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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 – September 2013

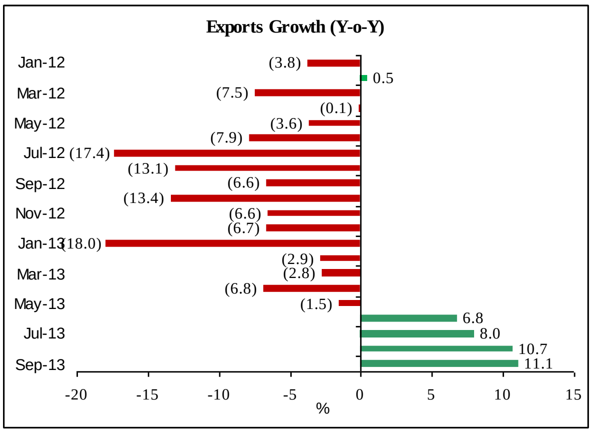
Overview

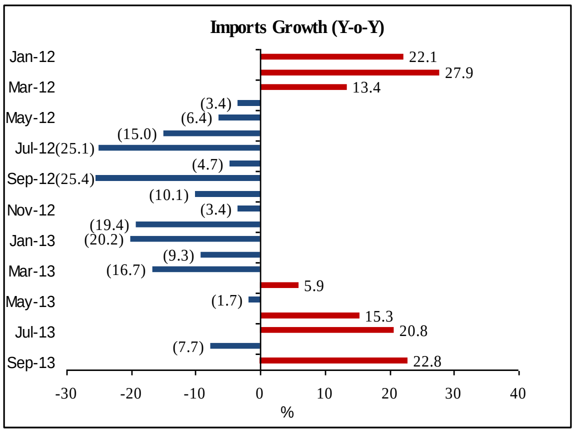
Sri Lanka's external sector maintained a satisfactory progress in September 2013. The trade deficit continued to narrow during the first nine months of 2013 as a result of a strong growth in exports. The current account deficit declined, primarily due to the shrinking of the deficit in the trade account, higher inflows to the services account and an increase in private transfers. Additionally, inflows to the financial account remained strong despite a volatile global financial market leading to a significant surplus in the BOP during the first three quarters of 2013, compared to the same period in 2012.

Trade Account of the BOP

Both earnings from exports and expenditure on imports have recorded significant year-on-year growth in September 2013. Earnings from exports grew by 11.1 per cent year-on-year to US dollars 890 million, while expenditure on imports increased by 22.8 per cent to US dollars 1,614 million in September 2013. On a cumulative basis, during the first nine months of 2013, earnings from exports turned positive increasing by 0.3 per cent, while expenditure on imports continued to contract by 0.9

per cent from the corresponding period in 2012. Although, the trade deficit of the BOP increased significantly by 41.1 per cent year-on-year to US dollars 698 million in September 2013, the cumulative trade deficit during the first nine months of 2013 contracted by 2.1 per cent to US dollars 6,721 million, from US dollars 6,869 million during the corresponding period of 2012.





Earnings from exports continued to accelerate in September 2013 recording positive growth in all major sectors. This growth was mainly led by a significant increase in earnings from industrial exports. Earnings from industrial exports increased on a year-on-year basis, by 12.4 per cent to US dollars 638 million in September 2013 mainly due to strong growth in textiles and garments exports, which increased significantly by 27.7 per cent to US dollars 387 million. Garment exports to both the EU and the USA, which are major export destinations, recorded a remarkable growth of 30.7 per cent and 32.2 per cent, respectively, in September 2013, reflecting the recovery in those economies. Meanwhile, earnings from rubber product exports increased by 28 per cent, year-on-year to US dollars 73 million, mainly due to the lower base. Earnings from the export of machinery and mechanical appliances, transport equipment, chemical products, leather products and base metals also contributed to the growth in industrial exports. However, export of gems, diamonds and jewellery which has recorded negative year-on-year growth throughout the year continued to contract by 23.4 per cent in September 2013 mainly due to low international prices. Earnings from agricultural exports rose by 6 per cent to US dollars 239 million in September 2013 mainly due to an increase in export earnings from spices followed by seafood. Earnings from the export of spices increased significantly to US dollars 41 million led by an increase in volumes as well as the price of pepper and cloves, while earnings from seafood exports increased by 42.1 per cent due to the lower base. However, earnings from tea exports which account for 15.8 per cent of total exports declined marginally by 0.6 per cent, year-on-year, due to the decline in export volumes, despite a 9.9 per cent increase in prices. Export earnings from rubber, which has declined continuously during the last 25 months continued to decline in September 2013 contracting by 38.9 per cent compared to September 2012 due to low international prices and low export volumes.

