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Press Release

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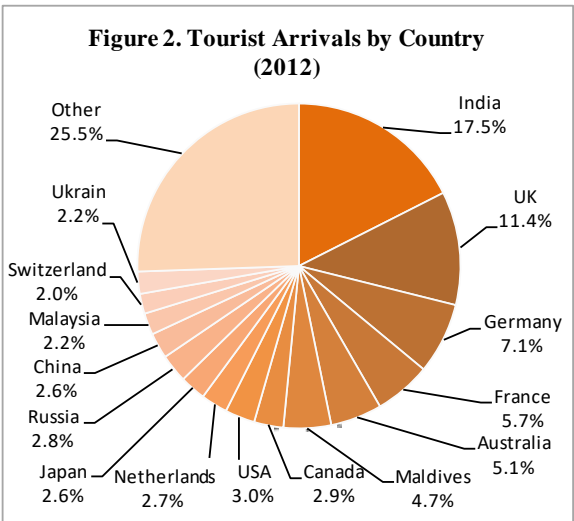
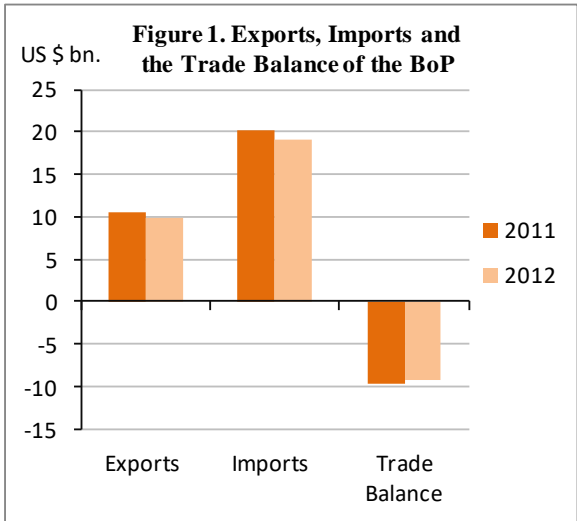
External Sector Performance - December 2012

In 2012, expenditure on imports of investment goods increased, but in response to the policy measures adopted by the Central Bank and the government earlier in the year to reign in import expenditure, expenditure on imports of consumer goods and intermediate goods declined steadily from around April 2012. Hence, although earnings from exports declined in 2012 along with the weakening of global demand, the deficit in the trade account of the balance of payments contracted in 2012.

In December 2012, earnings from exports declined on a year-on-year basis, as earnings from industrial exports which account for about three fourths of total export earnings, declined. Agricultural exports however increased on a year-on-year basis in December 2012 as earnings from exports of tea, spices, unmanufactured tobacco and sea food increased. Sri Lanka's tea exports have fetched favourable prices since around May 2012 and have therefore helped buoy export earnings during much of the year. With respect to other agricultural products exported, spices, unmanufactured tobacco and sea food have recorded increased export earnings for 2012. Nevertheless, with earnings from exports of most items categorised under agricultural exports declining in 2012, earnings from agricultural exports recorded a drop for 2012. Earnings from industrial exports also declined in 2012, with declines

being recorded by most items categorised under industrial exports, including garments, which account for more than a third of total export earnings. While prices of key inputs to industrial products such as cotton, rubber and several metals including aluminium and copper have declined from the high levels that prevailed in the early months of 2011, this has also contributed significantly to the drop in earnings from industrial exports in 2012.

Expenditure on imports declined considerably in December 2012. Expenditure on consumer goods declined in December 2012 with expenditure on food imports as well as other consumer goods including vehicles declining. Lower import expenditure in respect of vehicles has continued to make a significant contribution to the deceleration in total expenditure on imports in 2012. In December 2012, expenditure on intermediate goods imports also declined on year-on-year basis. This decline was driven by lower import expenditure in relation to petroleum products, diamonds, precious & semi-precious stones, and mineral products. Both these categories of imports, i.e., consumer goods and intermediate goods, have contributed to the continued decline in import expenditure since April 2012. Import expenditure in relation to investment goods however increased in December 2012, along with an increase in expenditure on imports of building materials and machinery & equipment.



