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Press Release

Issued By Economic Research Department

Date 24.06.2013

External Sector Performance - April 2013

Overview

Sri Lanka's external sector made satisfactory progress in April 2013 with an increase in inflows being recorded in the balance of payments (BOP). Earnings from tourism continued to grow with increasing recognition of Sri Lanka as an attractive tourist destination. Workers' remittances continued to rise, supported by the diversification of migrant destinations and further expansion of formal channels for remitting money. Foreign investment at the Colombo Stock Exchange (CSE) continued to grow, along with increased activity at the CSE, indicating a gradual build-up of investor confidence. Commercial banks and the corporate sector were able to raise more foreign capital, given the improvement in the macroeconomic environment and further relaxation of exchange control regulations. Inflows on account of long-term loans obtained by the Government during the first four months of the year moderated, while substantial inflows were recorded in the government securities market on a cumulative basis. However, the trade gap widened in April 2013, reflecting increased import demand, although there was a marked contraction in the trade deficit on a cumulative basis during the first four months of the year. A

further improvement of the overall balance of the BOP took place during the four-month period up to April 2013, leading to the strengthening the international reserves position of the country, as a result of additional foreign exchange inflows on account of trade in services, current transfers, and inflows to the financial account.

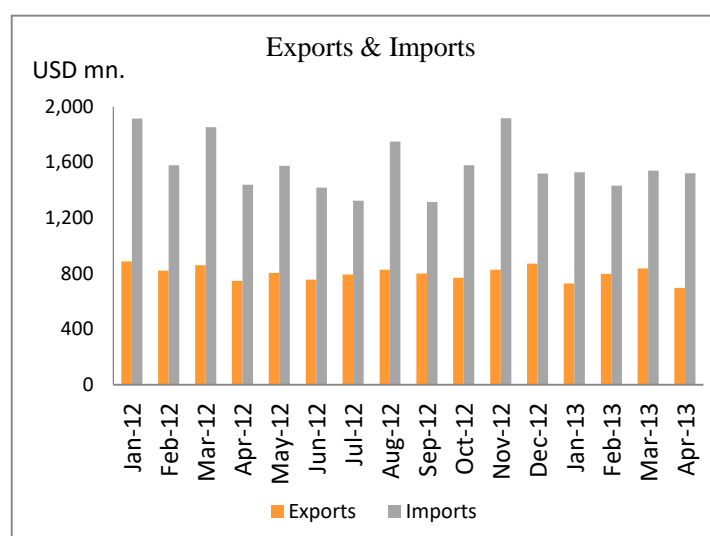
Trade Account of the BOP

In April 2013, expenditure on imports increased while earnings from exports declined on a year-on-year basis. As a result, the deficit in the trade balance for April 2013 increased by 19.2 per cent. Nevertheless, in cumulative terms, the deficit in the trade account recorded a decline of 14.6 per cent by April 2013, reflecting the sharp contraction of expenditure on imports up to March 2013.

Reversing the decreasing trend recorded in the preceding twelve months, expenditure on imports increased by 5.7 per cent, year-on-year, in April 2013. Indicating a strengthening of domestic economic activity, expenditure on imports of all major categories, i.e., consumer goods, intermediate goods and investment goods, recorded year-on-year increases. The relaxation of the monetary policy stance by the Central Bank, the strengthening of the rupee against several major currencies due to cross currency movements in global foreign exchange markets, as well as the easing of prices of commodities such as gold and other metals in the world market, are likely to have supported the pick-up in imports. In this regard, although expenditure on fuel imports declined in April 2013, expenditure on imports of intermediate goods such as gold, wheat, chemical products, and base metals including iron and aluminium, increased. Further, import expenditure on food and beverages led the increase in expenditure on consumer goods, while imports of building materials largely led the increase in expenditure on investment goods imports, reflecting the continued robustness of activity in the construction sector.

Earnings from exports declined by 6.8 per cent, year-on-year, in April 2013, with weak global demand being reflected in earnings from exports of agricultural and industrial goods. Earnings from industrial exports declined in April 2013, with earnings from garments, which account for more than a third of total exports,

declining. The export of other industrial products, namely, processed food, beverages and tobacco; machinery and mechanical appliances; rubber products and animal fodder, also declined. The decline in earnings from agricultural exports was driven largely by the decline in earnings from rubber exports. Earnings from rubber exports, which declined last year, continued to weaken so far this year, reflecting the impact of the downturn in global economic activity on the rubber industry. However, tea exports, which account for about 15 per cent of total export earnings, increased on the back of favourable prices in the world market.



Tourism Earnings in the Services Account of the BOP

Earnings from tourism in April 2013 grew at a healthy rate of 22.5 per cent, year-on-year, to US dollars 90 million, with cumulative earnings from tourism recording a growth of 19.8 per cent over the first four months of 2012, to US dollars 407.2 million. This was the result of tourist arrivals increasing by 14.7 per cent, year-on-year, to 79,829, in April 2013, thus raising total tourist arrivals during the first four months of 2013 to 368,627. Tourist arrivals in the first four months of 2013 recorded a commendable growth of 11.7 per cent, year-on-year.

