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Press Release

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External Sector Performance – August 2013

Overview

Favourable developments in the external sector continued in August 2013, with a sharp contraction of the trade deficit. Earnings from exports increased for the third consecutive month in August 2013, reflecting gradual recovery in the global economy, while expenditure on imports declined. Accordingly, the cumulative trade deficit contracted further during the first eight months of 2013, improving the current account of the Balance of Payments (BOP). The current account was further strengthened by increased receipts from tourism reflecting Sri Lanka as an attractive tourist destination, together with higher inflows on account of workers' remittances. Meanwhile, inflows to the financial account have also increased thus far during the year consolidating the BOP position.

Trade Account of the BOP

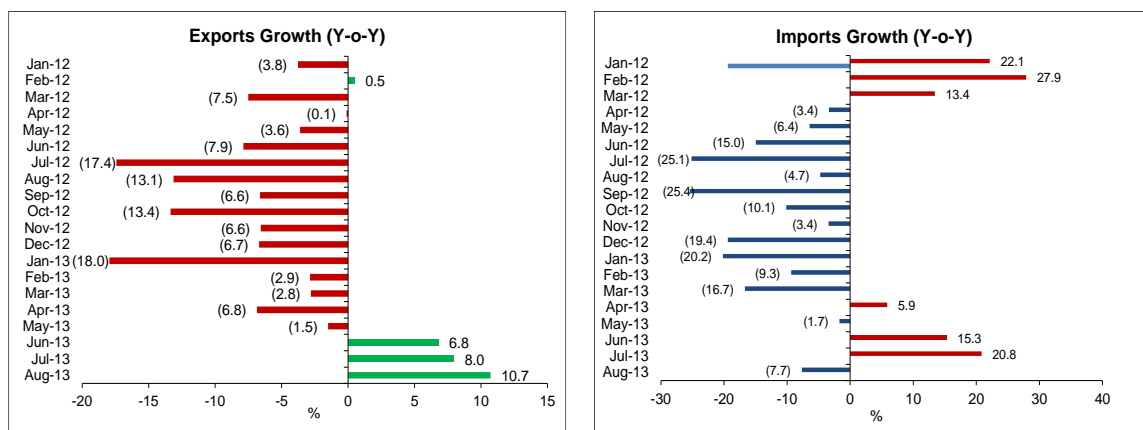
Earnings from exports recorded healthy growth of 10.7 per cent on a year-on-year basis in August 2013, while expenditure on imports declined by 7.7 per cent reversing the recent upward trend. Consequently, the trade deficit of the BOP

contracted by 24.2 per cent to US dollars 698 million during the month. On a cumulative basis, earnings from exports during the first eight months of 2013 declined marginally by 1.0 per cent, while expenditure on imports declined by 3.3 per cent compared to the corresponding period in 2012. Accordingly, the cumulative trade deficit during the first eight months of 2013 declined by 5.6 per cent to US dollars 5,998 million, from US dollars 6,356 million in the corresponding period of 2012.

Earnings from exports in August 2013 reached US dollars 918 million, the highest monthly value since January 2012, led by a significant increase in earnings from agricultural exports. Earnings from agricultural exports grew on a year-on-year basis, by 41 per cent to US dollars 247 million in August 2013 mainly due to an increase in export of tea and spices which account for more than three fourths of agricultural exports. The impressive growth of tea exports by 49.3 per cent in August 2013 was a combined outcome of a 43.3 per cent increase in export volumes along with an increase in the average price by 4.2 per cent. An increase in tea exports to Turkey and Iraq mainly contributed to this increase. Earnings from export of spices also increased significantly by 25.8 per cent, led by an increase in the volume of pepper exported with improved production, despite the decline in prices. Other major agricultural products exports also improved considerably except for rubber. Earnings from rubber exports declined in August 2013 mainly due to the decline in prices, especially of crepe rubber.

