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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Communications Department

30, Janadhipathi Mawatha, Colombo 01, Sri Lanka.

Tel : 2477424, 2477423, 2477311

Fax: 2346257, 2477739

E-mail: dcommunications@cbsl.lk, communications@cbsl.lk

Web: www.cbsl.gov.lk

Press Release

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External Sector Performance - May 2013

Overview

Sri Lanka's external sector continued to remain stable with increased inflows to the Current Account as well as the Financial Account of the Balance of Payments (BOP). Earnings from tourism and current transfers by way of workers' remittances increased notably, strengthening the Current Account. The Colombo Stock Exchange (CSE) recorded increased foreign investments reflecting improved investor confidence. Commercial banks and the corporate sector have been able to raise more foreign funds this year, given the stable macroeconomic environment and further relaxation of exchange control regulations. During the first five months of the year, foreign investments in Government securities also recorded an impressive growth in spite of the uncertainties in international financial markets.

Trade Account of the BOP

The deficit in the trade balance declined by 1.8 per cent, year-on-year, in May 2013, reversing the increase that was seen in April 2013. On a cumulative basis, the deficit in the trade balance continued to decline for the sixth consecutive month.

Expenditure on imports declined moderately by 1.7 per cent, year-on-year, in May 2013. Although expenditure on imports of fuel, textiles and textile articles, transport equipment, base metals, fertilizer, vehicles and dairy products declined notably, their impact was largely offset by increased expenditure on imports of machinery and equipment, wheat, gold, and building materials. Fuel imports, which account for nearly a quarter of total import expenditure, declined by 14.1 per cent in May 2013, while textiles and textile articles, which account for over 10 per cent of total imports, declined by 18.4 per cent. Gold imports meanwhile increased by 44.4 per cent in May 2013, with the decline in gold prices in the world market remaining supportive of gold imports. Expenditure on imports of machinery and equipment and building materials also increased, by 32.4 per cent and 21.1 per cent, respectively, indicating an expansion of investment in capital build-up. Expenditure on consumer goods imports meanwhile declined marginally by 0.7 per cent as import expenditure on non-food consumer goods declined.

Earnings from exports declined marginally by 1.5 per cent in May 2013, as increased earnings from industrial exports moderated the impact of the decline in earnings from agricultural exports. Export earnings from garments, which have a share of nearly 40 per cent in total exports, increased by 2.1 per cent in May 2013, thus buoying export earnings. Exports of transport equipment increased notably in May 2013 as in the previous month, while exports of petroleum products also increased in May 2013. However, partly reflecting the easing of gold prices in the world market, export earnings from gems, including diamonds, and jewellery declined by 40.5 per cent in May 2013. Food, beverages and tobacco; and rubber products were amongst the other industrial products which contributed notably to the drop in export earnings. Earnings from Agricultural exports declined by 6.8 per cent, as earnings from many categories of agricultural exports declined. Despite tea continuing to fetch favourable prices in international markets, export earnings from tea declined in May 2013, due to the lower volumes of tea exported. Export earnings from rubber and coconut also declined in May 2013. However, earnings from exports of seafood and unmanufactured tobacco recorded significant increases in May 2013.

In cumulative terms, during the first five months of 2013, expenditure on imports declined by 9.4 per cent, year-on-year, to US dollars 7,581 million while earnings from exports declined by 6.6 per cent, year-on-year, to US dollars 3,854 million. As expenditure on imports declined by around US dollars 784 million while earnings from exports declined by around US dollars 270 million, the deficit in the trade balance for the first five months of 2013 contracted by 12.1 per cent on a year-on-year basis to US dollars 3,727 million.

Earnings from Tourism in the Services Account of the BOP

Sri Lanka was able to attract 438,653 tourists during the year as of end May 2013, recording a year-on-year growth of 13.2 per cent in total tourist arrivals. Earnings from tourism expanded at a commendable rate of 34.5 per cent in May 2013 to US dollars 77 million, from the US dollar 57 million recorded in May 2012. This increase was the result of a significant increase in the number of tourist arrivals in May 2013. Tourist arrivals increased by 21.8 per cent, year-on-year, to 70,026 in May 2013. On a cumulative basis, earnings from tourism during the first five months of 2013 recorded a growth of 21.9 per cent, to US dollars 484.3 million, compared to the cumulative earnings of US dollars 397.1 million received from tourism during the first five months of 2012.

Current Transfers in the BOP

Workers' remittances increased by 6.6 per cent, year-on-year, to US dollars 541 million in May 2013 from US dollars 507 million in May 2012. Accordingly, cumulative inflows of workers' remittances during the first five months of 2013 amounted to US dollars 2,650 million, an increase of 6.4 per cent compared to the corresponding period of 2012.