Expenditure on imports increased by 22.8 per cent to US dollars 1,614 million in September 2013, due to unusually low imports in September 2012. Increases were recorded in all three major import categories. Expenditure on intermediate goods imports rose by 26.7 per cent, year-on-year, to US dollars 1,045 million in September 2013, due to the significant increase in expenditure on fuel. Import expenditure on fuel increased by 61.5 per cent, year-on-year, to US dollars 517 million in September 2013 mainly due to the non-importation of crude oil in September 2012. Expenditure on fertilizer imports also increased by 51 per cent, year-on-year, to ensure availability of adequate stocks for the upcoming Maha season. However, expenditure on diamonds and precious stones, wheat and maize, textiles and textile articles and agriculture inputs declined during the month. The importation of investment goods increased by 19.7 per cent to US dollars 335 million in September 2013 mainly due to a sharp increase in import of machinery and equipment and building materials. Meanwhile, expenditure on consumer goods imports increased by 13.1 per cent, year-on-year, in September 2013 led by an increase in non-food consumer goods. Expenditure on importation of vehicles, under consumer goods which began to decline from April 2012 in response to the policy measures taken in 2012, has reversed since June 2013. Vehicle imports increased by 99.6 per cent, year-on-year, in September 2013, making the highest contribution to the increase in consumer goods imports. Seafood, oil and fats, medical and pharmaceuticals and clothing and accessories were amongst the other consumer goods which contributed to the increase in consumer goods imports. However, import expenditure on dairy products, vegetables and beverages declined in September 2013.

Earnings from Tourism in the Services Account of the BOP

Earnings from tourism during the first nine months of 2013 recorded a year-on-year growth of 24.2 per cent, to US dollars 883.1 million, compared to the cumulative earning of US dollars 711.1 million during the corresponding period of 2012. Tourist arrivals grew at a rate of 26.2 per cent, year-on-year to 89,761 in September 2013. Accordingly, tourist arrivals during the first nine months of the year totaled 801,210 recording a year-on-year growth of 15.5 per cent. India, UK, Germany, Middle East and Maldives were the top five sources of tourist arrivals in September 2013, accounting for to 49.6 per cent of the growth in tourist arrivals during the month.

Current Transfers in the BOP

Inward workers' remittances, which constitute a major share of current transfers, increased by 11.4 per cent to US dollars 4,922.3 million during the first nine months of 2013 from the corresponding period of 2012. Increased labour migration in the professional and skilled categories continued to drive the growth in remittances.

Capital and Financial Account of the BOP

Positive investor sentiment helped maintain the increase in foreign inflows into the capital market. The Colombo Stock Exchange (CSE) recorded a net inflow of US dollars 24.1 million in October 2013, compared to a net inflow of US dollars 10.6 million in September 2013. On a cumulative basis, the CSE received net foreign inflows of US dollars 180.4 million during the first ten months of 2013. Net inflows to the Government securities market during the first ten months of 2013 amounted to US dollars 486.7 million. The government has obtained long-term loans amounting to US dollars 1,301.6 million by end September 2013, compared to US dollars 2,450.1 million obtained by way of long-term loans during the first nine months of 2012. Further, inflows to commercial banks during the first nine months of the year amounted to US dollars 1,424.3 million. Furthermore, the DFCC bank raised US dollars 100 million abroad by issuing a long term bond in October 2013.

Overall BOP Position

The overall BOP is estimated to have recorded a surplus of US dollars 585 million during the first three quarters of 2013. This is a significant improvement compared to the surplus of US dollars 269 million recorded during the corresponding period of 2012, particularly amidst challenging global economic conditions.

