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Press Release

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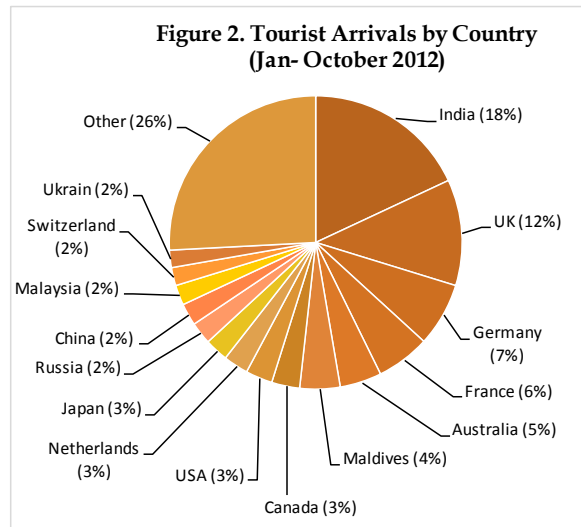
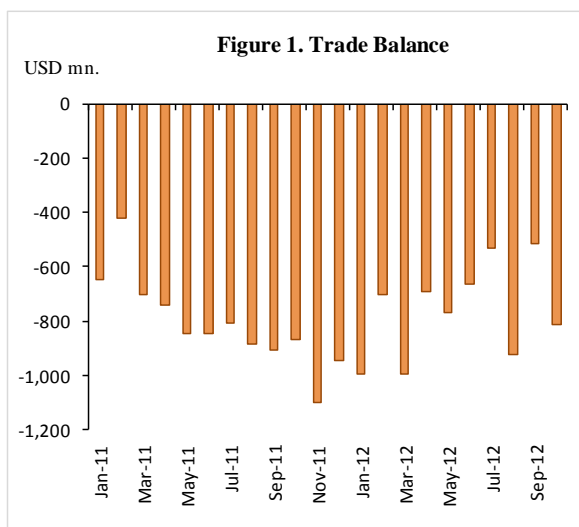
External Sector Performance – October 2012

The deficit in the trade account of the balance of payments (BOP) for the year as a whole declined for the second consecutive month in October 2012. It stands at US dollars 7,590 million, having declined 1 per cent, year-on-year, from the corresponding period of 2011. Responding to policy measures adopted earlier in the year, expenditure on imports during the period January to October 2012 recorded a 4 per cent year-on-year decline and amounted to US dollars 15,754 million. Slowing down of economic activity globally, and particularly in advanced economies which constitute key markets for Sri Lanka's exports, has resulted in contracting demand for exports. As a result, earnings from exports declined by 6.6 per cent, year-on-year, in the first ten months of 2012 to US dollars 8,164 million.

In October 2012, all major categories of imports recorded declines, on a year-on-year basis. With regard to intermediate goods, significant contributions to the decline were noted in imports of gold (48 per cent) and fertiliser (11 per cent). Crude oil also made a relatively high contribution to the decline in import expenditure as crude oil

was not imported during the month of October, but this decline was offset to a large extent by increased imports of refined petroleum products. With respect to other intermediate goods, expenditure on imports of textiles, which have accounted for about 12 per cent of imports so far this year, increased by 12.6 per cent, year-on-year, in October 2012. Expenditure on wheat imports also increased as world wheat prices have increased due to drought conditions impacting on major wheat producing countries. Import expenditure on investment goods meanwhile, declined marginally by 1.3 per cent, year-on-year, in October 2012 with expenditure on transport equipment declining. With respect to consumer goods imports, expenditure on imports of food and beverages as well as non-food consumer goods declined. Vehicle imports, which declined by 65.5 per cent, year-on-year, made the largest contribution towards the decline in expenditure on consumer goods imports.

Earnings from exports declined in October 2012 with earnings from agricultural exports as well as industrial exports declining. Within the category of agricultural exports, earnings from tea, which account for about 14 per cent of total earnings from merchandise exports, declined in October, with geo-political tensions which continue to hamper demand from some Middle Eastern countries partly accounting for this drop. Earnings from rubber, coconuts and coconut products also declined in October. Earnings from exports of spices including pepper and cloves, however, increased on a year-on-year basis, in October 2012. Given the slowing down of global demand, exports of industrial exports continued to decline by October 2012. Earnings from exports of garments, which have a share of around 38 per cent in total export earnings, have made the largest contribution to the decline in earnings from industrial exports. The decline in earnings from exports of rubber products as well as gems including diamonds and jewellery also made a significant contribution to the decline in export earnings in October 2012.



