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Press Release

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External Sector Performance – July 2013

Overview

With continued foreign currency inflows in the form of workers' remittances, earnings from exports and tourism as well as inflows to the financial account, Sri Lanka's external sector remained stable during the first seven months of 2013. The external sector is expected to strengthen further with continued inflows to commercial banks and the private sector as well as through projected inflows in the form of tourist earnings and workers' remittances during the remaining months of 2013. Exports also showed a positive growth in July for the second consecutive month in 2013, leading to narrowing the trade deficit.

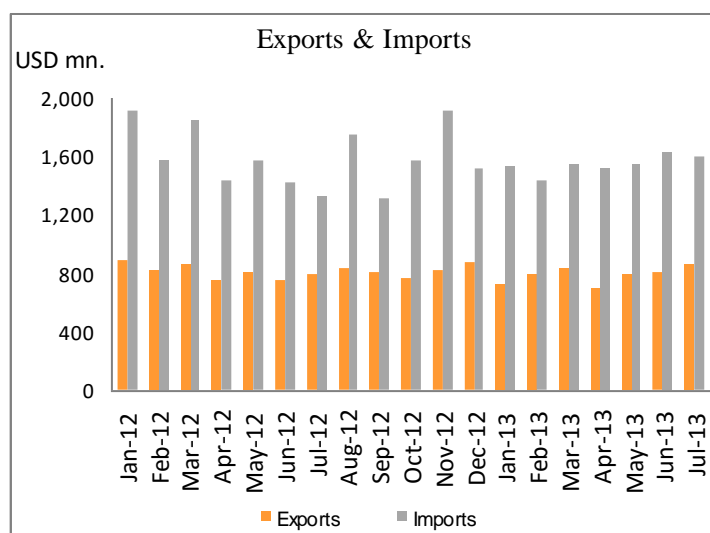
Trade Account of the BOP

Both earnings from exports and expenditure on imports have recorded significant growth on a year-on-year basis for the second consecutive month in July 2013, led by higher trade volumes. In July 2013, earnings from exports grew by 8.0 per cent to US dollars 858 million, while expenditure on imports increased by 20.8 per cent to US dollars 1,601 million compared to July 2012. The significant increase in the growth of

imports in July was partly due to the base effect. On a cumulative basis, earnings from exports during the first seven months of 2013 declined by 2.7 per cent, while expenditure on imports declined by 2.6 per cent compared to the corresponding period in 2012. As a result, the cumulative trade deficit during the first seven months of 2013 declined by 2.5 per cent to US dollars 5,300 million, from US dollars 5,435 million in the corresponding period of 2012.

Earnings from exports in July 2013 reached US dollars 858 million, the highest monthly value during the year, led by higher earnings from agricultural exports followed by industrial exports. Agricultural export earnings which account for more than a quarter of total exports, increased by 21.6 per cent in July 2013 on a year-on-year basis, mainly due to higher exports of tea and spices. Earnings on tea exports increased by 20.2 per cent in July 2013 due to a combination of an increase in export volumes by 12.6 per cent and an increase in the average export price by 6.7 per cent. Earnings from spice exports increased by 50.6 per cent propelled by improved performance of commodities such as cinnamon, pepper and cloves. Export earnings from kernel products of coconut and minor agricultural products also increased significantly due to higher volumes exported. However, export earnings from rubber and seafood declined in July 2013 reflecting reductions in both export volumes and prices. Meanwhile, industrial exports increased by 3.7 per cent in July 2013 mainly due to an increase in export earnings from textiles and garments. Earnings from the export of textiles and garments, which account for more than 40 per cent of total exports, increased by 13.5 per cent, contributing 70 per cent to the total increase in exports. During the month, earnings from export of textiles and garments to the USA and to the EU increased by 26.9 per cent and 1.6 per cent respectively, reflecting a gradual recovery in those regions. Earnings from the export of machinery and mechanical appliances, chemical products, and leather products also contributed significantly to the growth in exports of industrial products. Exports of gems, diamonds and jewellery, petroleum products, food, beverages and animal fodder on the other hand declined in July 2013.

