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CENTRAL BANK OF SRI LANKA

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# **Press Release**

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## **External Sector Performance - June 2013**

### **Overview**

Sri Lanka's external sector remained stable with continued inflows being recorded in the balance of payments (BOP). Cumulative foreign inflows to the country in the form of earnings from tourism, workers' remittances, foreign direct investments (FDI) and investments in Government securities showed a noteworthy growth during the first half of 2013. Commercial banks and the corporate sector have also been able to raise more foreign funds this year, given the stable macroeconomic environment and further relaxation of exchange control regulations. The trade balance also continued to narrow with exports recording an increase on a year-on-year basis in June 2013.

### **Trade Account of the BOP**

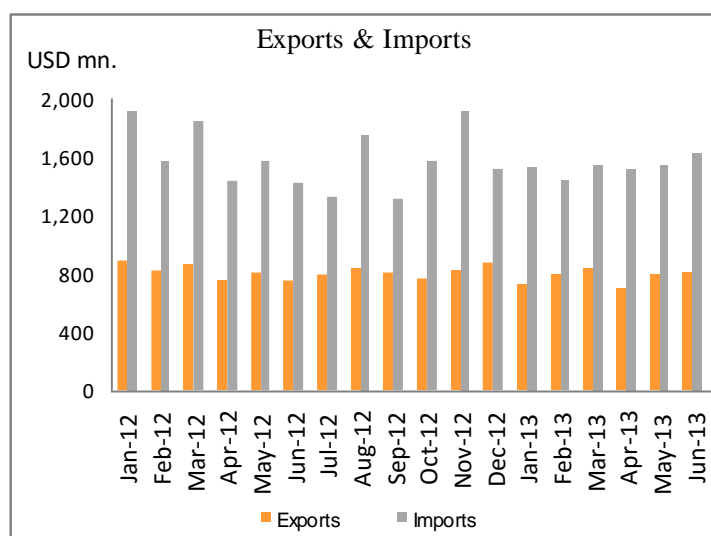
Both earnings from exports and expenditure on imports have recorded significant growth on a year-on-year basis in June 2013. Earnings from exports grew by 6.8 per cent in June 2013 to US dollars 807 million. Expenditure on imports increased by 15.3 per cent to US dollars 1,636 million in June 2013. However, on a cumulative

basis, earnings from exports as well as expenditure on imports continued to decline by June. While earnings from exports during the first half of 2013 declined by 4.5 per cent, expenditure on imports during this period declined by 5.8 per cent. As a result, the deficit in the trade account for the first six months of 2013 declined by 7.1 per cent to US dollars 4,557 million.

The largest contribution to the growth in exports in June 2013 came from the significant increase in exports of textiles and garments, and tea. Earnings from exports of textiles and garments, which account for more than 40 per cent of total exports, increased by 14.9 per cent, year-on-year. Garment exports to the USA increased by 24.8 per cent, year-on-year, while garment exports to the EU increased by 6.7 per cent, year-on-year, in June 2013. Earnings from exports of machinery and mechanical appliances increased by 25.5 per cent, led by increased exports of electrical machinery and equipment and home appliances. Earnings from exports of rubber products also increased by 7.7 per cent to US dollars 69 million, led by increased exports of retreaded tyres; bicycle, motor cycle and motor car tyres; as well as rubber gloves. Agricultural exports, which account for about a quarter of export earnings, also increased on a year-on-year basis, reflecting the strong performance of the tea sector. Earnings from tea exports increased by 14.5 per cent in June 2013 with a 4.7 per cent increase in the export volume of tea coupled with an increase of around 9 per cent in the average export price of tea. Higher earnings from spice exports were propelled by better performance of commodities such as cloves, nutmeg and mace. Earnings from sesame seeds and arecanuts categorised under minor agricultural products increased significantly due to large volumes exported.