With regard to the services account and current transfers in the BOP, earnings from tourism and workers' remittances continue to cushion the current account of the BOP. While 80,379 tourists visited Sri Lanka in October 2012, thus raising tourist arrivals during the first ten months of 2012 by 16 per cent, year-on-year, to 774,151, earnings from tourism have also grown in parallel, by 22.1 per cent, to US dollars 790.5 million for the ten months ending October 2012. Inflows on account of workers' remittances meanwhile have continued to increase at a healthy rate of more than 24.2 per cent, year-on-year, by October this year. For the first ten months of 2012, workers' remittances recorded a growth of 17.6 per cent, year-on-year, and amounted to US dollars 4,941 million. Earnings from both tourism and workers' remittances are expected to record high growth for the last quarter of 2012.

There have been substantial foreign currency inflows to the capital and financial account of the BOP during the first ten months of 2012. Foreign investments at the Colombo Stock Exchange (CSE) increased to US dollars 268 million, on a net basis, by end October 2012, while there have been a significant increase in foreign investments in Government securities, with net inflows to Treasury bills and Treasury bonds during the first ten months of 2012 amounting to US dollars 846 million. Meanwhile, long-term loans obtained by the government during the first ten months of 2012 amounted to US dollars 2,614 million. In addition, long-term borrowings by commercial banks during January-October 2012 amounted to US dollars 973 million. Foreign Direct Investment (FDI), including foreign loans obtained by BOI companies,

amounted to US dollars 615 million for the first nine months of 2012, with more inflows expected to materialise during the remainder of the year.

Gross official reserves amounted to US dollars 6,547 million by end October 2012, while total international reserves, which include gross official reserves and foreign assets of commercial banks amounted to US dollars 8,063 million. In terms of months of imports, gross official reserves were equivalent to 4.0 months of imports by end October 2012, while total reserves were equivalent to 4.9 months of imports.

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

Category	October 2011 US\$ mn	October 2012 US\$ mn	Growth October (%)	Jan. – Oct. 2011 US\$ mn	Jan. – Oct. 2012 US\$ mn	Growth Jan. – Oct. (%)
Exports	889.1	770.4	-13.4	8,739.7	8,163.8	-6.6
<i>Of which</i>						
Agricultural Products	219.2	187.5	-14.5	2,109.9	1,923.9	-8.8
<i>of which,</i>						
Tea	128.3	116.0	-9.6	1,232.6	1,147.6	-6.9
Industrial Products	667.3	575.9	-13.7	6,595.7	6,094.7	-7.6
<i>of which,</i>						
Textiles and garments	356.4	297.2	-16.6	3,461.3	3,269.4	-5.5
Rubber products	82.9	62.9	-24.1	728.6	707.2	-2.9
Food, beverages and tobacco	26.0	19.1	-26.5	288.9	232.3	-19.6
Mineral Products	2.2	6.1	176.7	28.6	48.3	68.9
Imports	1,757.0	1,580.5	-10.1	16,406.6	15,753.8	-4.0
<i>Of which</i>						
Consumer Goods	310.9	227.8	-26.7	2,997.4	2,519.5	-15.9
<i>of which,</i>						
Food and beverages	127.2	100.1	-21.3	1,297.0	1,094.1	-15.7
Other consumer goods	183.7	127.7	-30.5	1,700.4	1,425.5	-16.2
Intermediate Goods	1,063.2	974.0	-8.4	9,935.9	9,526.4	-4.1
<i>of which,</i>						
Petroleum	395.0	375.6	-4.9	3,816.6	4,091.1	7.2
Textile and textile articles	198.9	224.0	12.7	1,925.6	1,868.6	-3.0
Investment Goods	381.3	376.4	-1.3	3,434.2	3,681.8	7.2
<i>of which,</i>						
Machinery and equipment	168.0	206.9	23.1	1,688.5	1,807.2	7.0
Transport equipment	108.4	59.8	-44.9	845.4	878.0	3.9
Building materials	104.6	109.6	4.8	897.2	992.9	10.7
Balance of Trade	-867.9	-810.1	-6.7	-7,666.9	-7,590.0	-1.0
Workers' Remittances	420.6	522.1	24.2	4,202.7	4,940.8	17.6
FDI (b)				679.3	614.7	-9.4
Portfolio Investments (Net)	-0.3	18.7		-153.6	268.4	
Commercial Banks' Long-term Foreign Currency Borrowings					973.0	
Earnings from Tourism	67.5	79.5	17.8	647.5	790.5	22.1
Inflows to the Government (c)	369.8	310.1	-16.1	3,761.7	4,834.9	28.5
<i>of which,</i>						
Treasury Bills and Bonds	48.2	143.2	197.4	914.7	2,097.6	129.3
Long term loans	281.4	153.5	-45.5	2,701.2	2,613.7	-3.2

(a) Provisional

(b) FDI inflows, including foreign loans to BOI companies, recorded for the first nine months 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