Expenditure on imports increased by 20.8 per cent to US dollars 1,601 million in July 2013, with increases recorded in all major categories of imports. Expenditure on consumer goods imports increased by 30 per cent, year-on-year, in July 2013 with increases recorded in both food and non-food consumer goods categories. Vehicle imports, which were declining on a year-on-year since April 2012 began to increase from June 2013 with growth accelerating further in July 2013, becoming the main contributor to the increase in consumer goods imports. Increased imports of vehicles could be mainly attributed to the sharp depreciation of several currencies including the Indian rupee and the Japanese yen against the US dollar. Other food items such as lentils, onions and edible oils, which are largely imported from India, also increased substantially in July 2013. Expenditure on intermediate goods imports increased by 21.5 per cent, year-on-year, to US dollars 943.4 million in July 2013, mainly due to the higher import expenditure on refined petroleum products. Accordingly, in July 2013, the import volume of refined petroleum increased by more than two fold compared to July 2012. Notwithstanding such increase, expenditure on fuel imports during the first seven months of 2013 recorded an overall decline, over the corresponding period in 2012. Meanwhile, expenditure on non-fuel imports increased at a moderate rate of 4.3 per cent, year-on-year, to US dollars 1,166 million in July 2013. Import expenditure on fertilizer and plastic articles also increased considerably during the month of July 2013. At the same time, expenditure on textiles and textile articles, diamonds and precious stone, and wheat and maize, which are classified under intermediate goods, declined in July 2013. Import of investment goods increased by 12.8 per cent to US dollars 347.8 million in July 2013 mainly due to a significant increase in machinery and equipment, even though transport equipment declined substantially.



Earnings from Tourism in the Services Account of the BOP

Tourist arrivals grew at a rate of 26.1 per cent, year-on-year to 100,224 in August 2013. Accordingly, the total number of tourist arrivals during the first eight months of the year increased by 14.3 per cent, to 711,446 over the corresponding period in 2012. Total earnings from tourism increased by 34.7 per cent to US dollars 110 million, year-on-year, in August 2013. Cumulative earnings from tourism during the eight months of 2013 recorded a growth of 22.1 per cent, to US dollars 784 million, from US dollars 642 million during the corresponding period in 2012.

Current Transfers in the BOP

In July 2013, workers' remittances increased by 17.0 per cent, to US dollars 555.9 million from US dollars 475.0 million in July 2012. Accordingly, cumulative inflows of workers' remittances during the first seven months of 2013 amounted to US dollars 3,763.5 million, a rise of 10.1 per cent from the first seven months of 2012.

Capital and Financial Account of the BOP

The financial account of the BOP continued to attract investment inflows at a moderate pace. The Colombo Stock Exchange (CSE) recorded a net inflow of US dollars 8.6 million in July 2013, compared to a net inflow of US dollars 18.6 million in

July 2012. On a cumulative basis, the CSE received net inflows of US dollars 128.8 million during the first seven months of 2013. As of 23 September 2013, net cumulative foreign inflows to CSE amounted to US dollars 150 million. The net inflows to the government securities market amounted to US dollars 45.9 million in July 2013, compared to a net outflow of US dollars 27.4 million in June 2013. As of 20 September 2013, cumulative net foreign inflows to government securities market amounted to US dollars 493 million while the outstanding foreign holdings of Treasury bills and bonds amounted to US dollars 3.6 billion, thereby moderately exceeding the threshold earmarked for non-resident investors. Meanwhile, long-term loans obtained by the government amounted to US dollars 1,054.5 million during the first seven months of 2013, lower than the loans of US dollars 2,193.4 million obtained during the first seven months of 2012, which included proceeds of the international sovereign bond of US dollars 1 billion. FDI inflows, including foreign loans to BOI companies, amounted to US dollars 540 million during the first half of 2013, an increase of 20 per cent, compared to US dollars 451 million during the first half of 2012. Furthermore, 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 at end July 2013 while total international reserves, which include foreign assets of commercial banks, amounted to US dollars 7.3 billion. Despite the outflows on account of IMF-Stand-by Arrangement (SBA) repayments, foreign debt service payments, as well as the impact of valuation changes, Sri Lanka's gross official reserves have been at a satisfactory level during the first seven months of 2013 with gross official reserves and total reserves of the country being equivalent to 4.0 months and 4.7 months of imports, respectively.