Industrial exports rose by 2.6 per cent to US dollars 668 million in August 2013 mainly due to an increase in earnings from petroleum products followed by food, beverages and tobacco and textiles and garments. Earnings from petroleum products increased by 24.8 per cent in August 2013, led by a significant increase in export of bunker fuel. Earnings from food, beverages and tobacco and textiles and garment have increased by 54.7 per cent and 2.1 per cent, respectively. During the month, earnings from export of garments to the USA increased by 9.4 per cent, while exports to the EU declined marginally by 0.7 per cent. However, the export of rubber

products, gems, diamonds and jewellery and transport equipment declined in August 2013.



Expenditure on imports declined by 7.7 per cent to US dollars 1,616 million in August 2013, due to the significant decline in both intermediate and investment goods imports. Expenditure on intermediate goods imports declined by 5.7 per cent, year-on-year, to US dollars 1,018 million in August 2013, mainly due to a decline in the importation of fertilizer and crude oil. Although the import of crude oil declined by 34.6 per cent, the expenditure on fuel increased due to a sharp increase in the importation of refined petroleum products. However, the decline in expenditure on base metals, agriculture inputs, wheat and maize and diamonds and precious stones led to an overall decline in imports. Imports of investment goods declined by 25.7 per cent to US dollars 331 million in August 2013 mainly due to a sharp decline in import of machinery and equipment and transport equipment, despite a 10.4 per cent increase in building materials imports. Meanwhile, expenditure on consumer goods imports increased by 18.6 per cent, year-on-year, in August 2013 with increases recorded in both food and non-food consumer goods categories. Vehicle imports, which were declining since April 2012 began to increase from June 2013 and recorded a year on year increase of 109.1 per cent in August 2013, becoming the main contributor to the increase in consumer goods imports. Dairy products, seafood, oil and fats were amongst the other consumer goods which contributed to the increase in import expenditure.

Earnings from Tourism in the Services Account of the BOP

Tourist arrivals grew at a healthy rate of 26.2 per cent, year-on-year to 89,761 in September 2013. Accordingly, the total number of tourist arrivals during the first nine months of the year increased by 15.5 per cent, to 801,210 over the corresponding period in 2012. Earnings from tourism increased by 43.4 per cent year-on-year, to US dollars 98.7 million, in September 2013. Cumulative earnings from tourism during the first nine months of 2013 recorded a growth of 24.2 per cent to US dollars 883.1 million from US dollars 711.1 million during the corresponding period in 2012.

Current Transfers in the BOP

Earnings on account of workers' remittances rose by 16.3 per cent, year-on-year, to US dollars 570 million in August 2013 from US dollars 490.1 million in August 2012. For the first eight months of 2013, cumulative inflows from workers' remittances stood at US dollars 4,333.5 million, a growth of 10.9 per cent compared to the corresponding period of 2012.

Capital and Financial Account of the BOP

The financial account of the BOP continued to record substantial inflows. In September 2013, the Colombo Stock Exchange (CSE) received a net inflow of US dollars 10.6 million with net cumulative inflows received by the CSE during the first nine months of 2013 amounted to US dollars 156.3 million. Cumulative net foreign inflows to the government securities market amounted to US dollars 484.9 million at the end September 2013, while the outstanding foreign holdings of Treasury bills and bonds remained at US dollars 3.6 billion. During the first eight months of 2013, the long-term loans obtained by the government amounted to US dollars 1,128.7 million which was lower than the US dollars 2,330.7 million obtained during the first eight months of 2012, which included proceeds of the international sovereign bond of US dollars 1 billion. Further, FDI inflows, including foreign loans to BOI companies, amounted to US dollars 540.2 million during the first half of 2013, an increase of 20 per cent, compared to US dollars 451.7 million received during the first

half of 2012. Furthermore, inflows to commercial banks during the first eight months of the year amounted to US dollars 664 million. The National Savings Bank (NSB) raised US dollars 750 million abroad by issuing a long term bond in September 2013.

International Reserve Position

Sri Lanka's gross official reserves amounted to US dollars 6.3 billion by end August 2013 while total international reserves, including foreign reserves of commercial banks, stood at US dollars 7.5 billion. In terms of months of imports, gross official reserves were equivalent to 4.1 months of imports by end August 2013, well above the internationally accepted norm of 3 months of imports, while, total reserves were equivalent to 4.8 months of imports. With the placement of funds raised in the international market by the NSB with the Central Bank, gross official reserves are estimated to have surpassed US dollars 7.0 billion by end September 2013. Accordingly, Sri Lanka's gross official reserves have been at a satisfactory level, even after accounting for the outflows of the IMF-Stand-by Arrangement (SBA) principal payments of US dollars 288.3 million and foreign debt service payments of around US dollars 1,105 million during the first nine months of the year.

