3**	**3,782.1**	**4418.6**	**16.8**
FDI (b)				**394.1**	**451.7**	**14.6**
Portfolio Investments (Net)	**-58.9**	**23.3**		**-153.4**	**249.8**	
Commercial Banks' Long-term Foreign Currency Borrowings					**927.5**	
Earnings from Tourism	**58.4**	**68.8**	**17.9**	**580.1**	**711.1**	**22.6**
Inflows to the Government (c)	**250.9**	**188.6**	**-24.8**	**3,392.0**	**4,463.1**	**31.6**
of which,						
Treasury Bills and Bonds	92.7	87.1	-6.0	866.5	1,954.5	125.6
Long term loans	143.0	100.4	-29.8	2,419.8	2,404.2	-0.6

(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