Meanwhile, the National Savings Bank (NSB) raised US dollars 750 million by issuance of an international bond in foreign capital markets in September 2013 with a

high market participation, reflecting increased and continued investor confidence in the Sri Lankan economy. With the receipt of US dollars 750 million, the financial account of the BOP strengthened further, and the gross official reserve position is estimated to have surpassed US dollar 7.0 billion by 23 September 2013.

Exchange Rate Behaviour

As a result of cross currency exchange rate movements, the Sri Lankan rupee has strengthened against several major international currencies so far during the year. Accordingly, by 23 September 2013, the rupee has appreciated against the Japanese yen by 11.1 per cent, the Indian rupee by 8.7 per cent and the Australian dollar by 5.8 per cent. However, the Sri Lankan rupee depreciated against the US dollar by 3.8 per cent, the Pound Sterling by 3.2 per cent, the euro by 6.1 per cent and the Chinese yuan by 5.5 per cent by 23 September 2013.

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

Category	July 2012 US\$ mn	July 2013 US\$ mn	Growth July (%)	Jan-July 2012 US\$ mn	Jan- July 2013 US\$ mn	Growth Jan- July (%)
Exports	794.4	857.8	8.0	5,674.2	5,518.8	-2.7
Of which						
Agricultural Products	192.3	233.9	21.6	1,335.6	1,351.2	1.2
of which,						
Tea	112.8	135.6	20.2	794.8	819.7	3.1
Industrial Products	598.5	620.5	3.7	4,300.8	4,147.0	-3.6
of which,						
Textiles and garments	328.2	372.5	13.5	2,310.4	2,373.3	2.7
Rubber products	69.1	67.9	-1.7	502.6	465.0	-7.5
Food, beverages and tobacco	21.6	17.8	-17.6	160.8	121.4	-24.5
Mineral Products	2.8	2.2	-18.6	31.7	13.7	-56.8
Imports	1,325.0	1,601.1	20.8	11,108.7	10,818.6	-2.6
Of which						
Consumer Goods	237.4	308.7	30.0	1,860.9	1,833.3	-1.5
of which,						
Food and beverages	111.6	135.7	21.5	805.2	840.3	4.4
Other consumer goods	125.8	173.1	37.6	1,055.7	993.0	-5.9
Intermediate Goods	776.7	943.4	21.5	6,648.7	6,466.4	-2.7
of which,						
Fuel	207.1	434.8	110.0	2,898.7	2,781.3	-4.1
Textiles and textile articles	195.6	194.2	-0.7	1,297.2	1,160.1	-10.6
Investment Goods	308.4	347.8	12.8	2,580.7	2,511.2	-2.7
of which,						
Machinery and equipment	147.4	191.1	29.7	1,199.4	1,326.1	10.6
Transport equipment	68.9	57.6	-16.3	681.4	384.7	-43.5
Building materials	91.8	98.7	7.5	697.5	796.9	14.3
Deficit in the Trade Account	-530.6	-743.3	40.1	-5,434.5	-5,299.8	-2.5
Workers' Remittances	475.0	555.9	17.0	3,417.4	3,763.5	10.1
Foreign Direct Investments				451	540	19.7
Portfolio Investments (Net)	18.6	8.6		205.1	128.8	
Earnings from Tourism	100.5	108.8	8.3	560.4	674.1	20.3
Inflows to Commercial Banks (b)					664.3	
Inflows to the Government (c)	1,683.9	314.7	-81.3	3,983.1	3,097.1	-22.2
of which,						
Treasury Bills and Bonds	573.6	205.3	-64.2	1,725.0	2,023.8	17.3
Long term loans	1,106.7	109.3	-90.1	2,193.4	1,054.5	-51.9

(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.