Financial Account of the BOP

In May 2013, the Colombo Stock Exchange (CSE) received a net inflow of US dollars 38.6 million, compared to the net inflow of US dollars 10.4 million in May 2012. Accordingly, total net inflows during the first five months amounted to US dollars 108 million. Meanwhile, inflows to commercial banks during the first five months of the year stood at US dollars 664.3 million. Foreign investments in Government securities showed an impressive growth, with net inflows to Treasury bills and Treasury bonds in May 2013 amounting to US dollars 80.1 million, compared to a net inflow of US dollars 16.4 million in May 2012. Accordingly, net inflows to the Government securities market in the first five months of 2013 increased by 39.5 per cent to US dollars 692 million, compared to the net inflow of US dollars 496 million recorded in the corresponding period of 2012. In the meantime, the government has obtained long-term loans amounting to US dollars 597 million by end May 2013, compared to the US dollars 701 million obtained by way of long-term loans in the first five months in 2012.

International Reserve Position

By end May 2013, Sri Lanka's gross official reserves amounted to US dollars 6.6 billion. Accordingly, Sri Lanka's gross official reserves have been at a satisfactory level in spite of outflows in the first five months of 2013, including the IMF-Stand By Arrangement (SBA) principal payment of US dollars 225.5 million, foreign debt service payments of around USD 575 million and the accumulated valuation losses of US dollars 312 million, due to the cross currency exchange rate movements and the sharp decline in gold prices. The total international reserves, which include foreign assets of commercial banks, amounted to US dollars 8.2 billion. Reflecting the healthy position of international reserves, the import cover of the gross official reserves and total reserves were at 4.3 months and 5.4 months, respectively.

Exchange Rate Behaviour

The Sri Lankan rupee has appreciated against several major international currencies during the year so far, due to cross currency exchange rate movements. By 17 July 2013, the rupee has gained value vis-à-vis the pound sterling by 3.2 per cent, the Japanese yen by 11.8 per cent, the Indian rupee by 5.7 per cent and the Australian dollar by 9.4 per cent. Meanwhile, the rupee, which remained firmly stable against the US dollar throughout the year thus far, experienced a transitory depreciation recently. Since the second week of June, the rupee weakened against the US dollar owing to greater demand from importers. During the period from end 2012 through 17 July 2013, the rupee fell by 3.2 per cent against the US dollar and by 1.9 per cent against the euro. Nevertheless, during the last few days, the rupee showed signs of stabilising as it held its ground against the US dollar.

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

Category	May 2012 US\$ mn	May 2013 US\$ mn	Growth May (%)	Jan-May 2012 US\$ mn	Jan- May 2013 US\$ mn	Growth Jan- May (%)
Exports	806.0	793.9	-1.5	4,123.9	3,853.6	-6.6
<i>Of which</i>						
Agricultural Products	212.4	197.9	-6.8	965.0	924.7	-4.2
of which,						
Tea	139.7	128.2	-8.3	580.6	568.1	-2.2
Industrial Products	590.7	592.8	0.4	3,127.8	2,915.7	-6.8
of which,						
Textiles and garments	312.3	318.9	2.1	1,671.6	1,643.9	-1.7
Rubber products	74.0	68.0	-8.0	369.5	328.2	-11.2
Food, beverages and tobacco	25.3	16.7	-34.0	119.3	86.3	-27.7
Mineral Products	2.3	2.4	5.3	26.6	8.3	-68.6
Imports	1,575.0	1,548.8	-1.7	8,364.7	7,581.1	-9.4
<i>Of which</i>						
Consumer Goods	268.5	266.6	-0.7	1,392.6	1,250.5	-10.2
of which,						
Food and beverages	119.0	127.0	6.7	585.5	583.8	-0.3
Other consumer goods	149.5	139.6	-6.6	807.0	666.7	-17.4
Intermediate Goods	972.5	907.2	-6.7	4,957.8	4,431.9	-10.6
of which,						
Fuel	376.6	323.3	-14.1	2,291.6	1,764.3	-23.0
Textiles and textile articles	194.5	158.6	-18.4	908.8	809.0	-11.0
Investment Goods	331.9	373.7	12.6	1,999.9	1,893.7	-5.3
of which,						
Machinery and equipment	164.5	217.8	32.4	924.3	996.4	7.8
Transport equipment	73.4	41.5	-43.5	559.3	289.4	-48.3
Building materials	93.7	113.5	21.1	514.5	605.3	17.6
Deficit in the Trade Account	769.1	754.9	-1.8	4,240.8	3,727.5	-12.1
Workers' Remittances	507.1	540.8	6.6	2,490.0	2,650.0	6.4
Portfolio Investments (Net)	10.4	38.6		181.9	108.0	
Earnings from Tourism	57.3	77.0	34.5	397.1	484.3	21.9
Inflows to Commercial Banks					664.3	
Inflows to the Government (c)	276.2	175.4	-36.5	1,814.2	2,311.2	27.4
of which,						
Treasury Bills and Bonds	120.8	125.8	4.2	1,093.8	1,707.7	56.1
Long term loans	152.5	49.5	-67.5	700.6	596.6	-14.8

(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.