Expenditure on imports recorded a significant increase in June 2013 mainly as a result of higher expenditure on fuel imports. The average import price of crude oil rose by 9.0 per cent, year-on-year, to US dollars 105.25 per barrel in June 2013, while the import volume of petroleum in June 2013 was also significantly higher on a year-on-year basis due to increased imports of crude oil. On a cumulative basis however, expenditure on fuel imports during the first half of 2013 has recorded a year-on-year

decline. Meanwhile, expenditure on non-fuel imports during the month of June 2013 increased at a moderate rate of 3.5 per cent, year-on-year, to US dollars 1,054 million. Import expenditure on fertilizer, which had continued to record year-on-year declines since the latter part of 2012, also increased substantially in June 2013, due to higher volumes imported to meet the demand in the market. Amongst other imported items that contributed significantly to the increased import expenditure in June 2013 were vehicles, classified under consumer goods. Increased imports of vehicles could be attributed mainly to the recent appreciation of the rupee against several currencies including the Japanese yen, due to cross currency movements. Expenditure on textiles and textile articles, classified under intermediate goods, which account for about a tenth of total import expenditure, meanwhile, declined in June 2013, negating to some extent, the impact of the increased expenditure on the above mentioned items.



### Earnings from Tourism in the Services Account of the BOP

Earnings from tourism continue to record sound growth. Earnings from tourism grew by 29.0 per cent, year-on-year, in June 2013 to US dollars 81 million, from the US dollar 63 million recorded in June 2012. Total earnings from tourism during the first half of 2013 recorded a growth of 22.9 per cent, year-on-year, and amounted to US dollars 565.3 million, compared to the cumulative earnings of US dollars 459.9

million received from tourism during the corresponding period of 2012. Such a noteworthy increase in earnings from tourism was made possible as tourist arrivals have continued to increase on a year-on-year basis so far this year. Tourist arrivals increased by 12.8 per cent, year-on-year, to 73,628 in June 2013, raising the total number of tourists who visited Sri Lanka during the first half of the year to 512,281. Accordingly, tourist arrivals during the first half of the year grew by 13.1 per cent, year-on-year.

### **Current Transfers in the BOP**

In June 2013, workers' remittances increased by 23.3 per cent, year-on-year, to US dollars 557.6 million from US dollars 452.3 million in June 2012. Accordingly, cumulative inflows of workers' remittances during the first half of 2013 amounted to US dollars 3,207.7 million, a rise of 9.0 per cent compared to the first half of 2012.

### **Financial Account of the BOP**

Increased foreign investment inflows during the first half of 2013 strengthened the financial account of the BOP. FDI inflows during the first half of 2013 amounted to US dollars 540 million, an increase of 20 per cent, compared to US dollars 451 million in the first half of 2012. The Colombo Stock Exchange (CSE) recorded a net inflow of US dollars 12.1 million in June 2013, compared to the net inflow of US dollars 4.7 million in June 2012. On a cumulative basis, the CSE received net inflows of US dollars 120.2 million during the first half of 2013. Net inflows to the Government securities market in the first half of 2013 increased by 50.6 per cent to US dollars 664.4 million, compared to the net inflow of US dollars 441.3 million recorded in the corresponding period of 2012. Meanwhile, long-term loans obtained by the government amounted to US dollars 918.9 million during the first half of 2013, lower than the US dollars 1,086.7 million recorded in the first half of 2012. In the meantime, inflows to commercial banks during the first half of the year amounted to US dollars 664 million.

### **International Reserve Position**

Sri Lanka's gross official reserves stood at US dollars 6.3 billion by end June 2013 while the total international reserves, which include foreign assets of commercial banks, amounted to US dollars 7.6 billion. In terms of import cover, the gross official reserves and the total reserves of the country were equivalent to 4.1 months and 4.9 months, respectively. Accordingly, Sri Lanka's gross official reserves have been at a satisfactory level in the first six months of 2013, in spite of outflows in terms of IMF-Stand-by Arrangement (SBA) payments, foreign debt service payments and valuation changes.

### **Exchange Rate Behaviour**

The Sri Lankan rupee strengthened against several major international currencies during the year so far, due to cross currency exchange rate movements. By 22 August 2013, the rupee appreciated against the Japanese yen by 10.3 per cent, the Indian rupee by 13.2 per cent, the Australian dollar by 11.8 per cent, and remained flat against the Pound sterling. However, the LKR/USD exchange rate which was gradually adjusting following the initial overshooting triggered by the policy changes introduced in early 2012, indicated a modest depreciation in recent weeks due to the strengthening of the US dollar in international markets, resulting in the rupee depreciating against the US dollar by 3.5 per cent, by 22 August 2013.