With respect to the services account and current transfers in the BOP, earnings from tourism and workers’ remittances recorded the highest ever inflows for a year in

2012. Tourist arrivals in December 2012 increased by 25.4 per cent, year-on-year, to 122,252. Accordingly, tourist arrivals totalled 1,005,605 in 2012, a growth of 17.5 per cent. Tourist arrivals exceeded one million in a calendar year for the first time in 2012. Meanwhile, the highest ever monthly earnings from tourism were recorded in December 2012 with earnings from tourism amounting to US dollars 133.5 million. For the year 2012 as a whole, earnings from tourism totalled US dollars 1,039 million, following an impressive growth of 25.1 per cent. Earnings from tourism exceeded US dollars one billion in a calendar year for the first time in 2012. Inflows on account of workers' remittances increased by 9.3 per cent, year-on-year, in December 2012. For 2012, workers' remittances recorded a growth of 16.3 per cent and amounted to US dollars 5,985.3 million.

There have been substantial foreign currency inflows to the capital and financial account of the BOP during 2012. Foreign investments at the Colombo Stock Exchange (CSE) in 2012 resulted in a net inflow of US dollars 305 million compared to the net outflow of US dollars 171 million recorded in 2011. There has been a significant increase in foreign investments in Government securities, with net inflows to Treasury bills and Treasury bonds during 2012 amounting to US dollars 843 million compared to the net inflow of US dollars 233 million in 2011. Further, long-term loans obtained by the government during 2012 amounted to US dollars 2,869 million, while long-term borrowings by commercial banks during 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, and more inflows are expected to have materialised during the remainder of the year 2012.

Gross official reserves amounted to US dollars 6,877 million by end 2012, while total international reserves which include gross official reserves and foreign assets of commercial banks, amounted to US dollars 8,358 million by end 2012. In terms of months of imports, gross official reserves were equivalent to 4.3 months of imports by end 2012, while total reserves were equivalent to 5.3 months of imports.

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

Category	December 2011 US\$ mn	December 2012 US\$ mn	Growth December (%)	Jan. – Dec. 2011 US\$ mn	Jan. – Dec. 2012 US\$ mn	Growth Jan. – Dec. (%)
Exports	933.4	871.0	-6.7	10,558.8	9,773.5	-7.4
<i>Of which</i>						
Agricultural Products	211.2	217.4	2.9	2,527.8	2,331.5	-7.8
<i>of which,</i>						
Tea	133.1	138.3	4.0	1,490.9	1,411.9	-5.3
Industrial Products	719.9	643.7	-10.6	7,991.7	7,371.2	-7.8
<i>of which,</i>						
Textiles and garments	382.2	357.8	-6.4	4,191.2	3,991.1	-4.8
Rubber products	80.5	76.7	-4.7	884.8	859.4	-2.9
Food, beverages and tobacco	31.7	21.1	-33.3	348.2	284.3	-18.3
Mineral Products	1.9	9.2	383.3	32.9	61.3	86.4
Imports	1,875.8	1,512.2	-19.4	20,268.8	19,086.5	-5.8
<i>Of which</i>						
Consumer Goods	325.3	240.2	-26.2	3,653.6	2,995.2	-18.0
<i>of which,</i>						
Food and beverages	132.4	112.1	-15.3	1,566.9	1,304.4	-16.8
Other consumer goods	192.9	128.0	-33.6	2,086.7	1,690.8	-19.0
Intermediate Goods	1,160.4	869.9	-25.0	12,275.3	11,571.5	-5.7
<i>of which,</i>						
Fuel	488.8	366.1	-25.1	4,794.9	5,038.5	5.1
Textiles and textile articles	201.9	193.8	-4.0	2,320.7	2,266.4	-2.3
Investment Goods	381.7	401.3	5.1	4,286.1	4,492.2	4.8
<i>of which,</i>						
Machinery and equipment	197.5	221.1	11.9	2,141.4	2,258.4	5.5
Transport equipment	95.0	58.0	-38.9	1,064.6	991.9	-6.8
Building material	88.7	121.6	37.1	1,076.1	1,237.4	15.0
Balance of Trade	-942.4	-641.2	-32.0	-9,710.0	-9,313.0	-4.1
Workers' Remittances	506.2	553.2	9.3	5,144.8	5,985.3	16.3
FDI (b)				679.3	614.7	-9.4
Portfolio Investments (Net)	-14.4	24.9		-171.4	305.2	
Commercial Banks' Long-term Foreign Currency Borrowings					973.0	
Earnings from Tourism	94.6	133.5	41.1	830.3	1,038.7	25.1
Inflows to the Government (c)	364.1	247.3	-32.1	4,352.8	5,256.9	20.8
<i>of which,</i>						
Treasury Bills and Bonds	162.1	76.2	-53.0	1,153.5	2,236.4	93.9
Long term loans	185.9	145.5	-21.7	3,028.9	2,869.1	-5.3

(a) Provisional

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

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