International Reserve Position

At end September 2013, Sri Lanka's gross official reserves amounted to US dollars 7.0 billion, while total international reserves, which include foreign assets of commercial banks, amounted to US dollars 8.3 billion. In terms of months of imports, gross official reserves were equivalent to 4.4 months of imports at end September 2013, while total reserves were equivalent to 5.3 months of imports. It should be noted that an adequate level of reserves were maintained despite the outflows on account of foreign debt service payments of US dollars 1,094 million and IMF-SBA payments of US dollars 288.3 million.

Exchange Rate Behaviour

The Sri Lanka rupee strengthened against several major international currencies during the year so far, based on cross currency exchange rate movements. By 13 November 2013, the rupee had appreciated against the Japanese yen by 12.4 per cent, the Indian rupee by 13.1 per cent and the Australian dollar by 8.4 per cent. However, the rupee which depreciated against the US dollar since mid-June through end August gained value since then, appreciating by 1.4 per cent, supported mainly by increased inflows to the banking sector, including the NSB bond issue in September. Overall, during the year so far (by 13 November 2013), the rupee depreciated modestly by 3.0 per cent against the US dollar, by 4.6 per cent against the euro and by 1.4 per cent against the Pound sterling.

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

Category	September 2012 US$ mn	September 2013 US$ mn	Growth September (%)	Jan-Sep 2012 US$ mn	Jan- Sep 2013 US$ mn	Growth Jan- Sep (%)
Exports	**801.5**	**890.3**	**11.1**	**7,304.6**	**7,327.2**	**0.3**
Of which						
Agricultural Products	225.5	238.9	6.0	1,736.3	1,837.2	5.8
of which,						
Tea	141.1	140.3	-0.6	1,031.6	1,102.9	6.9
Industrial Products	567.1	637.5	12.4	5,518.8	5,452.9	-1.2
of which,						
Textiles and Garments	303.0	386.9	27.7	2,972.3	3,126.6	5.2
Rubber Products	57.2	73.3	28.0	644.3	616.0	-4.4
Food, Beverages and Tobacco	35.1	18.8	-46.2	213.1	166.9	-21.7
Mineral Products	8.1	12.7	55.7	42.2	28.1	-33.5
Imports	**1,314.4**	**1,613.9**	**22.8**	**14,173.1**	**14,048.5**	**-0.9**
Of which						
Consumer Goods	206.1	233.0	13.1	2,291.7	2,332.9	1.8
of which,						
Food and Beverages	91.3	84.6	-7.4	993.9	1,026.3	3.3
Other Consumer Goods	114.8	148.5	29.3	1,297.7	1,306.5	0.7
Intermediate Goods	824.6	1,044.8	26.7	8,552.2	8,528.6	-0.3
of which,						
Fuel	319.9	516.7	61.5	3,715.3	3,829.3	3.1
Textiles and Textile Articles	179.5	174.0	-3.1	1,644.6	1,502.7	-8.6
Investment Goods	280.0	335.3	19.7	3,305.3	3,177.0	-3.9
of which,						
Machinery and Equipment	143.3	197.1	37.6	1,600.3	1,695.7	6.0
Transport Equipment	52.0	35.9	-30.9	818.3	466.5	-43.0
Building Materials	84.4	101.8	20.6	883.3	1,010.6	14.4
Deficit in the Trade Account	**-512.9**	**-723.7**	**41.1**	**-6,868.5**	**-6,721.3**	**-2.1**
Workers' Remittances	**511.2**	**588.7**	**15.2**	**4,418.7**	**4,922.3**	**11.4**
Foreign Direct Investments (b)				**451.7**	**540.2**	**19.7**
Portfolio Investments (Net)	**23.3**	**10.6**		**249.8**	**156.3**	
Earnings from Tourism	**68.8**	**98.7**	**43.4**	**711.1**	**883.1**	**24.2**
Inflows to Commercial Banks (c)					**664.3**	
Inflows to the Government (d)	**213.5**	**185.5**	**-13.1**	**4,512.1**	**3,610.7**	**-20.0**
of which,						
Treasury Bills and Bonds	87.1	29.6	-66.0	1,954.5	2,287.3	17.0
Long term Loans	119.4	155.8	30.5	2,450.1	1,301.6	-46.9

(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.