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

Category	June 2012 US\$ mn	June 2013 US\$ mn	Growth June (%)	Jan-June 2012 US\$ mn	Jan- June 2013 US\$ mn	Growth Jan- June (%)
<b>Exports</b>	<b>755.8</b>	<b>807.4</b>	<b>6.8</b>	<b>4,879.7</b>	<b>4,661.0</b>	<b>-4.5</b>
<i>Of which</i>						
<b>Agricultural Products</b>	<b>178.2</b>	<b>192.6</b>	<b>8.1</b>	<b>1,143.3</b>	<b>1,117.3</b>	<b>-2.3</b>
of which,						
Tea	101.4	116.0	14.5	682.0	684.2	0.3
<b>Industrial Products</b>	<b>574.5</b>	<b>610.8</b>	<b>6.3</b>	<b>3,702.3</b>	<b>3,526.5</b>	<b>-4.7</b>
of which,						
Textiles and garments	310.6	356.9	14.9	1,982.3	2,000.8	0.9
Rubber products	64.0	69.0	7.7	433.5	397.1	-8.4
Food, beverages and tobacco	19.8	17.2	-13.0	139.2	103.5	-25.6
<b>Mineral Products</b>	<b>2.4</b>	<b>3.1</b>	<b>29.8</b>	<b>29.0</b>	<b>11.5</b>	<b>-60.4</b>
<b>Imports</b>	<b>1,419.0</b>	<b>1,636.5</b>	<b>15.3</b>	<b>9,783.7</b>	<b>9,217.6</b>	<b>-5.8</b>
<i>Of which</i>						
<b>Consumer Goods</b>	<b>230.9</b>	<b>274.0</b>	<b>18.7</b>	<b>1,623.5</b>	<b>1,524.5</b>	<b>-6.1</b>
of which,						
Food and beverages	108.0	120.8	11.8	693.6	704.6	1.6
Other consumer goods	122.9	153.3	24.7	929.9	819.9	-11.8
<b>Intermediate Goods</b>	<b>914.2</b>	<b>1,091.0</b>	<b>19.3</b>	<b>5,872.0</b>	<b>5,522.9</b>	<b>-5.9</b>
of which,						
Fuel	400.1	582.2	45.5	2,691.7	2,346.5	-12.8
Textiles and textile articles	192.8	156.9	-18.6	1,101.6	965.9	-12.3
<b>Investment Goods</b>	<b>272.4</b>	<b>269.6</b>	<b>-1.0</b>	<b>2,272.3</b>	<b>2,163.3</b>	<b>-4.8</b>
of which,						
Machinery and equipment	127.8	138.6	8.5	1,052.0	1,135.0	7.9
Transport equipment	53.2	37.7	-29.1	612.5	327.1	-46.6
Building materials	91.1	92.9	2.0	605.7	698.2	15.3
<b>Deficit in the Trade Account</b>	<b>-663.2</b>	<b>-829.1</b>	<b>25.0</b>	<b>-4,904.0</b>	<b>-4,556.5</b>	<b>-7.1</b>
<b>Workers' Remittances</b>	<b>452.3</b>	<b>557.6</b>	<b>23.3</b>	<b>2,942.4</b>	<b>3,207.7</b>	<b>9.0</b>
<b>Foreign Direct Investments</b>				<b>451</b>	<b>540</b>	<b>19.7</b>
<b>Portfolio Investments (Net)</b>	<b>4.7</b>	<b>12.1</b>		<b>186.5</b>	<b>120.2</b>	
<b>Earnings from Tourism</b>	<b>62.8</b>	<b>81.0</b>	<b>29.0</b>	<b>459.9</b>	<b>565.3</b>	<b>22.9</b>
<b>Inflows to Commercial Banks (b)</b>					<b>664.3</b>	
<b>Inflows to the Government (c)</b>	<b>485.0</b>	<b>358.0</b>	<b>-26.2</b>	<b>2,299.2</b>	<b>2,747.2</b>	<b>19.5</b>
of which,						
Treasury Bills and Bonds	57.6	110.9	92.5	1,151.4	1,818.5	57.9
Long term loans	386.0	245.7	-36.3	1,086.7	918.9	-15.4

(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.