Exchange Rate Behaviour

Given the cross currency exchange rate movements, the Sri Lanka rupee appreciated against several major international currencies during the year 2013. Accordingly, the rupee appreciated against the Japanese yen by 11.5 per cent, the Indian rupee by 9.7 per cent and the Australian dollar by 6.0 per cent by 17 October 2013. However, the Sri Lanka rupee depreciated against the US dollar by 2.9 per cent, the pound sterling by 1.8 per cent, the euro by 5.2 per cent and the Chinese yuan by 5.0 per cent by 17 October 2013. Thus far, the Central Bank has absorbed US dollars 183 million from the domestic foreign exchange market, on net basis. This, together with the receipt of proceeds of bond issuances of the Bank of Ceylon in April and NSB in September, amounting to around US dollars 1 billion helped strengthen the country's stock of international reserves, thus further stabilising of the Sri Lanka rupee.

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

Category	August 2012 US\$ mn	August 2013 US\$ mn	Growth August (%)	Jan-Aug 2012 US\$ mn	Jan- Aug 2013 US\$ mn	Growth Jan- Aug (%)
Exports	828.9	917.8	10.7	6,503.1	6,436.6	-1.0
Of which						
Agricultural Products	175.3	247.1	41.0	1,510.9	1,598.3	5.8
of which,						
Tea	95.7	142.8	49.3	890.5	962.6	8.1
Industrial Products	651.0	668.1	2.6	4,951.7	4,815.1	-2.8
of which,						
Textiles and Garments	358.8	366.5	2.1	2,669.3	2,739.7	2.6
Rubber Products	84.5	77.7	-8.0	587.1	542.7	-7.6
Food, Beverages and Tobacco	17.3	26.7	54.7	178.1	148.1	-16.8
Mineral Products	2.3	1.7	-26.4	34.1	15.4	-54.7
Imports	1,750.0	1,615.9	-7.7	12,858.7	12,434.6	-3.3
Of which						
Consumer Goods	224.7	266.6	18.6	2,085.6	2,099.9	0.7
of which,						
Food and Beverages	97.5	101.5	4.2	902.7	941.8	4.3
Other Consumer Goods	127.2	165.1	29.7	1,182.9	1,158.1	-2.1
Intermediate Goods	1,078.8	1,017.5	-5.7	7,727.6	7,483.8	-3.2
of which,						
Fuel	496.6	531.3	7.0	3,395.4	3,312.6	-2.4
Textiles and Textile Articles	167.9	168.6	0.5	1,465.1	1,328.7	-9.3
Investment Goods	444.7	330.5	-25.7	3,025.4	2,841.7	-6.1
of which,						
Machinery and Equipment	257.6	172.5	-33.0	1,457.0	1,498.6	2.9
Transport Equipment	84.9	45.8	-46.0	766.3	430.6	-43.8
Building Materials	101.4	111.9	10.4	798.9	908.8	13.8
Deficit in the Trade Account	-921.1	-698.1	-24.2	-6,355.6	-5,997.9	-5.6
Workers' Remittances	490.1	570.0	16.3	3,907.4	4,333.5	10.9
Foreign Direct Investments (b)				451.7	540.2	19.7
Portfolio Investments (Net)	21.4	17.0		226.5	145.7	
Earnings from Tourism	81.8	110.2	34.7	642.2	784.3	22.1
Inflows to Commercial Banks (c)					664.3	
Inflows to the Government (d)	315.5	318.1	0.8	4,298.6	3,407.1	-20.7
of which,						
Treasury Bills and Bonds	142.4	233.9	64.3	1,867.4	2,257.7	20.9
Long term Loans	137.3	82.4	-40.0	2,330.7	1,128.7	-51.6

(a) Provisional

(b) For the first half of the respective year

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

(d) 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.