Current Transfers in the BOP

Workers' remittances amounted to US dollars 550 million in April 2013, compared to US dollars 475 million in April 2012, an increase of 15.7 per cent, year-on-year. As a result, the cumulative inflows on account of workers' remittances amounted to US dollars 2,109 million during the first four months of 2013, thus recording an increase of 6.4 per cent over the corresponding period of 2012.

Financial Account of the BOP

Financial flows during the first four months of 2013 recorded an improvement with net inflows to the Colombo Stock Exchange (CSE) amounting to US dollars 30.7 million in April 2013, compared to a net inflow of US dollars 7.3 million recorded in April 2012. Meanwhile, inflows to commercial banks during the first four months of 2013 amounted to US dollars 664 million. There were also substantial inflows of foreign investments to Government securities, with net inflows to Treasury bills and Treasury bonds in April 2013 amounting to US dollars 76.9 million, compared to a net inflow of US dollars 72.9 million in April 2012. Net inflows to the Government securities market in the first four months of 2013 increased by 27.6 per cent to US dollars 612 million, compared to the net inflow of US dollars 479 million in the first four months in 2012. At the same time, long-term loans obtained by the government during the first four months of 2013 amounted to US dollars 546 million, thus maintaining the same level as in the corresponding period of 2012.

International Reserve Position

In line with the above developments, by end April 2013, gross official reserves amounted to US dollars 6,858 million, while total international reserves, which comprise gross official reserves and foreign assets of commercial banks, amounted to US dollars 8,508 million. In terms of months of imports, gross official reserves were equivalent to 4.4 months of imports by end April 2013, while total reserves were equivalent to 5.3 months of imports.

Exchange Rate Behaviour

The Sri Lankan rupee has gained value against several major currencies during the year so far, based on cross currency exchange rate movements. During the period from end 2012 through 20 June 2013, the rupee appreciated against the pound sterling by 3.6 per cent, the Japanese yen by 11.3 per cent, the Indian rupee by 6.5 per cent, the Australian dollar by 11.1 per cent, and the Korean won by 6.2 per cent, among others. However, the rupee which stabilised firmly against the US dollar throughout the year, showed a transitory depreciation recently, owing to some speculative activity by market participants. Accordingly, the rupee fell by 0.9 per cent against the US dollar and by 0.5 per cent against the euro as at 20 June 2013, compared to end 2012.

Table 1. A Summary of External Sector Performance – April 2013 (a)

Category	April 2012 US\$ mn	April 2013 US\$ mn	Growth April (%)	Jan-Apr 2012 US\$ mn	Jan- Apr 2013 US\$ mn	Growth Jan- Apr (%)
Exports	747.8	696.6	-6.8	3,317.9	3,059.8	-7.8
<i>Of which</i>						
Agricultural Products	177.2	175.6	-0.9	752.6	726.8	-3.4
of which,						
Tea	105.2	106.4	1.2	440.9	440.0	-0.2
Industrial Products	559.9	518.0	-7.5	2,537.1	2,322.9	-8.4
of which,						
Textiles and garments	323.2	275.0	-14.9	1,359.3	1,325.0	-2.5
Rubber products	61.5	58.2	-5.3	295.5	260.1	-12.0
Food, beverages and tobacco	23.3	16.8	-27.8	94.0	69.6	-26.0
Mineral Products	9.9	1.9	-80.6	24.3	6.0	-75.5
Imports	1,440.4	1,522.0	5.7	6,789.6	6,025.4	-11.3
<i>Of which</i>						
Consumer Goods	242.0	272.7	12.7	1,124.1	983.9	-12.5
of which,						
Food and beverages	96.0	126.8	32.0	466.6	456.9	-2.1
Other consumer goods	145.9	145.9	0.0	657.5	527.1	-19.8
Intermediate Goods	838.5	884.4	5.5	3,985.4	3,517.9	-11.7
of which,						
Fuel	362.2	343.4	-5.2	1,915.0	1,434.0	-25.1
Textiles and textile articles	182.3	154.1	-15.4	714.4	650.4	-9.0
Investment Goods	359.0	363.4	1.2	1,668.0	1,520.0	-8.9
of which,						
Machinery and equipment	184.5	186.5	1.1	759.8	778.7	2.5
Transport equipment	82.5	60.3	-27.0	485.9	247.9	-49.0
Building materials	91.8	116.3	26.8	420.9	491.8	16.9
Deficit in the Trade Account	-692.6	-825.4	19.2	-3,471.7	-2,965.6	-14.6
Workers' Remittances	475.2	549.7	15.7	1,982.9	2,109.3	6.4
Portfolio Investments (Net)	7.3	30.7		171.5	69.4	
Earnings from Tourism	73.1	89.6	22.5	339.8	407.2	19.8
Inflows to Commercial Banks					664	
Inflows to the Government (c)	283.5	241.6	-14.8	1,538.0	2,134.8	38.8
of which,						
Treasury Bills and Bonds	172.8	144.9	-16.1	973.0	1,581.9	62.6
Long term loans	109.4	95.2	-13.0	548.1	546.1	-0.4

(a) Provisional

(b) Inflows to commercial banks in 2012 amounted to USD 973 million.

(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.